American Institute of CPAs
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September 22, 2011

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

Dear Mr. Bean:

The American Institute of Certified Public Accountants (AICPA) has reviewed the Governmental Accounting Standards Board (GASB) Preliminary Views (PV), *Recognition of Elements of Financial Statements and Measurement Approaches,* and is pleased to offer its comments. While we support the Board's pursuit of a complete conceptual framework, we had considerable difficulty understanding certain aspects of the PV and are unclear about the extent to which the proposed Concepts Statement would change current accounting and reporting. For these reasons, we are unable to determine whether the proposal would improve financial reporting and are not willing to endorse the proposed framework without more information.

Because of the importance of this Concepts Statement to preparers, users, and auditors, we recommend that the Board align the issuance of the next due process document for this project with the Board's due process document relating to the reexamination of the financial reporting model (Statement 34 reexamination) which we understand may be taken on by the Board at some point in the future. Such due process documents should make clear what the impact of any proposed concepts would be on the financial reporting model. This approach would greatly assist users and others in understanding the implications of the proposed concepts and provide them with a better basis to comment on the Concepts Statement.

Further detail about our concerns and our rationale for recommending a deferral of this project until the Statement 34 reexamination are addressed in the following section of this letter. Our additional comments are addressed in the final section titled, "Other Concerns and Observations."

SIGNIFICANT COMMENTS AND RECOMMENDATIONS

Full effect of the proposed concepts needs to be better articulated. Generally, we are not able to support the views expressed PV because of the uncertainty about the effect of the proposed concepts. As noted above, we found the PV difficult to understand. Further, we are unclear about the implications of the proposal, especially the proposed concepts related to the near-term measurement focus and its effect on the fund financial statements. While we appreciate the Board including examples to illustrate the potential implications of the PV, unfortunately the examples provided are of limited use because they only illustrate fairly straightforward transactions (e.g., short-term debt treatment). There are other types of transactions (e.g., grants and entitlements, derivatives, service concession arrangements) where it is much less clear how the concepts in the PV would affect current accounting and financial reporting.

We requested and held a call with GASB staff to help us better understand the Board's intent regarding certain aspects the PV. While that call provided valuable insight, it also left us with the understanding that there are many areas where it is still unclear how the proposed concepts would affect current financial accounting and reporting. Intuitively, we believe there would be far reaching changes needed to current GASB standards if the views expressed in the PV were to be finalized. Even though we recognize that any conflicts created by a Concepts Statement with existing GASB Statements would require due process, amendments to existing standards would inevitably be needed to achieve consistency with the conceptual framework.

We acknowledge that Concepts Statements are used in developing standards of governmental financial reporting. However, we believe the changes contemplated by this Concepts Statement would be far better understood if paired with a Statement that illustrates how the concepts would be operationalized. Therefore, we recommend that the Board continue deliberations on this concepts project and use the preliminary conclusions reached as a guiding principle for the Statement 34 reexamination project. Aligning this concepts project with the Statement 34 reexamination project would help users fully comprehend the extent of changes contemplated in the PV by overlaying the proposed concepts to the financial reporting model. Without such an approach, we are concerned that many that have commented on the PV will have done so without truly understanding the Board's intent and the resulting changes in accounting and financial reporting that will have to occur after a Concepts Statement is issued.

Finally, we agree with the PV's assertion that the current financial resources measurement focus for fund financial statements has evolved from a collection of accounting conventions done for practical reasons, rather than a conceptual point of view. We also agree that this approach has led to an inconsistency in application, supporting the need for a conceptual framework. However, without more information about the effect of the PV on current accounting practices, we are concerned that the PV might result in trading one set of problems for another. As the alternative view points out, it appears that one unintended consequence of the PV would be for governments to have the ability to conceal certain budgetary practices. There could be other problems as well. Issuing an exposure draft of the Concepts Statement along with a due process document of the Statement 34 reexamination would provide a much more complete view of the changes that would result. In that the inconsistencies with the current financial resources measurement focus have been in existence for years, they are not so misleading to justify the Board issuing a final Concepts Statement ahead of the Statement 34 reexamination.

OTHER CONCERNS AND OBSERVATIONS

The following concerns and observations are provided to the Board to assist in its continued deliberations on the proposed concepts.

Lack of symmetry in the near-term financial resources measurement focus. Paragraph 5 of chapter 2 states that the near-term financial measurement focus is based on a symmetrical concept as follows:

- Assets include resources that are normally receivable at period-end and due to convert to cash within the near term (as well as cash and other financial resources that are available to be converted to cash within the near term).
- Liabilities include those normally payable at a period-end date and due within the near term.

If we correctly understand the PV, we believe there is a lack of symmetry in the near-term financial resources measurement focus. Under the proposed framework short-term debt and long-term debt that matures in the near term would be reported as an inflow or outflow of resources rather than a liability (i.e., current practice). We believe that borrowings, whether short or long-term, that need to be repaid in the near term should be recorded as a liability rather than a current resource. Theoretically, we do not see how current debt differs from an accounts payable. In our view, recording short-term debt (or any obligation incurred and due in the near term) as a liability provides a better reflection of committed and available resources and goes farther in achieving symmetry. We acknowledge that if payment on debt is beyond near term then it would be a resource.

Further, it appears that interfund receivables and payables and advances will be recorded as inflows or outflows of resources, which is also concerning to us because such an approach, as outlined in the alternative view, would allow preparers to control fund balance. For example, a government could give the misleading impression that it has improved its economic position by incurring obligations intended to cover near term cash shortages (e.g., issuing tax anticipation notes or borrowing from a business-type activity) and worsen its economic position when it liquidates those obligations. We believe financial statements users should know there is an obligation and that footnote disclosure would not be sufficient to address such borrowings. We recommend the Board reconsider its positions on both external and interfund borrowings to address the concerns raised on this topic in the alternative view.

Concepts to consider in further deliberations of near-term. If the Board decides to continue pursuing the near-term financial resources measurement focus, we encourage the consideration of three additional issues. First, we recommend adding the element of "having a contractual arrangement as of period-end" to the concept of near term. As currently defined in paragraph 4 of chapter 2, "near term refers to the period subsequent to the financial report date during which financial resources at period-end can be converted to cash to satisfy obligations for spending for the reporting period." We discussed a scenario in which a transaction to sell a capital asset was consummated via a contractual arrangement before period-end and cash is to be received in the near term. This would appear to be a transaction that should be recognized under the near-term financial resources measurement focus, but we were unclear whether the framework, as written, would include it as such. Second, we encourage the Board to include more discussion or criteria to better define the timing associated with the near term definition. At a minimum, including the Board's thoughts and intent in the Basis for Conclusions regarding the 'period subsequent to the financial report date...' would promote consistency in practice. Third, we encourage the Board to consider whether it intended to limit the framework to financial resources in paragraph 5 of chapter 2. We believe that non-financial resources could be considered for recognition if they will be converted to cash in the near term as in the case of the capital asset sale previously described.

Deferred outflows or inflows of resources guidance particularly confusing. Of the many areas that we were confused by, we found the discussion of deferred outflows and inflows of resources particularly difficult to understand. For example, paragraph 11 of chapter 2 states that "it is the Board's preliminary view that deferred outflows of resources or deferred inflows of resources recognized in financial statements prepared using the near-term financial resources measurement focus would include the following transactions:

- Outflows of resources that do not meet the definition of an asset and are inherently related to future spending
- Inflows of resources that do not meet the definition of a liability and can only be used for spending in the future."

An example of our confusion came about as a result of reading the PV in conjunction with the recent GASB Exposure Draft (ED), *Reporting Items Previously Recognized as Assets and Liabilities*. Paragraph 12 of the ED states that "In a sale of future revenues, the transferor government should report the proceeds as a deferred inflow of resources in both the government-wide and fund financial statements except for instances wherein recognition as revenue in the period of sale is appropriate as discussed in paragraph 14 of Statement 48." We had trouble reconciling this discussion with the guidance in paragraph 11 of the PV. It appeared to some that the PV would provide for the recognition of revenue when the proceeds from a sale of future revenue can be used immediately since the PV only allows deferrals when the proceeds can only be used in the future. However, others were less certain about the Board's intent and questioned whether the bullets were all-inclusive or if other transactions could be deferred. This is another example of a very confusing aspect of the PV and clarification should be provided in any future due process document.

Some detailed information in the fund financial statements that users rely upon will be lost. The AICPA has long been a proponent of the government-wide financial statements and the value of the information contained in those financial statements. However, anecdotally we hear that preparers, legislators, users, and others, continue to have a very strong focus on the fund financial statements. Some of the changes that we believe will result if the PV were to be finalized may cause those that have been relying almost solely on the fund financial statements to lose information that may be important to them. For example, adopting the near-term financial resource measurement focus would eliminate the current practice of recording of long-term assets in the fund financial statements and instead only record them at the government-wide level. Reporting them only in the government-wide financial statements as proposed would be at such an aggregated level that some pertinent information that many rely upon today will be lost. We recommend that the Board consider aggregation issues, like the long-term asset example provided above, and the potential loss of disaggregated information that many are using today as it further deliberates this project.

Preliminary views on measurement approaches appear appropriate. We found the Board's preliminary view on the initial-transaction-date-based measurement (initial amount) and current-financial-statement-date-based measurement (remeasured amount) as described in chapter 3 to be appropriate and did not have any significant concerns.

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The AICPA appreciates the opportunity to comment on the PV. This comment letter was prepared by members of the AICPA's State and Local Government Expert Panel and was reviewed by representatives of the Financial Reporting Executive Committee who did not object to its issuance. Representatives of the AICPA would be pleased to discuss these comments with you at your convenience.

Sincerely,

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Chair
AICPA State and Local Government
Expert Panel

Mary M. Foelster
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cc: State and Local Government Expert Panel
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