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September 28, 2011

David Bean
Director of Research
Project No. 3-20
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the Tennessee Department of Audit, we thank the GASB for the opportunity to comment on its proposed Preliminary Views (PV), *Recognition of Elements of Financial Statements and Measurement Approaches*.

General Comments:

Because GASB 34 introduced required government-wide financial statements using an economic resources/accrual basis of accounting, we generally agree with the objectives the PV is trying to achieve. We also agree that the current financial resources (CFR) measurement approach is inconsistently applied throughout current practice. As a result, we believe a pure near-term (i.e., liquidity) approach is appropriate and more consistent with the intent that CFR information should have communicated.

Furthermore, we agree with the alternative view in the respect that the PV has failed to articulate a clearly stated purpose or an explanation of what the financial statements using the near-term financial resources measurement focus are intended to communicate. However, this is also the most significant issue with the current financial resources focus as well, which leads to a lack of a conceptual basis for the governmental fund financial statements when viewed through the prism of the government-wide financial statements. We also agree with the concerns in ¶16 that the alternative view expresses. However, we disagree with the board members in the alternative view (¶17) that a more comprehensive portrayal of the governmental funds should be presented because this type of information would be no different than that presented in the government-wide financial statements; and thus, provides no additional decision utility.

Detailed comments by Chapter and paragraph:

Chapter 2

1. For ¶4, we believe the “near-term” needs to be defined, such as “generally within 60 days after fiscal year end” to ensure consistent application of transactions with the concept. In addition, the board needs to expand on what information presented in the fund financial statements using the near-term focus would be different from that presented in the government-wide financial statements. This additional guidance would highlight for users the different types of information available within the different perspectives of the financial statements (i.e., government-wide long-term focus vs. governmental funds near-term focus). We believe that the fund financial statements should present information that is significantly different than that provided in the government-wide financial statements in order to be decision useful. The board should consider adding an illustration to a future exposure draft of how different transactions could be recognized and measured under the current financial resources and near-term measurement focuses. The table could include a disclaimer that future standard-setting could result in different recognition and measurement than that presented in the table though; however, we believe this type of information is important for distinguishing the difference approaches (i.e., current practice and the near-term concept).
2. In regard to ¶9, the board should explain why “consistency” is not applicable to the evaluation of measurement approaches. Consistent application of GAAP over multiple reporting periods would appear to be applicable when GAAP provides more than one measurement option.
3. For ¶11, the example in the box is repeated from page 8. Was that intended?

Chapter 3

1. In regard to ¶2, should “elements for traditional financial statements” be referred to as “elements for financial statements” since ¶3 (last sentence of Chapter 1) indicated that traditional financial statements would be referred to throughout the document as “financial statements?”
2. For ¶10, we believe the guidance also should conceptually address how initial amounts would be impacted by subsequent changes in fair value related to donated assets and other than temporary impairments.

Chapter 4

1. We disagree with the board’s conclusion in ¶ 3 that standards alone should identify the period to which near-term refers. We believe the board should conceptually define the near-term as “generally within 60 days after fiscal year end” or even as long as 90 days (which would be consistent with the definition of cash equivalents in GASB 9). As the explanation is presently presented in the PV, we do not believe that the board will have sufficient parameters to establish consistent future standards. With a time frame defined,

all GASB constituents would have a better idea of the board's intent and then could more consistently apply future standards.

2. For ¶11 (“As discussed above, remeasurement of capital assets results in cost-of-service information that is not consistent with the objective of financial reporting regarding providing information that enables users to assess accountability.”), we believe that the replacement cost and value-in-use measurement approaches might be applicable if management were to change its intent for the use of the assets by selling them prior to the end of the asset's useful life.

Should you have questions or need clarification on any of our comments, please contact Gerry Boaz or me at (615) 747-5262.

Sincerely,

Arthur A. Hayes, Director
Division of State Audit