



February 15, 2019

David R. Bean, CPA
Director of Research and Technical Activities
GASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: September 12, 2018 GASB Preliminary Views, *Recognition of Elements of Financial Statements* (Project No. 3-20)

Dear Mr. Bean:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the Private Company Practice Section (PCPS) Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

GENERAL COMMENTS

TIC appreciates the Board's work and outreach related to the preliminary views on concepts for recognition of elements of financial statements. Recognition concepts encompass two aspects of state and local government financial statements:

- The measurement focus of a specific financial statement determines what items should be reported as elements of that financial statement.
- The related basis of accounting determines when those items should be reported.

TIC agrees with the Board's preliminary view that the financial statements for governmental funds should be presented applying the short-term financial resources measurement focus. The short-term financial resources measurement focus should be defined as a measurement focus that incorporates elements of financial statements arising from short-term transactions and other events as they occur and elements of financial statements arising from long-term transactions and other events when payments are due.

TIC has held several discussions among our governmental members and also sent out a survey that spanned both current TIC members as well as some past members to solicit feedback. The

following encompasses the results of those discussions and TIC views on the key issues noted in the preliminary views document. TIC will also be providing additional detailed comments in our responses to the second preliminary views ED titled *Financial Reporting Model Improvements* in a separate comment letter.

DETAILED COMMENTS

Recognition Concepts

While TIC tends to agree with the recognition concepts noted in the preliminary views document, TIC does have concerns about the use of the terms “outflows of resources” and “inflows of resources.” TIC believes retaining the current language of revenue and expenditures would be preferable and result in less confusion to long-time users of governmental financial statements. One group that we see significantly impacted by this change would be those charged with governance, a primary user group of these financial statements.

Conceptual Framework and Consistency

TIC believes the overall conceptual framework provided in the ED seems to make sense and captures all types of governmental transactions in a way that should be fairly easy for users of governmental financial statements to comprehend. TIC believes that the preliminary views document helps to improve consistency by using a recognition window of one year from the inception of the transaction or other event in determining short-term and long-term transactions. TIC also agrees that grouping by class of transaction and providing additional guidance on specific transaction classes is a great approach.

Relationship with Budgetary Information

TIC agrees that the short-term financial resources measurement focus will be a helpful tool in relationship to budgetary information. We also agree that the recognition method for long-term transactions aligns with how many governments budget and was one determining factor in our decision to support the model over the alternative view.

Normally Due or Contractually Stated

TIC agrees with the use of “normally” rather than stated or contractual maturities (or best estimate) in determining recognition for classes of transactions. TIC understands the alternative viewpoint that using “normally” could sometimes result in long-term transactions that will be payable within the next operating cycle not being shown using this focus. TIC believes that the benefit to a vast majority of governments in consistency and comparability by using the concept of “normally due” outweighs the issues that would arise.

TIC also understands that what is normal for one governmental entity may not be normal for all but believes that in most cases using “normally” will result in better reporting and believes the

approach of additional guidance on what constitutes normally for those minority situations would be beneficial.

Fund Balance

TIC did not understand the language in paragraph 13. of this document as well as in the example financial illustrations that the nonspendable portion of fund balance has gone away. TIC does not see an issue with this logic, rather, TIC does not believe this was explicitly stated in the preliminary views document. Consideration may be given to address how fund balances pertaining to inventory and prepaid expenses (which used to be treated as nonspendable) will be handled in this model.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Westervelt". The signature is written in a cursive, flowing style.

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees