



September 30, 2011

Director of Research and Technical Activities  
Project No. 3-20  
Governmental Accounting Standards Board  
401 Merritt 7, PO Box 5116  
Norwalk, CT 06856-5116

RE: Response on the Preliminary Views – *Recognition of Elements of Financial Statements and Measurement Approaches*

We do not concur with the conceptual framework as presented in the GASB's Preliminary Views document. We are particularly concerned with the GASB's approach in its replacement of the current financial resources measurement focus with a near-term focus. While this new approach may, or may not, resolve some of the actual and perceived deficiencies in the current model, we believe the near-term approach creates greater concerns relating to the measurement and presentation of inter-period equity within the fund-level financial statements. The end result of the proposed measurement focus could be to potentially present a more favorable financial condition when, in reality, financial position has not changed or could have worsened.

We believe that the purpose of the governmental fund financial statements is to provide relevant information on where a government obtains its resources and how those resources were used or must be used in the near future. The fund level reporting should be inclusive enough to the user to be meaningful. However, the proposed near-term measurement focus appears to move away from that concept. It does not provide a reasonable alternative between a cash-based report and accrual accounting that is provided by the current standards for governmental fund reporting. While we acknowledge there are inconsistencies in the current model, we do not believe the new model will provide greater clarity to users.

We suggest that the GASB revisit its analysis of the reason(s) for the change and the potential impact that the new approach would have on financial statements. We suggest that the GASB carefully reconsider the comments as presented in the Alternative View section of the PV which we believe addresses our concerns. Additionally, we suggest that the GASB define who the users are of fund-level financial statements and what information such users need and want, and then address deficiencies in the current model, if any major deficiencies exist.

We also have some concerns with the proposed requirements for remeasurement of assets and liabilities. While there are valid reasons to remeasure items such as investments held for sale, GASB's proposal that assets and liabilities be remeasured risks introducing volatility to the financial statements that may not be of benefit to the users.

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While we appreciate an opportunity to respond to the GASB's PVs and EDs, as preparers of the State's CAFR, we have found it difficult to find the resources to research and respond to this PV while also researching the technically complex and very lengthy ED on pensions, both of which are due on September 30<sup>th</sup>. Compounding the strain on resources is the implementation of GASB 54 with little available guidance.

We are concerned GASB may not be obtaining an adequate amount of feedback from governmental entities that simply don't have the resources to research and respond to proposed complex and significant changes to accounting standards while continually implementing complex new standards.

Specific concerns in relation to the proposed changes are attached to this letter.

If you have questions, please contact George Kiehl at [george.kiehl@wisconsin.gov](mailto:george.kiehl@wisconsin.gov).

Sincerely,

A handwritten signature in black ink that reads "Stephen J. Censky". The signature is written in a cursive style with a large initial "S".

Stephen Censky, CPA  
State Controller

**Specific concerns to Preliminary Views – *Recognition of Elements of Financial Statements and Measurement Approaches* include:**

*Chapter 1 – Objectives and Background*

Para. 9 questions whether inventories and prepaid items should be considered financial resources. It is apparent from the face of the financial statements those amounts cannot be spent. However, they are available for use in a future period when expenditures will be reported which seems logical. Changing the standards doesn't provide any more clarity and seems to remove useful information from the face of the statements.

Para. 9 also indicates that since information on governmental activities is available in both the government-wide and fund level statements, it may be appropriate to include only information about balances and flows from a near-term perspective in the fund level statements. We do not believe the government-wide statements provide a reasonable alternative to the fund level statements for any but the smallest governmental reporting entities. There is a very large amount of summarized information presented on the government-wide statements for many governments, particularly for states and larger municipalities and counties. We believe that the majority of users of most states' financial statements find the fund level statements to be a better source of information because they contain detail at a more understandable level and in a more recognizable format.

*Chapter 2 – Recognition of Elements of Financial Statements*

This chapter states in part that, “. . . assets recognized under the near-term financial resources measurement focus are cash, financial resources that can be converted to cash, and financial resources that are receivable at period-end and normally are due within the near-term.” While we do not necessarily disagree with this concept we see instances where the interpretation of this definition, especially the use of the word “normally,” may cause more inconsistencies rather than clear up the discrepancies of the current model. How will governments define near-term, is this consistent with the current phrase of short-term?

Further, we have concerns about the PV's requirements for deferred inflows/outflows and their relationship to fund balance reporting, e.g., how should these items be classified under the new GASB 54 fund balance model and will it be reasonably determinable? We remain concerned that the GASB is moving away from the traditional balance sheet to a reporting model that is unrecognizable in the GAAP-based financial reporting industry by requiring the use of deferred inflows/outflows on the face of the fund-level statements.

Para. 5 states “liabilities include those normally payable at period end and due within the near term”. Does GASB intend that we will define near term liability payments to be consistent with near term revenues? For example, if a state considers revenues to be available if received within 60 days of fiscal year end, would that 60-day rule also be applied to payments? Payments made after fiscal year end may be significant to a governmental entity and can be reflective of changes in budgeting practices over time. If we understand the PV, it seems governmental entities could improve their fund balance, on a GAAP basis, by simply shifting the dates they make payments thus making them “due” after the “normal” due date. If the concern with the current model was that long-term debt liabilities are not included in the fund level statements, is changing the model so other liabilities are also excluded an improvement?

*Chapter 3 – Measurement Focus*

Although it is not clear how the remeasurement concept would change financial reporting, we have some concerns with “remeasured amounts” as presented in the PV. Paragraph 34 states remeasured amounts are more appropriate for assets that will be converted to cash (financial assets). While it makes sense to remeasure assets such as investments held for sale, we question the improvement that would result from remeasuring other assets. For example, taxes, loans and accounts receivables are currently reported net of allowances. This provides a sufficiently accurate adjustment to the “reality” of what will be collected. There seems to be little improvement by adopting other measuring tools, such as the time value of money for such assets.

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*Chapter 4 – Summary of Board Discussions and Alternative View*

The alternative view of the minority Board members presents arguments that should be reconsidered by the majority. We concur with the minority that a government could provide misleading information suggesting an improved economic position. We also generally agree that the objective of providing information to assess interperiod equity would be better served by broadening rather than narrowing the existing measurement focus on current financial resources. Finally, we agree that the current reporting model is not conceptually pure. We believe that there is no practical way to ever have a conceptually pure reporting model. As an alternative, steps can be taken to improve financial reporting and accountability. We do not believe the proposed PV will necessarily improve financial reporting.