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October 19, 2020

Director of Research and Technical Activities  
Governmental Accounting Standards Board  
Norwalk, Ct

Project 3-20 Recognition of Elements of Financial Statements

As I received this document, several disparate and seemingly irrelevant items kept popping up in my head:

- T King Solomon
- T The 1958 Edsel
- T Political Polarization

Now GASB might find that a little strange, but:

We all know that GASB Statement 34 was a compromise between the almost-exact-half of the constituents who thought full accrual, business-like, statements should be the standards. And the other half adamantly opposed any such notion [the polarization part]. Without any particular concepts in place, instead of awarding the one baby to one mother or another, the King Solomon Board cut 2 babies in half, sewed the halves together into one document, and awarded that to each mother.

So now we come to this proposed concepts statement. This is what reminds me of the 1958 Edsel: possibly a great concept in theory, but not what the marketplace might be willing to accept.

I find a lot to agree with in the "Alternative View". My reasoning is that I find this proposed document going to strained lengths to justify something that is unjustifiable: that all governmental financial statements should be "comparable" when it comes to reporting on funds with a "spending" focus. It also goes further afield from the idea that the readers of such statements will gain something useful beyond some form of budgetary focus.

Many, perhaps most, state and local governments operate on a cash or near cash basis anyway, having readily available information from their legal budgeting processes and the related accounting systems. Many, perhaps most, of those governments account and report on either a one year basis or at most two. I find the proposed concepts statement to be redundant and less useful than those already-

existing reporting mechanisms. I do not see why we need to add a “short-term” statement that appears to me to be nothing more than an attempt to make for the various “governmental” funds a one-year version of the entity wide statements we already have. I sincerely doubt that many users would find that to be useful information.

The Board denigrates the notion that using budgetary and related spending information for external financial reporting is useful because of a lack of comparability between budgeting and reporting systems among state and local governments. My view is that the lack of comparability is, instead, a recognition of economic reality, that is, **governments are not comparable** and forcing them into a straight-jacket system is not needed. Counties in Ohio are **not** comparable to cities or school districts in Ohio; counties, cities, and school districts in Ohio are **not** comparable to counties, cities or school districts in other states. They all operate under their own laws and fiscal procedures, which is economic reality in those jurisdictions. The notion that “...short-term financial resources measurement focus and accrual basis of accounting would report elements of financial statements from a short-term perspective that is uniform across governments” is at best, a chimera.

The Board majority asserts: “The term fiscal accountability refers to the responsibility of governments to justify that their actions in the current period have complied with public decisions concerning the **raising and spending** of public resources in the short term (usually one budgetary cycle or one year).” I fail to see how this desirable objective is achieved by these proposed concepts, any better than reporting budgetary-based amounts and transactions.

Going through the rest of the Basis for Conclusions, I comment:

B5: “The current financial resources measurement focus and modified accrual basis of accounting for reporting in governmental funds did not have a conceptual foundation.”

I agree.

B11: “ The term *normally* was used in the past, in conjunction with the provision ‘normally [expected] to be liquidated with expendable available financial resources’ beginning with NCGA Statement 4, Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences, in 1982. However, determining what recognition terms are normal for governments of different sizes, types, and geographic locations for every class of transaction would consume significant time and resources of the Board, preparers, or auditors with resulting costs both in the initial implementation period and in each period thereafter.”

I absolutely agree with that notion. “Normally” results in arguments, and is so undefined that preparers and auditors question the results are useful. Also, I agree with paragraph B20.

B12, B13: I agree with these paragraphs.

B22: “Also, the Board believes that it is the application of the recognition method ‘when payments are due’ for long-term transactions that is most significant in maintaining a relationship with budgetary reporting.”

I don’t see why that would be the case. I think it would take Governmental fund reporting further away from economic and legal reality.

B24 and B25: Who exactly says we need a “short-term perspective”? Also I question the conclusion in paragraph 25 that, “The Board believes that financial statements presented applying the short-term financial resources measurement focus and accrual basis of accounting enable assessment of the amount of fund balance at period-end **that is available for spending in the next period**, which may or may not be restricted for specific purposes, as well as fund balance that is legally or contractually required to be maintained intact, in the context of a consistent and conceptually sound model from a short-term perspective.”

I don't see that it would do any such thing.

B26: same comment\conclusion as my previous comment.

Alternative View: I agree with most of this argument, except for paragraphs B58 - B61. That proposal seems to add a layer of unnecessary complexity.

And finally, one question: On page 25, it says:

“39. [In the fourth and seventh sentences, replace current with short-term; in the penultimate sentence, replace expenditure, other financing use with outflow of short-term financial resources and replace other financing **use** with inflows of short-term financial resources.] [GASBCS 4, ¶39, as amended by GASBCS XX, ¶9–¶11]”

Did you mean “source”?

Thank you for giving me this opportunity to comment. My overall conclusion is that this proposed concepts statement is itself conceptually flawed and would result in less-useful information than the current, conceptually unsupported model.

Sincerely,

L. Michael Howard, CPA