



September 29, 2011

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

RE: GASB Preliminary Views – *Recognition of Elements of Financial Statements and Measurement Approaches*

Dear Mr. Bean:

We appreciate the opportunity to respond to the preliminary views (PV) *Recognition of Elements of Financial Statements and Measurement Approaches*.

In general, we agree with the need for a concepts statement addressing the recognition of elements of financial statements and measurement approaches. However, we do not agree with the proposed changes for elements of financial statements currently being reported under the current financial resources measurement focus.

The near-term financial resources measurement focus appears to resolve some inconsistencies of the current financial resources measurement focus; however as stated in the alternative views, it does not resolve all inconsistencies and creates other inconsistencies. In addition, it seems the “near-term” focus is moving away from a budgetary basis measurement focus, therefore causing the fund financial statements to provide less comparable data for preparers, legislators and the public when reviewing budget to actual data and determining how the government performed. Therefore, we do not believe the “near-term” focus is better than the “current” focus.

We would recommend that the Board consider the purpose of the fund financial statements. Is it to provide a resource for determining how the government performed in relation to its budget? Or, is it to provide the overall long-term financial position of a given fund? If the answer is to provide a resource for comparing the actual results to the budget, then the financial statements should continue to be prepared on a current financial resources measurement focus. If the purpose is to provide the long-term financial position of a fund, then the economic resources measurement focus should be used.

Our specific comments with chapter and paragraph references follow.

Chapter 2 – Recognition of Elements of Financial Statements:

1. Paragraph 2. We agree with the Board’s preliminary view for recognizing and reporting elements in the financial statements prepared using the economic resources measurement focus. Specifically, “the item is measurable with a sufficient degree of reliability.” Estimates are commonly used in state and local government financial statements. The inclusion of an estimate in financial statements does not imply it is an exact or precise figure; however, it should be reliable, verifiable, not misleading, etc.
2. Paragraph 4. We agree with the underlying concern that the existing method of preparing financial statements using the current financial resources measurement focus is inconsistent at times. However, we also believe that the proposed changes will result in some additional inconsistencies. We are particularly concerned with the proposed treatment of prepaid items, inventory and other non-capital assets, and expenditures that are purchased or paid for in one year but consumed in another as outflows of resources.

How does the Board foresee reporting deferred outflows and inflows in the fund balance? Will the net balance be reported as nonspendable fund balance?

We do not agree that the measurement focus should be renamed to “near-term financial resources measurement focus.” The use of new terminology such as “near-term financial resources measurement focus” leads to confusion for the financial statement preparers and users when the overall concept does not seem to be changed that significantly. We acknowledge that some modifications may need to be made to achieve consistency among governments. However, we believe that government financial statements are currently prepared in a manner similar enough to the “near-term” concept that a complete change in terminology is not warranted. We cannot visualize how these proposed changes will better serve the objectives of financial reporting. The proposed “near-term” concept does not appear to require any additional disclosures or a change in the way data is presented in the financial statements.

Is the Board planning to establish the time period governments are to use to define which receivables (or payables) will be available in the “near-term” and therefore recognized as revenue (expenditures) in the governmental fund financial statements? Or, will this be left to the financial statement preparers to decide? If left to the preparers to decide, how is this any different than the current financial resources measurement focus?

More specific examples of how this proposed concepts statement would *change* financial statement disclosures/presentation are needed to allow for responders to better understand the implications of the concepts statement.

3. Paragraph 6 and 7. We do not agree with including proceeds from short-term borrowings (i.e. tax anticipation notes) as inflows of resources in the year borrowed and repayment of short-term borrowings as outflows of resources in the year paid. This would cause an increase in a government’s fund balance in the year of the borrowing because the liability would not be recognized under the “near-term” focus. This would be misleading and could potentially be abused to provide a better bottom line. Instead, the “current” focus

should continue to be used and report the short-term borrowing as a liability in the fund financial statements when issued and a reduction of the liability when paid.

4. Paragraph 8. The paragraph states “assets recognized under the near-term financial resources measurement focus are cash, financial resources that can be converted to cash, and financial resources that are receivable at period-end and normally are due within the near term.” What is meant by “normally are due within the near term?” Will the concepts statement define “near term?” The use of “normally” seems to leave this open to interpretation – what is the purpose of using “normally?” It would be helpful to include within the concepts statement an example of a receivable not received in the near-term, that would be acceptable to report in the governmental funds.
5. Paragraph 9. Regarding liabilities, this paragraph states they “normally are due within the near-term.” Again, why is the word “normally” used here? What is an example of a liability that could be reported under the near-term financial resources measurement focus that is not payable in the near-term?
6. Paragraphs 10-11. Deferred Outflows/Inflows of Resources is a very new concept to financial statement preparers and users and at times can be difficult to interpret and visualize. It would be helpful to incorporate examples within the concepts statement.

Chapter 3 – Measurement Approaches:

1. Paragraph 18. We agree that neither measurement approach (initial amount or remeasured amount) is best to utilize for all assets and liabilities. Additionally, we agree that initial amounts are appropriate to use for assets used directly in providing services because these assets are not held for re-sale or investment.
2. Paragraph 20. We understand theoretically that “remeasurement updates the amount reported for an asset or liability from an initial amount or previous remeasurement to an amount indicative of the value at the end of the reporting period.” However, we are concerned that the use of additional remeasured amounts will significantly impact the timeliness of completion of the CAFR when there is currently a push to produce a faster CAFR. Particularly due to time and effort involved in calculating and auditing the remeasured figures. We are concerned the cost of remeasuring items not previously remeasured will be significantly greater than any benefit achieved from this change. What reliable source are governments to use to remeasure assets and liabilities that have not previously been remeasured?
3. Paragraph 34. We understand that remeasured amounts are more appropriate for assets that will be converted to cash because this represents the amount of cash that could be obtained at the balance sheet date.
4. Paragraph 36. We understand that remeasured amounts are more appropriate for variable-payment liabilities, such as compensated absences and pollution remediation obligations. We have been remeasuring our compensated absences and pollution remediation obligations in our CAFRs for years. We are confused, what additional requirements are you adding to the remeasurement of compensated absences and

pollution remediation obligations? If nothing, wouldn't it be better to provide additional examples within the concepts statement other than ones that governments currently are remeasuring?

5. Is GASB's intent to identify the specific measurement approach to be used for specific types of assets and liabilities within subsequent GASB standards? Or, will this be open for governments to decide which measurement approach is best for their government? For consistency, we believe there should be guidance to steer preparers to the initial or remeasured measurement approaches for assets and liabilities; however, there should be flexibility to allow governments to interpret their own assets and liabilities and the best measurement approach to use given the circumstances within that government.

If you have questions or need additional information regarding this response, please do not hesitate to contact Kim Knight at (515) 281-6523.

Sincerely,

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