

re-define the accrual basis of accounting in a way that is contrary to this generally accepted understanding. As auditors, we are highly concerned that use of such a term could be considered misleading by users.

We believe the Board has *modified* the accrual basis of accounting to include only “short-term transactions” of “financial” assets, deferred outflows, liabilities and deferred inflows. Although we understand the Board’s reluctance to use the term “modified accrual basis of accounting,” we would argue that this is the most accurate and appropriate term.

Terminology

We request the Board reconsider proposed use of the terms “inflows of resources” and “outflows of resources” rather than the generally accepted terms “revenues” and “expenses.”

Governments do not operate for profit, so we understand that terms such as “income” would be a valid difference between government and for-profit organizations. However, governments are still understood to have revenues and expenses. These are the terms used by other accounting standard setters and convey the underlying meaning immediately to the broadest audience of users. Moreover, the terms “inflows of resources” and “outflows of resources” could be misunderstood to apply to budgetary accounting or cash flows rather than to the accrual or modified accrual basis of accounting, whereas the terms “revenue” and “expense” are clearly differentiated from cash flows. We do not see any benefits to changing these long-established terms. However, we do see numerous costs of such an unnecessary divergence, most importantly to users.

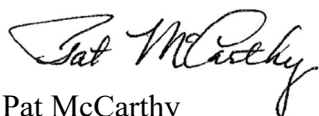
Other Comments

In paragraph 9, it is unclear whether the final sentence is intended to be an observation or a requirement. It would be clearer if the Board would use this sentence to define financial liabilities (along with financial deferred outflows and financial deferred inflows) parallel with the previous sentence, which defines financial assets.

In summary, we appreciate the Board’s work and attention to this important project. Although our Office continues to favor full alignment of the reporting model through use of the economic resources measurement focus and accrual basis of accounting throughout, we believe that a short-term financial resources measurement focus has the potential to improve financial reporting. However, we believe this potential will be realized only if it creates incrementally greater alignment in the reporting model and more clear information for short-term decision-making, rather than less so, as is proposed.

Thank you for the opportunity to provide our comments. Any inquiries may be directed to me at (564) 999-0950.

Sincerely,



Pat McCarthy
State Auditor