September 29, 2011

Mr. David R. Bean  
Director of Research and Technical Activities  
Governmental Accounting Standards Board (GASB)  
Project No. 3-20  
401 Merritt 7  
Norwalk, CT 06856-5116  

Dear Mr. Bean:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Governmental Accounting Standards Board (GASB or the Board) on the preliminary views document entitled Recognition of Elements of Financial Statements and Measurement Approaches. The FMSB is comprised of 25 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. (Local AGA chapters and individual members are also encouraged to comment separately.)

The FMSB, after review and consideration, finds that it does not support the majority position expressed in the Preliminary Views document regarding the near term financial resources focus of accounting. We find that our views concerning the near term financial resources measurement focus are aligned with those of the Alternative Views, Chapter 4, paragraphs 14 through 20. Our detailed comments follow.

Near Term Financial Resources Measurement Focus Concerns

The Preliminary Views document proposes to replace the current financial resources focus with a “near term” financial resources focus. With regards to this aspect of the document, the FMSB supports the comments of the Alternative Views minority. Although we understand that the Board desires to issue Standards that are principles-based, rather than rules-based, we are unclear as to how one may differentiate between “near term” and the current financial resources measurement focus and the modified accrual basis of accounting. We are concerned that introducing a new reporting model will be counter-productive and confusing when there has been less than a decade of implementation of the current GASB 34 model. We support the Alternative Views that GASB should first address the many inconsistencies in the GASB 34 model before advancing any concepts for a new reporting model.
We do not believe that the PV makes a strong case as to why a new near term financial statement will enhance financial reporting over the current financial resources focus. For example, since the issuance of National Council on Governmental Accounting Statement No. 1, revenue recognition and the definitions of “measurable,” “available” and “susceptible to accrual” have been left up to an individual government, as long as those definitions were contained in a summary of significant accounting policies [NCGAS-1, par. 69]. Many governments that levy property taxes have chosen 60 days as an accrual period meeting the definitions. We fail to understand the difference between the current de-facto treatment and “near-term.” As brought forth in the Alternative Views section of the document, recording transactions such as the acquisition of inventories or prepayment for services as an outflow of resources when paid for during the period or in the near term, may result in obscuring the nature of the transaction. These items are acquired with the purpose having an economic and perhaps an operational benefit to constituents in future periods.

The Alternative Views section also discussed the handling of tax anticipation notes under the near term financial resources measurement. Recording the transaction as suggested by the near term focus may misrepresent the transaction and obscure the nature of the government’s finances. Tax anticipation notes are primarily used to finance short-term operations. In fact, many governments require them to be retired by a fiscal year-end. Therefore, the treatment in either the Alternative or the Primary views may be moot. If the notes are not required to be retired by fiscal year-end, or if there is a pattern of rolling the notes from one period to the next with little or no likelihood of the notes being ultimately retired in the current period or near term, or if the ultimate maturity date of the notes is in the next term, then neither the current financial resources measurement focus basis of accounting, nor the near-term focus should present the notes as payables. If GASB sees problems in how these types or similar type transactions are currently being reported, it should amend GASB 34 to provide clear guidance rather than attempting to introduce a new reporting model with new terms and formats that will not be easily understood.

The implementation of the near term focus will also present problems in the definition of what constitutes near term. As discussed in paragraph 4 of Chapter 2, financial statements prepared using the near term financial resources measurement focus are intended to provide information on the resources that were available for spending during the period and remain unspent at period end. To most governments, near term means the next budgetary cycle. However, there are many different bases of accounting employed in preparing budgets and it is unclear how any near term financial reporting model concept could be conceived that would maintain comparability between like government units. If this approach is adopted, governments may likely have to establish multiple time periods for what constitutes near term because different expenditures may have different limits for settlement. We are therefore uncertain if a change in measurement focus will accomplish any goal of unanimity in presentation approach.

We also believe that an example of near-term financial resources basic financial statements should have been included with a comparison to the current financial resources model. This may better explain the Board’s views. The FMSB understands that if readers of the proposal see an example, they may believe it is in a final format. But we also believe that in this case, the benefits of a graphic may show the subtle differences in the two focuses. We would suggest if such an exercise has not yet been conducted that it be done so before the proposal advances any further. This would allow for a more informed debate on issues by the accounting community before a major change is adopted.
Measurement Approach Concerns

The FMSB supports the views of the majority outlined in Chapter 3 of the PV document and the use of re-measured amounts for assets that can be converted to cash and for variable payment liabilities. This is consistent with our view that fair value should be determined for assets and liabilities that can be easily converted to and from cash. However, we believe a distinction needs to be made between assets that will or likely will be converted to cash and those where governments has clearly stated the item will be held to maturity. To have such assets revalued would have the effect of bringing fund accounting further afield from budgetary practices. Governments cannot be expected to budget for changes in market value which will never be realized.

Also, we are comfortable with re-measuring certain other liabilities such as pollution remediation and compensated absences and agree with the Board’s preliminary view statement that initial amounts are more appropriate for assets that are used directly in providing services.

Conclusion

An overarching concern of the FMSB is that since the implementation of GASB 34 model, the Board has not addressed some of the matters that are pointed out in the Preliminary Views document as reasons for the proposed changes. We agree that there are inconsistencies in the current reporting model. However, many of the concepts in the Preliminary Views document could be addressed through improvements to the existing model. Barring evidence to the contrary, we would recommend that the views expressed in this document not be exposed as a concept statement.

We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. A majority of the FMSB members approved of the issuance of this letter of comments. If there are any questions regarding the comments in this letter, please contact Steven E. Sossei, CPA, and AGA’s staff liaison for the FMSB, at ssossei@agacgfm.org or at 703-684-6931, extension 307.

Sincerely,

Eric S. Berman, CPA, Chair
AGA Financial Management Standards Board

cc: Richard O. Bunce, Jr., CGFM, CPA
AGA National President
Association of Government Accountants
Financial Management Standards Board

July 2011 – June 2012

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Steven E. Sossei, Staff Liaison, AGA
Good morning Mr. Chairman and Members of the Governmental Accounting Standards Board:

I am pleased to offer testimony on behalf of the Financial Management Standards Board and the membership of the Association of Government Accountants on our views to the Preliminary Views Document – Recognition of Elements of Financial Statements and Measurement Approaches. My testimony is a synopsis of our comments and some further thoughts.

As you assuredly read from our letter of late September, our committee carefully reviewed and considered the views of the majority and the minority of the Board. We even discussed some questions we had with GASB staff on the views expressed. Unfortunately, at this time, we do not support the majority position of the Board regarding the “near-term” financial resources focus of accounting.

This view may be expressed from other respondents and some may indeed like the majority view. Our position stems from a number of factors.

The case wasn’t made clear in either view what the problem was that is needed to be solved.
We support reviewing the current reporting model, but starting with the inconsistencies in the GASB-34 model before advancing any concepts to a new model. As you are aware, funds are the core operations of a government and are most often the basic budgetary document. Yes there are inconsistencies. But many of those inconsistencies are addressed in current note disclosure of significant accounting policies.

One of our Board members commented –

The most important statement in the document is in Chapter 3 - P-27: “The understandability characteristic recognizes that users of financial statements have varying levels of knowledge about financial reporting and that information should be presented as simply as possible.” This Board member is of the opinion that GASB-34 failed to meet its goals, especially for elected officials and taxpayers. He also suspects that over 90% of governmental finance officers responsible for producing financial statements cannot prepare entity-wide statements without the assistance of their auditors. In fact many local governments don't even issue GAAP financial statements but issue audited fund only statements based on some other basis of accounting. And he has yet to find an elected official or a taxpayer group that wasn't an expert governmental financial analyst that can explain what these statements are reporting. While almost all can read most are asleep or at least adrift before they get through the MD&A.

Another commented (who is a fiscal officer in a very large city):

I also think that part of the problem with revamping the concepts for fund reporting too precipitously is that for many local governments and probably state governments, they have the most direct connection with and understanding of fund accounting -- it's the level they operate at everyday. Because of the worksheets needed to convert fund accounting to government-wide, I don't think that most governments or taxpayers relate that well to government-wide statements: they're too far removed from the budget, collect and expend model that is fairly well keyed into fund accounting and reporting.

The end result is that many of us don’t understand the differences between the current financial resources model and the near term financial resources measurement focus. Both appear to point toward a 60 day (or some other artificial time period) accrual as a potential "standard," but beyond that, only a highly astute observer will notice the difference.

We also believe that perhaps the Views could have been enhanced by including a set of financial statements comparing the current model and the proposed model with the changes.
Furthermore, such an important topic, such as a potential change in the concepts involved in a reporting model that many governments view more important than the economic resources measurement focus and full accrual basis of accounting should have been released out of the large shadow of the post-employment benefits documents. We would guess that there are going to be many more responses to the post-employment benefits documents than to this one. But in a number of ways, the ultimate disposition of these views may have a similar effect. We would suggest that the Board consider timing carefully whether an exposure draft should be released on these topics in the aggregate or separately.

In terms of the views on re-measurement and initial amounts we are reasonably comfortable with the Board’s majority view. We had one Board member respond that:

> It would seem that if long-term assets were capitalized at cost and depreciated on a uniform and comparable basis, and the depreciation expense was recognized in current reporting periods for resource flow statements (essentially an economic resources measurement focus,) this cumbersome conceptual process of trying to figure out when to use two (or more) measurement bases for different financial reports would be moot. [This Board Member] thinks that in the vast majority of cases, an entity's inventory costs and short-term liabilities would tend to be insignificant compared to fixed asset costs and long-term liabilities. It is also his opinion that "revaluation" (fair value, marking to market) should be used very sparingly, if at all, (most likely for financial instruments for which effective/efficient market pricing is available), because of asset price volatility, lack of market price information, and because of the opportunity to "subjectively inflate" asset values. It would also make no sense to selectively revalue assets, that is you must revalue all assets within a single class.

The Board Member is also wondering why GASB cannot (or does not want to) move more closely toward IPSAS, especially with the closer harmonization of IFRS/IAS and FASB GAAP. IPSAS is based on IFRS/IAS - and it seems that all general purpose financial statement accounting / reporting standards in the world are moving toward harmonization. I am not sure if our entire Board shares the same view, but indeed there are some rumblings out there with this view.

Ultimately, our Board is not saying – go back to the drawing board on this one, but we also are weighing this project versus others on GASB’s agenda.
1. We will comment of course on the other exposure draft released on *Reporting Items Previously Recognized as Assets and Liabilities*.
2. The Board has an ambitious, worthwhile project on Economic Condition that AGA strongly supports that is also about to have a due process release.
3. We anticipate that through the accountability study, clarity will ensue as to the next steps in projects such as Service Efforts and Accomplishments.
4. There are some on our Board who believe that projects that haven’t been addressed such as deferred maintenance on infrastructure and other assets should be placed higher on the Board’s agenda, than even this project as deferred maintenance has advanced at the Federal level.
5. There are some on our Board who also believe that with the probable expansion of required supplementary information due to probable additional post-employment benefit disclosures, that RSI’s purpose needs to be reexamined. Especially when more than three years is required versus place such ageing data in the statistical section.

There are also a host of other topics that are already on the research agenda. Unfortunately, our Board’s position currently is that we don’t understand what the GASB is trying to accomplished by the current majority views in this document.

I invite the Board’s questions.

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