

To: Director - GASB

Subject: Pennsylvania's comments on GASB Exposure Draft "Measurement of Elements of Financial Statements"

Dave,

We are pleased to provide comments on the Governmental Accounting Standards Board's (GASB's) Exposure Draft, 'Measurement of Elements of Financial Statements' (ED) which was issued June 3, 2013.

Overall we concur with the ED. Fair value is a measurement attribute that has been used for many years in governmental accounting to measure most investments and some other assets. However, we do offer several points of concern on statements contained within the ED:

1. We disagree in part with ¶18 which reads, "Initial amounts generally are not as useful as remeasured amounts in providing information to assess financial position, including the service potential of assets and the ability to meet obligations when due." We believe there should be a qualifying phrase excluding the use of unobservable Level 3 Inputs as referenced in ¶38 of the related Preliminary Views Document entitled "Fair Value Measurement and Application". This statement would be better served if it said "...generally are not as useful as remeasured amounts using observable inputs in providing...".
2. ED ¶18 asserts that remeasured amounts would provide better information about the remaining service potential of assets at the reporting date and for assets that will be used in providing services, a remeasured amount reflects an assessment of the value that the use of those assets will provide in the future. In support of this position, ¶18 references the fluctuation of interest rates and prices. We disagree with this contention and believe this is not an objective measuring tool. Based on the justification cited in ¶18, the valuation would be valid for one day, as well as subject to bias. The next day after the reporting period, the remeasured amount is no longer applicable because it is dated by the fluctuation of interest rates and prices. Conversely, the initial asset amount recorded is an objective value determined in the market place and adjusted by depreciation which reflects the decreased market value. Depreciation, in some respect, is the traditional accounting method to reflect the value the asset will provide in the future.
3. We disagree with ¶20 for the same reasons cited in point #2. To evaluate management's performance on subjective remeasured values (referred to as Level 3 Inputs-see reference #1 above) would not be an objective measuring tool.
4. We believe ¶23 understates the potential unreliability of remeasured amounts. We recommend the paragraph be amended to incorporate a direct statement that reads "remeasured amounts are complex and tend to be unreliable unless the asset or liability is party an active orderly market".
5. Finally, we agree that investments, which will be converted to cash, should be remeasured to better reflect the current value of the cash flows that the assets are expected to produce. However, remeasurement of assets that do not have an orderly market can result in diminished reliability of the values.

We appreciate the opportunity to comment on this Exposure Draft and hope you find our comments helpful. Please contact me with any questions at mburns@pa.gov or Anna Maria Kiehl at akiehl@pa.gov or (717) 787-6496.

Mike

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