



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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September 29, 2011

Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: GASB Preliminary Views on Recognition of Elements of Financial Statements & Measurement Approaches

On behalf of the Washington State Office of Financial Management (OFM), I am pleased to offer the following comments on the Governmental Accounting Standards Board's Preliminary Views (PV) for *Recognition of Elements of Financial Statements & Measurement Approaches*. OFM serves as the state's controller, issuing all state accounting and reporting policies as well as the state's Comprehensive Annual Financial Report (CAFR).

PV- Specific Comments

Issue 1 – Reason for the change

In our opinion, the PV doesn't clearly articulate the reasons for the proposed change from the "current financial resources measurement focus" to the "near-term financial resources measurement focus." It is not clear what the Board is trying to accomplish with this change. How will this make the financial statements clearer or more useful to users? More research should be done with user groups to identify their issues or concerns with the current measurement focus.

We agree with the Alternative View which states in paragraphs 13 and 14 of the PV "... the proposed concepts fail to articulate a clearly stated purpose or an explanation of what the financial statements using this measurement focus are intended to communicate... the proposed measurement focus will neither cause governments to disclose any new data nor present existing data in a way that will better inform the decisions or judgments of financial statement users."

Issue 2 – Time period

What time period does "near-term" refer to? We cannot envision how the proposed near term financial resources measurement focus compares to our existing application of the current financial resources measurement focus. It would be helpful if you could provide clear, detailed examples of what will be different.

Our current interpretation of resource availability under the current financial resource measurement focus is one year. We feel that one year appropriately represents the receipt/payment experience trend in the state – while the bulk of receipt/payment activity occurs in the first 60 days after year end, there is a diminishing tail of activity that stretches out one year. Will this approach stand up

under the proposed near term measurement focus? If not, we have serious issues with the proposed measurement focus. Currently the accounting for our budgetary and fund level financial reporting is in sync with the audited General Fund fund balance linking audited financial records with the budget process. The focus of the budget process is at the fund level. For budget, as well as federal reporting purposes, we want to match revenues with associated expenditures. Accountability would suffer if we were to match revenues with the bills we happen to pay during the year.

Issue 3 – Terminology

Paragraph 6 of the PV: “Outflows of resources under the near-term financial resources measurement focus are recognized as spending occurs for the period. Spending does not refer exclusively to cash payments but rather to (a) payments made during the report period....and (b) principal payments...” The paragraph goes on to provide examples such as purchases of goods and services and inventories. We recommend more clarity and consistency in the use of terms. Use of the words “spending,” “payments,” and “purchases” appear to be “cash like” terms. How do they compare to expenditures?

An expenditure relates to the incurrence of a liability. NCGA Statement 1 paragraph 70 says “Most expenditures and transfers are measurable and should be recorded when the related liability is incurred.” Our concern is that if “spending” equates to more of a cash basis approach than “expenditures,” the door will be open at the fund level to delay recognition of obligations until cash is available to pay them. Since fund level data is used for budgeting, accountability would be negatively impacted. If the answer is keep two sets of books - one for budget and one for reporting - similar to the Board’s response that the proposed pension standards requiring a single actuarial method for reporting doesn’t dictate the method used for funding – we cannot agree. Not only does it add workload but it puts us in a position of explaining why we tell one story to decision makers when it comes time for budgeting and another to decision makers in the investing community.

Issue 4 – Deferred inflows of resources

It’s not clear to us the difference between deferred inflows of resources and deferred revenue. Are they the same? If they are the same then the Board should further explain the term rather than introducing new terminology.

Issue 5 - Asset examples

Paragraph 8 of the PV: We would appreciate examples of assets. Will there be a change from what we currently report as assets?

General Comments

Washington State is in the process of implementing Statement 54 which involves major changes to fund classification as well as the fund balance portion of our financial statements. Further changing the financial statements to include the concepts of deferred inflows and outflows of resources concerns us. How can financial statement users/readers keep up with and understand the constantly changing financial statement presentations? We don’t believe that this proposed document is getting us closer to understandable financial statements.

A related concern is the move away from FASB, FASAB, IFRS, and IPSAS standards. The argument for Statement 34 was that the government-wide statements would be more easily understood by the public because they would look like private sector financial statements. At a time when the private and public sectors worldwide are moving toward a single set of accounting standards, it is not clear what is fundamentally different about U.S. state and local governmental accounting that would justify deviating in such a substantial way. We agree with the Board that the

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focus of governments is different from the focus on non-governmental entities, but we fail to see how that relates to deferred inflows and outflows at the government-wide level. It is also not clear how this change, including the resulting inconsistency, would be helpful to users of financial statements, particularly investors.

Another issue is our capacity to respond to due process documents and changes in accounting standards. As we are working furiously to implement the provisions of Statement 54 and issue our fiscal year 2011 CAFR, we have to respond to this PV as well as the exposure draft on pension standards and another on reporting items previously recognized as assets and liabilities. Add to this the fiscal sustainability project on the horizon and the workload associated with compliance with the pending federal requirement for 3% withholding on vendor payments and our resources are at the breaking point. Does the Board appreciate that the current recession and financial crisis has resulted in government layoffs and reductions of "back office" staff, including accounting staff? We appreciate that the Board has the best of intentions, but the intended results are not being achieved. Many local governments in Washington reverted to cash basis accounting when Statement 34 was issued. We are concerned that more governments will follow suit as they run out of capacity to deal with the changing standards.

Thank you for the opportunity to provide feedback on the exposure draft. If you have any questions regarding this response, please contact me at (360) 725-0185.

Sincerely,

/s/ Wendy Jarrett
Statewide Accounting Manager
Accounting Division