



JUSTIN P. WILSON
Comptroller

JACOB E. MUMFORD
Deputy Comptroller

October 19, 2020

David Bean
Director of Research
Project No. 3-20
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:


On behalf of the Tennessee Division of State Audit, we thank the GASB for the opportunity to comment on its proposed Exposure Draft (ED), *Recognition of Elements of Financial Statements*. We agree with the board's proposals and believe the proposed (§B15). However, we do have suggestions below to help improve the proposed ED:

1. For ¶13d and ¶B33 (hierarchy of recognition), we believe the board should consider clarifying in the basis for conclusions (¶B33) that another possibility is disclosure in the notes, which are also part of the basic financial statements, when the item does not meet the definition of an outflow of resources or an inflow of resources. The purpose of this clarification is to inform the preparer and user that the hierarchy of decision making does not end with recognition because disclosure might be required. For example, when a transaction or other event (e.g., contingent liability) is possible of occurrence and the range of measurement or best estimate within the range is determinable, disclosure is required.
2. For ¶B8 (lack of consistency in short-term perspective), we believe the statement "whereas other governments adopted a policy reflecting a longer period of availability, such as one year" does not accurately depict that many governments had more than two availability periods for multiple revenue sources. The board should consider this more accurate description of the true inconsistency.
3. For ¶11 and ¶B17 (development of the short-term financial resources measurement focus and accrual basis of accounting), we are still concerned about a proposed major change in practice that will be different from FASB and other standards setters without sufficient justification. We strongly disagree with defining short-term "within one year from the inception of the transaction or other event" (i.e., "Items arising from short-term transactions and other events were described as those that *normally* are due to convert to or generate cash (or other financial assets) or require the use of cash (or other financial assets) entirely within one year from the inception of the transaction or other event."). We recommend maintaining the definition of short-term "one year from the date of the balance sheet."
4. For ¶B18, should the exceptions also refer to lease obligations?

5. For ¶B26 (relationship with budgetary information), we believe comparability with the historical financial statements among governments is much more important/essential than comparability from a budgetary perspective. The focus on budget comparability is misplaced because budgets are too short-sighted with too many variables preventing true comparability. The focus should be on the historical financial statements, which represent what actually happens.
6. For ¶B50 (alternative view), we agree with the alternative view statement that, “It matters not when a financial obligation or receivable arose; when it arose is past history and thereby irrelevant. What is relevant is the amount and timing of cash flows—the amount of the obligation or receivable and the date on which the obligation is required to be paid or on which the receivable can be collected.”
7. For ¶B54 (fails to address the most significant limitations of the current financial accounting and reporting model), we absolutely agree that “the short-term financial resources measurement focus and accrual basis of accounting fails to address the most pressing drawbacks of the presently employed GASB model: it promotes a short-term fiscal-policy perspective.”
8. For B63, we agree with the alternative view that “the Board would better serve the interests of its stakeholders by fine-tuning the current model than by introducing a new model that fails to address the current model’s underlying defects.”

Should you have questions or need clarification on any of our comments, please contact Gerry Boaz or me at (615) 747-5262.

Sincerely,



Kathy Stickel, CPA
Director, Division of State Audit