



COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE BUDGET
COMPTROLLER OPERATIONS
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September 30, 2011

Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Attn: Director of Research and Technical Activities
Project No. 3-20

Dear Dave,

I am pleased to provide you with the Commonwealth of Pennsylvania's comments on the GASB's Preliminary Views 'Recognition of Elements of Financial Statements and Measurement Approaches' (PV) dated June 28, 2011. We understand that GASB's intention is to issue a final pronouncement in the form of a Concepts Statement.

Summary

Inconsistencies in current financial resources measurement focus model

Within 'Summary' beginning on PV page viii, there is an assertion that there are 'various inconsistencies in the current financial resources measurement focus model.' We do not believe there are inconsistencies in the model itself.

Near-term as a symmetrical concept

Beginning on PV page viii, our interpretation is that the contemplated 'near term' financial resources measurement focus definition does not differ much from the longstanding 'current' financial resources measurement focus. Our understanding is that existing standards constitute a symmetrical concept. Also, importantly, our opinion is that the existing standards continue to meet the objectives, as provided in the GASB's Basis for Conclusions in what became GASB 34, used as important foundations for retaining the current financial resources measurement focus (GASB 34, paragraphs 235 – 238) for governmental fund types.

Retaining two distinct measurement focuses

We agree with the retention of two distinct measurement focuses, as provided beginning on PV page viii. We recommend that neither be changed.

Measurement Approaches

We agree that, conceptually, the two measurement focuses provided, beginning on PV page ix, could provide better information. However, our experience is that distinguishing between when to apply the two measurement focuses might be very complicated. In a manner of speaking, the devil is in the details. We believe there could be considerable effort expended to 1) make the distinction and 2) obtain the indicated 're-measurement amount.' While we can agree from a conceptual standpoint, our greater concern would be how to implement and maintain the two measurement focuses.

Chapter 1

Recognition of Elements of Financial Statements

Within paragraph 7, on PV page 2, we are concerned about how the definition, treatment and reporting of deferred items may change. In June 2011, GASB 63 was issued as the standard on Deferred Outflows and Deferred Inflows and details how and where deferred items are reported. We are reviewing a GASB Exposure Draft, issued August 2011, concerning which items constitute deferred items.

Within paragraph 8, beginning on PV page 2, we believe that there is a present-day, cohesive, conceptual foundation for the current financial resources measurement focus. We do not understand how 'the resultant information conveyed in financial statements prepared using the current financial resources measurement focus may seem inconsistent.' We ask, 'Inconsistent with *what*, exactly, and *how*?'

Paragraphs 9, 10 and 11, on PV page 3, alternate between 'current financial resources' and 'near term.' We can agree with the last sentence of paragraph 11 if the last word is 'funds.' However, as written, literally, we emphatically do not agree that governmental fund financial statements present a near-term view of governmental activities. This changes, dramatically, whether and how today's current financial resources measurement focus meets the objectives of that measurement focus. We do not agree that present-day governmental fund financial statements are construed as presenting a near-term view of (economic resources, full accrual) governmental activities. We believe the distinction between governmental funds and governmental activities, as provided in GASB 34, is critical and must be maintained.

Measurement Approaches

Again, in paragraph 12, beginning on PV page 3, our concern about how to implement and maintain, from a realistic, practical standpoint, the two measurement focuses.

Chapter 2

Near-Term Financial Resources Measurement Focus

The last sentence within paragraph 4, beginning on PV page 5, includes a reference to 'the financial position of governmental activities.' We agree with that sentence, as worded, about the distinction between governmental funds and governmental activities. Whether named 'current financial resources' or 'near-term financial resources,' governmental funds financial statements

report amounts fundamentally and conceptually different from those within governmental activities financial statements.

We agree with the content in paragraphs 5 through 9, beginning on PV page 6, with the insertion of the word 'current' immediately preceding 'financial resources' in the first sentence of paragraph 5. We can more easily accept a captioning change from 'current' to 'near term' as long as the conceptual foundation of 'current,' does not change the conceptual foundation of 'near-term' to a different meaning and application than 'current.'

Recognition of Deferred Outflows of Resources and Deferred Inflows of Resources

Economic Resources Measurement Focus

Near-Term Financial Resources Measurement Focus

We believe this content is consistent with GASB Concepts Statement 4 and GASB Statement 63. We would appreciate learning if our interpretation is not correct.

Chapter 3

Measurement Approaches in Financial Statements

We understand the concept of 'Initial-Transaction-Date-Based Measurement (Initial Amount)' in paragraph 3 on PV page 10. We do not agree, however, that the use/reporting of amortization or depreciation constitutes a modification to initial amounts -- these are contra-asset accounts established and maintained to report and account for periodic amortization/depreciation charges during the fiscal period. There is no change to reported cost or other basis for the assets involved. We are quite hesitant, as accountants/financial statement preparers, to contemplate 'Current --Financial-Statement-Date-Based Measurement (Remeasured Amount), also in paragraph 3. Our experience, since implementing GASB 31 regarding the fair value of investments, is that there are different amounts to chose from and different third-party pricing services to establish those amounts. Fair value is especially difficult to determine for certain types of investments and is actually not available to us to use for financial reporting purposes until some time after fiscal year end. Then, the task of demonstrating that our reported fair value, as best as we can reasonably determine, is within standard for our independent auditors is another effort altogether.

We agree with the content included in paragraphs 4 – 6, beginning on PV page 10.

Evaluation of the Measurement Approaches

We agree with most of paragraph 7 on PV page 11, except that we are hesitant about the use or reliability of information which could be used to 1) assess the level of services that can be provided, or 2) assess the service potential of those resources. Also, we must consider further the last sentence of paragraph 8 on PV page 12. In paragraph 9, we do not understand how 'the qualitative characteristic of consistency is not applicable to the evaluation of the measurement approaches.' We strive for consistency in all aspects of accounting and financial reporting, as we understand this to be a generally accepted accounting principle, and an important principle.

Initial Amounts

We are very experienced with using 'initial amounts' to measure assets and liabilities. In paragraph 11, on PV page 12, we have been working with the first three bullets for many years. In the fourth bullet, however, we would much rather characterize short-term payables and receivables as being reported at their initial amount, not a 'final settlement amount.' We think it is more pertinent to acknowledge that the initial amount is often not paid or received until a future date; not that the value of the item is its 'final settlement amount,' and amount different from the 'initial amount.' We pay Commonwealth employees and thousands of vendors as quickly as is practicable and we do not contemplate or use 'final settlement amount' as we process, post and pay our various accounts payable to employees/vendors. Similarly, for receivables, such as taxes receivable, we fully expect the 'initial amount' to be remitted to us; there is no 'final settlement amount' unless the taxpayer petitions for relief for a lower tax amount owed or we impose late filing penalties and/or impose interest for late payments of taxes due. Although we estimate a portion of reported taxes receivable, we do not incorporate a 'final settlement amount' in calculating those estimates. We try to report 'actual' as best as we reasonably possibly can. In paragraph 12 on PV page 13, again, we do not believe we are changing 'initial amounts' when amortizing/depreciating capital assets.

Initial Amounts and the Objectives of Financial Reporting and Qualitative Characteristics

We agree with the content in paragraph 13 on PV page 13. In paragraph 14, we agree that price levels and interest rates change, constantly, on a daily or hourly or more frequent basis and that we presently report assets and liabilities at cost on the date acquired/incurred. We agree that, economically, the replacement cost of assets and the present value of liabilities do change – continually. One key asset we do report at fair value is investments but, as already noted, arriving at fair value involves considerable labor and other costs and is not free of auditor challenges or proposed adjustments. We generally agree with the content in paragraphs 15 to 17, concluding on PV page 14. Regarding paragraph 16, we can assure the GASB that our Department of Transportation (DOT) makes its best reasonable efforts to assign capitalizable costs to highway and bridge infrastructure capital assets as of our June 30 fiscal year end, which happens to fall at the height of the construction season during the summer months. We do not believe we could ask DOT to incorporate changes in prices levels during the construction season to 'normalize' costs incurred or compare price levels with those experienced by other states.

Applicability of Initial Amounts

We agree with the content in paragraphs 18 and 19 on PV page 14. We are not very interested, today, in determining or reporting service-potential information. And, as the GASB knows, we continually make cost-benefit judgments about the value of any changes in accounting and financial reporting required by the GASB.

Remeasured Amounts

In paragraphs 20 to 24, concluding on PV page 15, we are reading what appear to be difficulties with establishing 'remeasured amounts'. We do not agree with the last sentence in paragraph 22. One might think that the same asset/liability would have the same fair value regardless of the entity that may report it. A gallon or barrel of fresh, potable water may have a value in Pennsylvania. That same gallon or barrel could have a much higher value in a jurisdiction suffering from drought. Conversely, if states are experiencing flooding of lakes, rivers, streams,

that same gallon or barrel could have a much lower value in those jurisdictions. Both fair value and market value are localized; they are not the same throughout the United States, for instance, on any given calendar date. We are hesitant about the possibility of needing to report remeasured amounts for assets and liabilities.

Remeasured Amounts and the Objectives of Financial Reporting and Qualitative Characteristics

In paragraph 25, we remind the GASB that the Commonwealth largely exists for the benefit of its citizens. We manage our resources on an annual basis, generally as a result of negotiations between the Governor and the Legislature. The delivery of services is of paramount importance, as is the funding for those services. Utilizing financial statements as a tool to evaluate 'Management's performance,' as given in paragraph 25, is not near the top of objectives when there are constantly competing demands for limited Commonwealth resources. The GASB must understand how pervasive the annual budgetary cycle is in Pennsylvania. In paragraph 27, we see the example of the fair value of investments and the understandability of fair value of investments as an extremely basic example. If the GASB endeavors to advocate the use of 'remeasured amounts,' the GASB must be responsible for educating constituents as to what those 'remeasured amounts' mean, and how they are used, and the effect their use has on amounts reported in basic financial statements. We read paragraphs 28 to 33, concluding on PV page 17, as very interesting. Impediments, hindrances to establishing 'remeasured amounts.' The reliability of 'remeasured amounts.' Vital decisions that the GASB must make as it proceeds to contemplate requiring 'remeasured amounts.' In paragraph 33, we can not think of an easy answer concerning liabilities with significant uncertainties. Please remember that cost-benefit considerations are very important to us.

Applicability of Remeasured Amounts

We agree with the GASB's preliminary view in both paragraphs 34 and 36. As financial statement preparers, we understand the theory and the concepts associated with 'remeasured amounts.' We are, at the same time, increasingly concerned about the cost, or anticipated cost, of complying with a number of new GASB standards which will be effective with our fiscal year ending June 30, 2013 or 2014. These dates are only two or three years away. If the GASB fully comprehends and appreciates the cost of assessing items 1) currently in due process, or 2) issued as final standards, we might be able to achieve balance between theoretical considerations and the cost of implementing standards based on those theoretical considerations.

Chapter 4

Recognition of Elements of Financial Statements

Change from Current Financial Resources to Near-Term Financial Resources Measurement Focus

In paragraph 2, on PV page 19, we do not agree that a change to recognition concepts for governmental funds is needed, or needs to change to a near-term perspective, especially if that near-term perspective is tantamount to present-day 'current financial resources.' Further, we do not agree that the implementation of GASB 34, some 10 years ago, changes any aspect of what 'remain' governmental fund financial statements. At the time, during due process for what ultimately became GASB 34, there were many many constituents who sought to avoid

government-wide financial statements prepared using the economic resources measurement focus and accrual basis of accounting. Part of the 'compromise,' on the part of the GASB, was that governmental fund financial statements would remain and that basic financial statements, a new term, were defined to include both the newer government-wide financial statements and retain governmental fund financial statements. These statements remain necessary to deliver the objectives included in GASB 34 Basis for Conclusions paragraphs 235 and 238. For over a year, now, we have heard the GASB speak of the 'messages' conveyed by governmental fund financial statements and we believe those 'messages' remain necessary today, just as they were necessary 10 years ago. Nothing has changed, or needs to change, in the financial reporting model. So, the last sentence of paragraph 2 is not entirely accurate. It is possible that governmental funds could provide information from a near-term perspective but the GASB can not change the 'role' of those statements without adequate due process. The current financial reporting model itself would have to change to accommodate the very limited role of governmental funds financial statements.

In paragraph 3, beginning on PV page 19, we emphatically do not agree that, if constituent understanding of 'current' is not understood, the underlying concept and ultimate accounting and financial reporting standards need to change. We would correct that mis-understanding by educating the constituent universe and not by changing the meaning and application of 'current.'

In the last sentence of paragraph 4 on PV page 20, there is an insinuation that budgeting practices determine recognition and measurement concepts for financial statements prepared using the near-term financial resources measurement focus. We agree with the relationship cited in paragraph 4 between budgetary reporting (budgetary comparison schedules, in Pennsylvania) and GAAP reporting. But the budgetary basis of reporting certainly does not 'drive' GAAP reporting.

We agree with paragraphs 5 and 6, where 6 begins on PV page 20. We see paragraph 6 as 'linking' deferred items to what may today be reported as assets and liabilities. And this is a significant part of the content in the very-recent GASB ED dated August 17, 2011.

Measurement Approaches

Balancing Competing Objectives of Financial Reporting

We acknowledge the indicated competition between statements of position and statements of resource flows as presented in paragraphs 7 and 8 on PV page 21. We remind the GASB that one of the chief goals of GASB 34 was to measure and communicate the total cost of providing/delivering services during a given fiscal period. Information about the level of services that *can be provided* is inherently more qualitative, subjective, and judgmental. We can continue to deliver 'cost of services' as in GASB 34. We believe that GASB 34 would have to be amended to require the delivery of potential level of services.

Cost of Services

Potential Measurement Attributes

Constant-Dollar Accounting

We agree with the content in paragraphs 9 and 10, where 10 begins on PV page 21, and we agree with the content in paragraphs 11 and 12 on PV page 22.

Alternative View

We are very interested in the content in paragraphs 13 to 20 on PV pages 23 and 24 and we agree with almost all of it. We urge the GASB, all members, to carefully consider the content in paragraphs 18 to 20 on PV page 24. We have been longstanding supporters and partners of the GASB and we believe it is imperative that we avoid weakening what could be perceived as an 'imperfect' or 'impure' or 'inconsistent' conceptual foundation for either modified accrual or full accrual financial statements.

I hope you find our comments useful. Please contact me at akiehl@pa.gov or (717) 787-6496 with any questions.

Sincerely,



Anna Maria Kiehl, CPA
Chief Accounting Officer

cc: Michael Burns
Lauren Dungan
Eric Bartholomew