

February 24, 2021

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

Dear Mr. Bean:

We appreciate the opportunity to respond to the Governmental Accounting Standards Board's exposure draft (ED) titled *Recognition of Elements of Financial Statements*. We applaud the GASB for its extensive work on this project in conjunction with the Financial Reporting Model improvements project and the preliminary views document on Revenue and Expense Recognition. We offer the following comments for your consideration.

Our primary concern with the short-term measurement focus and accrual basis of accounting is measuring the time from the "inception" of the transaction to the "completion" of the transaction and applying the one-year period to the "inception" date to identify short-term transactions.

Our preference would be to reconsider for adoption an alternative view proposed in the 2018 preliminary views to modify the short-term financial resources measurement focus to include the portion of all financial assets and liabilities that matures or is otherwise expected to be paid in cash or other fund financial resources within one year from the date of the financial statements, with the exception of pension, OPEB, and asset retirement obligations. This would achieve the goal of unifying the recognition period of state and local governments and maintain the current practice of looking out from the balance sheet date. The adoption of this measurement focus would also alleviate the shortcoming noted in paragraph B49, regarding when governments would recognize maturing debt, which we view as a significant flaw in the proposed model. In essence, we agree with the idea presented in paragraph B50 that the key relevance 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.

Regarding the use of the term "accrual" in the "short-term measurement focus and accrual basis of accounting," we urge the Board to retain the term "modified accrual" as the basis of accounting for governmental funds and reserve the term "accrual" for the government-wide financial statements. The second sentence of paragraph 9 states "Under an accrual basis of accounting, elements of financial statements arising from short term transactions and other events are recognized *as they occur*, and elements of financial statements arising from long-term transactions and other events are recognized *when payments are due*." We consider the use of the same term with different meanings as a **fatal flaw**. Also, the Standards' use of "accrual" would conflict with authoritative

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guidance issued by the AICPA, the term's use in academic settings, and a host of other examples. The ED proports to modify the commonly used practices for which the accrual basis follows, and as such the terminology should reflect this modification. Retaining the term "modified accrual" for the short-term measurement focus would be an easy transition for preparers and auditors and avoid confusion as to what accrual means between the two reporting levels.

We also request the board retain the existing terminology of "revenues" and "expenditures" rather than introducing the terms "inflows of resources" and "outflows of resources" at the governmental fund level. Users of the financial statements have grown accustomed to the existing terminology between the governmental fund statements and the government-wide statements. Introducing new terms will add a level of confusion for users and we believe the existing terms can be adapted to each reporting level. While we recognize that "inflows" and "outflows" may be more accurate reflections of the underlying transactions, we do not hold the opinion that those words would be more intuitive to users nor be a significant enough improvement to warrant the change.

Regarding the alternative view expressed in paragraphs B56 through B61, we disagree with the proposed layered approach to provide budgetary and long-term information. We consider this model as too complex and would be cost prohibitive in modifying existing financial reporting software. We support a model with governmental fund statements standing on their own while providing decision-useful information and not bearing an unreasonable cost compared to current practice.

Sincerely,

Doug Ringler
Auditor General

cc: C. Murray, CPA, CGFM, CIA

Via e-mail to director@gasb.org