February 26, 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:

On behalf of the Association of Government Accountants (AGA) the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Governmental Accounting Standards Board (GASB) on its June 17, 2020 exposure draft (ED) of concepts entitled *Recognition of Elements of Financial Statements.*

We appreciate the GASB's extensive work on this project along with Revenue and Expense preliminary views and Financial Reporting Model improvements ED. While we agree with many portions of the ED, our primary concern relates to recognizing a transaction based on its inception date and instead we recommend the short-term measurement focus look out one year from the end of the reporting period. We have organized our comments by paragraph number as follows.

<u>Comments on Paragraph 7</u>

We request the board reconsider using the terms "inflows of resources" and "outflows of resources" and continue to use the generally accepted and understood terms of "revenues" and "expenses." We are mindful of the use of these terms in the preliminary views document titled *Revenue and Expense Recognition*. The terms "revenue" and "expense" convey the underlying meaning immediately to the broadest audience of users.

<u>Comments on Paragraph 9</u>

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*." Yet, paragraph 7 provides a different definition of "accrual" by stating that "Under an accrual basis of accounting, items are recognized when the underlying transaction or other event occurs." We consider the use of the same term with different meanings as a fatal flaw. We suggest the board either redefine the term "modified accrual" to reflect the new accounting model or use a different grammatical modifier to the word accrual - perhaps "short term accrual" similar to existing accounting practice that introduces the term "modified accrual" to distinguish fund accounting from entity wide "full accrual" or "accrual" accounting. Our preference is to redefine the term "modified" accrual and instruct users on the new definition.

The first sentence identifies the elements included in the short-term financial resources measurement focus. Has the board considered whether interfund advances of a long-term nature also qualify under this exception and be recognized on a short-term basis? Such advances commonly occur in the capitalization of an enterprise fund in exchange for repayment over an extended period of time from net operating revenues of the fund.

We suggest the last sentence be revised to say, “Liabilities in this measurement focus only include financial liabilities” and consider adding examples of financial liabilities as was done with financial assets.

<u>Comments on Paragraph 11</u>
We question the utility of the proposed short-term measurement focus. We are also concerned about the costs associated with differentiating between short-term transactions and long-term transactions. Existing financial systems are not set up to distinguish these differing types of transactions and will likely require extensive manual intervention.

Specifically, we disagree with the concept of recognizing transactions in the short-term measurement focus based on the inception of the transaction as proposed in paragraph 11. Instead, we recommend they be recognized when they have occurred and are reasonably expected to be realized in cash or consumed within one year from the balance sheet end date. Such an adjustment addresses the valid concern explained in paragraph B49 in the alternative view in which two governments issuing $10 million of debt will have differing liabilities as of the balance sheet date prior to maturity. We would expect the government that had issued the five-year note to recognize a $10 million liability as of December 31, 20X5 yet the proposed reporting model would not recognize that liability since they payment is not yet due as of December 31, 20X5. Such a presentation leads to a significant risk of misinterpreting the financial position “as of” the period end date.

<u>Comments on Paragraph 13</u>
We are concerned that the phrase “…should not be recognized in the financial statements” in paragraph 13(d) could be misconstrued to suggest that disclosure in the notes to the financial statements is not an option. We suggest the board consider clarifying that another possibility is disclosure in the notes as they are an integral part of the basic financial statements after ruling out the other elements in paragraphs 13(a) through 13(d). 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 such as a contingent liability is reasonably possible, *Codification* Section C50.115 provides for disclosure of the loss including the estimated loss or range of loss or a statement that such an estimate cannot be made.

<u>Additional Comments Regarding the Basis for Conclusions</u>
The second to last sentence to paragraph B8, includes a statement “whereas other governments adopted a policy reflecting a longer period of availability, such as one year.” We believe this does not accurately depict that many governments have more than two availability periods for multiple revenue sources. As an example, a general-purpose government may adopt 60 days for property taxes but 90 days for Medicaid accruals. The Board should consider this more accurate description of the true inconsistency.

In the second sentence to paragraph B18, should the exceptions listed also include lease obligations?

In reference to paragraph B26, we believe comparability with the historical financial statements among governments is much more important and essential than comparability from a budgetary perspective. The focus on budget comparability is misplaced because budgets are developed as a forward-looking planning document with too many variables preventing true comparability. The focus should be on the historical financial statements, which represent what actually happened.

Also, in paragraph B50, 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."

Further, in paragraph B54, we agree with the alternative view 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."

Continuing in paragraphs B56 through B61, we disagree with the alternative proposal of a layered approach to provide budgetary and long-term information. The inclusion of budgetary comparison schedules as part of required supplementary information satisfies the objective of demonstrating budget compliance and we consider the layered approach as cost prohibitive. We support a model with governmental fund statements standing on their own in terms of demonstrating decision usefulness and would not bear an unreasonable cost compared to current practice.

Finally, in paragraph B63, a majority of FMSB members 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." For example, by specifying a single availability period and eliminating the requirement to report long-term receivables.

The FMSB is comprised of 24 members (listed below) with accounting and auditing backgrounds in federal, state, and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. The views of the FMSB do not necessarily represent those of AGA and the local AGA chapters and individual members are also encouraged to comment separately. If there are any questions regarding the comments in this letter, please contact me at (517) 334-8069.

Sincerely,

Craig M Murray

Craig M. Murray, CGFM, CPA, CIA
Chair, Financial Management Standards Board

cc: Wendy Morton-Huddleston, CGFM, PMP, AGA National President

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