August 14, 2014

Mr. David Bean  
Director of Research and Technical Activities  
Governmental Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5116

Dear Mr. Bean:

Thank you for the opportunity to respond to the Governmental Accounting Standards Board’s Exposure Draft (ED), *Fair Value Measurement and Application*.  

The ED provides important clarification of the definition of fair value for financial reporting. However, we have some specific concerns and considerations I respectfully request the board consider before it finalizes this statement.

While the ED does not appear to propose changes to GASBS 52 paragraph 2, discussions with your staff indicated it was the board’s intent to remove the exclusion for lands granted to the states when they were admitted to the United States. I believe this exemption is conceptually sound and, for the following reasons, should be broadened to include certain other assets actively managed by some governments.

The board appropriately concludes in ED paragraph B40 that pension funds and most endowment operations would not be appropriately characterized as actively managing capital assets (using an apartment building as an example). I agree that such assets, when they are not actively managed, should be measured at fair value.

But many states have government programs that actively manage capital assets. These assets include lands granted to certain states when they were admitted to the United States. Pages 11-13 from the North Dakota Department of Trust Lands *Biennial Report*¹ documents the extent of the program’s work managing trust lands (over 700,000 acres or 1,100 square miles).

¹[www.land.nd.gov/docs/BiennialReports/report.pdf](http://www.land.nd.gov/docs/BiennialReports/report.pdf)
While for some states these lands could meet the ED's definition of an investment, I believe it would be wrong conceptually to apply fair value to such assets. These lands are more appropriately classified as capital assets used by a government program's operations to produce income. Fair value of grant lands is not a good measure of a government's financial resources available to finance operations (the grant lands in question have remained state property since statehood). Therefore, I believe the board should seriously consider continuing the exemption from fair value measurements for lands granted to states when they were admitted to the United States.

Similarly I request the board consider extending the exemption from fair value measurements for other assets that are actively managed by government programs. For example the State of North Dakota actively manages the mineral interest associated with 2,600,000 acres. See pages 8-10 from the North Dakota Department of Trust Lands Biennial Report to see the extent of managing these assets. These assets are essentially capital assets used to generate income. Here again for a number of reasons fair value of these assets is not a good measure of a government's financial resources available to finance operations. Further measuring these assets at fair value would make the financial statements much less useful. Please consider:

1. An example of an asset in question is a gravel pit. Recognizing this asset at fair value would, in effect, be prematurely recognizing revenue from gravel sales of leased mineral rights. The same is true for oil and gas revenues. These are actively managed productive assets held for the long term.
2. The State of North Dakota is one of the largest mineral interests in the Williston Basin, the heart of the current oil boom. To value these mineral acres at fair value would give the false impression that they are financial resources available to the government to fund the state's activities. Given the finite amount of oil and gas production and transportation possible, this is not true. Further it is not practical, or even possible, to liquidate the state's holdings.  
3. The ND Department of Trust Lands reports that revenues grew 233% from the biennium ending June 30, 2007 to the biennium ending June 30, 2013. This revenue and related fund balance and net position growth gives users a realistic picture of resources available to finance operations. Including changes in fair value would only dramatically inflate the programs assets and revenues (of course it is said that for every boom there is a bust, so it goes both ways). Using fair value for these assets would only serve to obscure the true picture of resources available to finance operations.

In summary, it is my position these tangible and intangible assets are actively managed by a state program and should not be considered investments to be measured at fair value.

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2 The State of North Dakota might be unique in its constitutional prohibition from selling mineral rights.
I am also concerned that there may be conflicting guidance relating to the definition of an investment. Paragraph 66 discusses the intent of the government when it acquires the assets as an important criterion when it states: "A government acquires an investment with the expectation of future income or profit." While paragraph 68 shifts the focus to the "asset's present service capacity." This is an important distinction to the State of North Dakota. Certain material mineral rights were acquired along with land used for collateral when the Bank of North Dakota and the State Treasurer foreclosed on program loans (farm loans). The land was sold, and the mineral rights were retained as required by the State Constitution. So while the assets were not acquired with the expectation of future income or profit, they are currently valuable assets providing significant income and profit.

If these intangible assets are required to be classified as investments, and therefore required to be measured at fair value, the state has identical mineral rights that may not be measured at fair value. These relate to, for example, mineral rights resulting from the state owning the land under navigable rivers and lakes. Since the state has significant regulatory responsibilities associated with this land, I don't believe it would be right to say the service capacity of this land is based solely on its ability to generate cash or to be sold to generate cash.\(^3\)

Paragraph 68 states: "...different governments holding similar asset types may arrive at different determinations based on the usage of the asset." I don't think I like the different governments accounting for similar assets inconsistently, but I definitely don't think it is proper for a single government accounting for similar assets differently. I believe the ED as written could introduce this problem.

A stated goal of the ED is to enhance comparability of financial statements among governments. As it relates to grant lands and similar assets, I believe there already is consistent reporting for assets that are actively managed (as opposed to passive management applicable to many pension funds and investment pools).

I appreciate the opportunity to provide our comments. Should you have any questions or need additional information regarding this response, please contact Ron Tolstad at (701) 328-2243 or me at (701) 328-2241.

Sincerely,

Robert R. Peterson

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\(^3\) Note that the basis for conclusion in GASBS 51 states: "Ownership of property is comprised of a "bundle of rights," included within which are the rights to control the use of the property and to benefit from the property. While the individual rights included in the bundle of rights of property are separable and intangible in nature, collectively, they represent the ownership of a tangible asset—the associated property. Therefore, the value of the individual rights in the bundle of rights of property ownership should remain aggregated and reported as a tangible capital asset (land or property) upon implementation of this Statement."