



WASHINGTON SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

September 30, 2011

David R. Bean, Director of Research and Technical Activities  
Governmental Accounting Standards Board  
Project No. 3-11  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

Re: Concepts Related to Recognition of Elements of Financial Statements and  
Measurement Approaches, Project No. 3-20

Dear Mr. Bean:

The following is the response of the Government Accounting and Auditing Committee of the Washington Society of Certified Public Accountants (WSCPAs). The views expressed are the views of the Committee and not necessarily the views of the individual members or the WSCPAs as a whole. We are pleased to have the opportunity to respond to the Governmental Accounting Standards Board's (GASB) Preliminary Views document (PV) Concepts Related to Recognition of Elements of Financial Statements and Measurement Approaches.

We support the mission of GASB, to establish and improve standards of state and local governmental accounting and financial reporting.

***Overview of Our Response:***

***In summary, we more closely align with the alternative view expressed in Chapter 4 beginning with paragraph 13 than the majority statements in this PV.***

The Government Accounting and Auditing Committee of the WSCPAs has presented serious concerns about past concepts statements, specifically Concepts Statement 4. We specifically did not understand the purpose of the revisions to currently used and accepted definitions, and some of the definitions were subject to a range of interpretations. We also felt more examples could be used to explain how those changing definitions would clarify and "improve financial reporting" as stated in the Summary Section of the ED for Concepts Statement 4. We were also concerned that Concepts Statement 4 proposes different definitions for elements of governmental financial reporting than the definitions for similar elements of non-governmental financial reports. While we do not revisit our prior objections in this response, some of our concerns

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continue to exist in this new PV. As such, some of our responses are affected by our prior conceptual concerns.

While the concepts of assets and liabilities are well-founded in the long history of accounting logic, theory and practice, we understand the purpose of using the deferred outflow and inflow concepts in reporting the elements of financial statements. Assets, liabilities, revenues and expenses are not only embedded in the entirety of GAAP, but are ingrained in the general public's lexicon. We fully understand that concepts statements do not change existing promulgations, but by design, they do affect future promulgations, as we have seen from recent GASB pronouncements.

We understand that the GASB has always been concerned with government's budgets and that it drives certain accounting promulgations, specifically the current financial resources measurement focus. Given the current public scrutiny regarding governments' financial position including pensions, we believe the accounting profession is ill-served by this focus on budget (current financial resources). It is this belief that informs our response to this Concepts Statement.

We believe that the users of financial reports and the financial community understand the concept of current and long-term assets and liabilities. Current assets are those that will convert to cash or will be used in operations in the next fiscal year (such as receivables, prepaid expenses and inventories). Long-term assets will provide service benefit for many years, or at least, more than one year. Similarly, current liabilities are those that will use cash or convert to revenues when earned in the next fiscal year (such as accounts, salaries, deposits, advances and interest payable). Long-term liabilities provide funding for future years. We question why the use of "near term" versus "not near term" is preferable to "current" versus "long-term". Also how would "near-term" affect the current practice of using 60 days after year end to record certain receivables as is the current standards and practices?

Since enterprise fund activities are like "private sector business", using "economic resources measurement focus" that are more narrowly defined in this PV will only make enterprise fund financial statements more difficult to compare to private sector business financial statements, while in substance such activities are very similar and comparable.

***Responses to Specific PV Statements:***

Chapter 2 Paragraph 2, we agree with item b. in that only items that are reasonably measurable should be recorded. Regarding item a., we would agree if the definition of an element included assets, such as prepaid expenses or deferred charges, such as bond issuance costs. For example, bond issuance costs are a *resource* outflow, portions of which are applicable to future periods, but may not meet the definition of an "element" (asset). However, using the matching concept to report an effective yield on the bonds requires that these costs be deferred and recognized as an effective yield adjustment

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(amortization) over the life of the bonds. Likewise, deferred revenues are not liabilities in the sense they need to be repaid, but the availability of the cash received in advance depends on future actions or the passage of time (the earnings process). In many cases the theory behind deferring costs to future periods is different than the theory of meeting an earnings process criteria.

Chapter 2 Paragraph 4 regarding “near-term” financial resources measurement focus, once again we believe existing accounting history regarding current versus long-term designation will serve the accounting profession better than this undefined “near-term” concept. While GASB has opted for a 60-day period for recognizing certain receivables under the current financial resources measurement focus and has tied “current” liabilities to those that will be satisfied with current resources in past pronouncements, we believe that even in the current financial resources measurement focus, a current versus long-term definition will provide better value to users and will enhance the effectiveness of preparers and attestors to financial statements. Furthermore, this definition will make the preparation of the reconciliation of the fund financial statements to the government-wide financial statements more efficient for preparers and attestors.

Specifically, we believe accrued interest through the balance sheet date, usually payable within six months of year end, should be recognized as a liability and expense in the annual financial statements. The principle portion of long-term debt, due within one year, should already be included in current liabilities.

Chapter 2 Paragraph 10, we believe that deferred outflows and inflows meet the definition of assets and liabilities, respectively, so we won't repeat our objection to the prior concepts statement. We understand that the GASB has separated out deferred items from assets and liabilities. We also understand that GASB has made some special presentation requirements for hedging and derivative transactions. While we reluctantly accept this differentiation, we do not support a wide-spread, wholesale, change to the prior definition of assets and liabilities, supported by many years of accounting thought and practice.

For proprietary fund entities, we continue to question the utility of reporting deferred inflows and outflows of resources since they are so difficult to differentiate from assets and liabilities. For example, paragraph 10 of Chapter 2 stated upfront payment received for Service Concession Arrangements should be now classified as a deferred inflow of resources as it related to services to be provided in the future period. However, this very same transaction appears to meet the definition of a liability as stated in paragraph 17 of GASB Concepts Statement No. 4.

Chapter 3, we agree that the initial measured value from a transaction is the best method to report financial results. We also believe that certain assets, such as market-valued investments (GASB 31) should be revalued at the balance sheet reporting date. We are

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wondering how this concepts statement might change the current asset impairment standard since those assets won't convert to cash.

Thank you for the opportunity to respond. We are concerned that this concepts statement, as currently written, could be requiring substantial changes to current practices or prohibit better future practices. Please consider clarifying some of the definitions and providing more examples in a final document. If you have any questions or need additional information regarding this response, please contact Steve Miller at (206) 281-0281.

Sincerely,

**SENT VIA E-MAIL** to [director@gasb.org](mailto:director@gasb.org)

Nestor Newman, Chair  
Government Accounting and Auditing Committee  
Washington Society of Certified Public Accountants