

September 30, 2013

Mr. David Bean, Director of Research and Technical Activities
Project Number 3-20E
Governmental Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Submitted via email to director@gasb.org

Dear Mr. Bean:

Thank you for the opportunity to provide these comments regarding the Proposed Statement of the Governmental Accounting Standards Board (GASB, the Board) on concepts related to *Measurement of Elements of Financial Statements* (the “ED”). The Board is to be commended for taking this step to assist preparers, auditors, and users in better understanding fundamental financial reporting standards underlying financial reporting standards applicable to state and local governments.

Comments on Proposed Concepts

I agree with the two measurement approaches – initial transaction date based measurement and current financial statement date based measurement – discussed in the ED. In addition, I agree that historical cost and fair value are appropriate concepts to measure elements of governmental financial statements as they are familiar to preparers, auditors, and users of governmental financial statements and should be retained as measurement attributes.

However, I do not agree that replacement cost and settlement amount are measurement attributes that will provide useful information for users of governmental financial statements. If adopted as measurement attributes, I believe these attributes will create confusion among preparers, auditors, and users of governmental financial statements and therefore do not meet the characteristic of understandability.

Both replacement cost and settlement amount are, in the literature of the Financial Accounting Standards Board (FASB), simply nuances of fair value that can be measured using the market, income, or cost approach and observable and unobservable inputs. Differences between historical cost/fair value and replacement cost/settlement amount may likely be minimal and use of replacement cost/settlement amount therefore would not provide relevant information. In addition, because replacement cost as proposed is an “entry” price measurement based on entity-specific circumstances, comparability among governments would be limited, if at all.

There seems to be very little cost-benefit to the proposed replacement cost attribute referred to as “acquisition value” versus historical cost or fair value. As a concept, fair value presumes the initial transaction price to be fair value and if it is not, adjustments are made accordingly to

reflect the market, orderly, etc. aspects of fair value. By defining replacement cost as an entry price and concluding it is appropriate for items such as donated assets, you are creating what will likely be a minimal difference between replacement cost and fair value (assuming the measurement of fair value is done in accordance with established FASB guidance or that proposed by the Board in its Fair Value project). For example, if a developer donates infrastructure to a government as part of an agreement with that developer, the price the government would pay may likely be the same, or nearly the same, as the exit price (i.e. the price the developer would be willing to pay to reacquire the donated infrastructure). The concept of replacement cost is one that will require significant judgment when developing inputs and assumptions by governments in determining what they would pay to acquire the items delineated in the ED. As such, it will create another area where comparability among governments will not be achieved. The concept of replacement cost is already encompassed in the fair value literature of the FASB in the cost approach and in the Board's Fair Value project.

This ED will create unnecessary inconsistencies between fair value in the FASB literature and fair value as proposed by the Board in this ED. While both boards operate independently of each other, the interdependencies of the auditor and user marketplace need to be considered when the auditors and users of both governmental financial statements and non-governmental financial statements are significantly the same group (i.e.: bankers, business community bond insurers, investors, actuaries, etc).

Comments on Basis for Conclusions and Alternative View

Generally, I am confused as to why the Board felt it necessary to diverge from the attributes of assets and liabilities discussed in FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, as amended (Concept Statement No. 5). The five attributes in Concept Statement No. 5 are based on relevance and reliability, among other criteria, the same as those of the Board. Additionally, they are accepted in the accounting, auditing, and user communities. I do not agree with the Board that lower of cost or market value (LOCOM) produces a biased measurement making it inconsistent with the qualitative characteristic of reliability. LOCOM has long been understood and accepted by preparers, auditors, and financial statement users not only because it is straight-forward and objective, but also because it results in a conservative measurement.

What I find the most disturbing aspect of this ED is the alternative view expressed by one member of the Board. Regardless of this member's theoretical discourse leading him or her to conclude fair value is "highly appropriate" for assets used to provide services, it demonstrates a total lack of understanding about what is useful information for decision making. In addition, this alternative view indicates the member has little understanding of the reality associated with the transactions reflected in governmental financial statements nor the costs incurred and the time involved to prepare them. For example, many governments finance the acquisition, purchase, or construction of capital assets by issuing long-term debt for which the current financial resources needed to annually service that debt are provided by current taxpayers (pay-as-you-use approach). In effect, current taxpayers are bearing the cost of the services provided by such assets.

In the alternative view, the member appears to also conclude that fair value is appropriate for measuring service assets because management should use fair value and not initial value when making ongoing assessments regarding exiting from its assets. Hopefully this represents a certain naivety about the cost-benefit considerations of reporting all service assets annually at fair value rather than a honest belief that management doesn't consider fair value, as relevant and on a case-by-case basis, when making such exit decisions.

I am very appreciative that other members of the Board did not hold this alternative view.

As always, thank you for the opportunity to respond to this due process document. Should you have any questions regarding the above, please contact me at (407) 869-9254 or lkmdennis@gmail.com.

Sincerely,

Lynda M. Dennis, CPA, CGFO, PhD