



March 2, 2021

Mr. David Bean  
Director of Research and Technical Activities  
Governmental Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the National Association of State Auditors, Comptrollers and Treasurers, we appreciate the opportunity to respond to the Governmental Accounting Standards Board's Exposure Draft (ED), *Recognition of Elements of Financial Statements*.

We are not in agreement with the short-term approach and believe the majority of our members continue to prefer the near-term approach. However, if GASB continues with this guidance, we have the following specific comments that we believe the Board should consider as it finalizes this statement.

*Paragraph 9*

- The last sentence states: "All liabilities in this measurement focus are financial liabilities." This does not clearly define what liabilities are included in the measurement focus. We request that the Board revise this sentence to provide specific examples, similar to the previous sentence about financial assets.
- We request that the GASB clarify how assets of a permanent fund, including cash, should be reported when part of the cash cannot be spent because the terms require the corpus to remain intact. We suggest that the language in the penultimate sentence be changed to: Financial assets in this measurement focus include cash, assets that are available to be converted to cash (e.g., investments), and assets that are consumable in lieu of cash (e.g., inventory and prepaids).

*Paragraphs 11 and B17*

- We are concerned about a proposed major change in practice that will be different from FASB and other standards setters. We disagree with defining short-term "within one year from the inception of the transaction or other event." We request that the Board maintain the definition of short-term as one year from the date of the financial statements.
- We are concerned with the additional costs and burdens on people and software systems that will be incurred to incorporate the changes required by both the *Recognition of Elements of Financial Statements* and the *Financial Reporting Model Improvements* EDs. Significant additional time would be required to analyze all transactions to determine whether they are short-term or long-term in nature. In addition, a unique recognition model means that accounting systems, preparers, users and auditors will encounter ongoing costs for training, reconciliations, maintaining unique software systems or spreadsheets, along with the cost of errors and rework.



Also concerning in a government environment is the hidden cost of citizen and legislative users not understanding or misunderstanding financial statements because they do not have a deep understanding of the unique nuances of governmental accounting.

General Comments

- In general, we believe that more context on the overall objective(s) of the short-term financial resources measurement focus (STMF) should be added to the proposed Concept Statement. As Concept Statements generally identify the objectives and fundamental principles of financial reporting, we do not believe that the proposed statement has established this basis for the STMF. A discussion of the overall objective(s) will provide the additional context needed to assist preparers and auditors in understanding the need and derived benefit the STMF will provide to the intended users of the financial statements, considering the continued costs and decreased historical comparability this fundamental change will bring.
- We believe it would be prudent to complete the revenue and expense recognition project and incorporate any modifications into the reporting model and financial statement guidance. The current GASB Technical Plan indicates that the revenue and expense recognition guidance will be issued during the first quarter of 2025. Since the largest governments will be implementing the *Financial Reporting Model Improvements and Recognition of Elements of Financial Statements* effective for fiscal year 2025, the timing is not optimal. We believe it would be more efficient from a preparer perspective to have the final *Revenue and Expense Recognition* guidance available at least one year prior to implementing the *Financial Reporting Model Improvements and Recognition of Elements of Financial Statements* guidance. Accordingly, we request a delayed implementation date for the *Financial Reporting Model Improvements and Recognition of Elements of Financial Statements* to coincide with the *Revenue and Expense Recognition* implementation date.

We appreciate the opportunity to provide our comments. Should you have any questions or need additional information regarding our response, please contact Kim O’Ryan of NASACT at (859) 276-1147 or me at (916) 445-0255.

Sincerely,

Elaine M. Howle  
President, NASACT  
State Auditor, California