

November 29, 2010

Ms. Wendy M. Payne, Executive Director
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Dear Ms. Payne:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Federal Accounting Standards Advisory Board (FASAB or the board) on its exposure draft (ED) of a proposed Statement of Federal Financial Concepts entitled *Measurement of the Elements of Accrual-Basis Financial Statements in Periods after Initial Recording*. The FMSB, comprising 24 members with accounting and auditing backgrounds in federal, state and local government, academia and public accounting, 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.

General Comments:

1. As stated in the Draft's Executive Summary and paragraph 2 of the document, the principal question is "whether and under what circumstances it might be more useful for users' decision making to report an asset or liability in periods after its acquisition or incurrence [at the initial amount or the remeasured amount]"? While the Draft provides a useful framework for concept discussion, we do not believe that it actually answers this question. Perhaps the question could be reframed to ask what the key concepts are, relating to the usefulness of initial and remeasured amounts. One member thought that the Concepts Statement should be reorganized and rewritten to better reflect the discussion of the key concepts.

2. We agree with the finding that constant-dollar reporting should not be used (paragraphs 10 – 14). The use of a general price level index really represents an alternative use of funds and so is an opportunity cost. Opportunity costs are significant to economists, but not to accountants. If the agency had a number of choices in how to use their funds, it could be meaningful to show what the results would have been had they opted for one (or more) of the other choices (as supplemental information, not on the financial statements). However, we find little use for a "constant" dollar when there are so many other more meaningful measures around (such as average or minimum wages, housing prices, stock indices, T-bill rates, depending on what activity is being measured). We also doubt many agencies would be in a situation where evaluating alternatives would mean looking at the bottom line rather than at the number of citizens served and how well.

A problem with evaluating assets is volatility. With the Internet, markets move at the speed of light and we have seen how commodity prices can double and halve in a short period of time. Prices are becoming self-correlated, so they go up because they

went up earlier and speculators assume they will continue to go up and so engage in a self-fulfilling prophecy (until the inevitable collapse). If a statement covers a year and the price of commodities that are significant on the balance sheet have a 50% spread in value over the course of the year, is it meaningful to assign the value on 9/30? We would think a footnote that the replacement cost has ranged between \$x and \$y for the current year would suffice.

If an agency has stockpiled commodities for use and the price has changed significantly, noting the replacement cost is informative but not truly useful unless the agency is in a position to dump those commodities and buy an alternative commodity at a lower cost, or abandon the line of effort that requires the commodity. So we would be very hesitant about recording an unrealized gain or loss on the net cost statement or balance sheet.

Specific Responses to the questions posed in the exposure draft:

Q1. This Statement discusses whether and under what circumstances it might be more useful to report an asset or liability in periods after its acquisition or incurrence (a) at the amount initially recorded (i.e., "historical cost," subject to appropriate adjustments for amortization, depreciation, or depletion) or (b) at an amount measured at each financial statement date. These two amounts are referred to in this Statement as, respectively, "initial amounts" and "remeasured amounts."

a. Is the distinction between initial and remeasured amounts understandable and useful to you? If not, please suggest improvements.

Yes, the FMSB thinks that the distinction between initial and remeasured amounts are understandable and useful.

b. Are the benefits and drawbacks of using each approach clear and complete? (See paragraphs 17–33.) If not, please suggest improvements or additions.

We don't believe that the drawbacks of using remeasured amounts has been adequately addressed, in terms of expense to obtain certain valuations, and reporting inconsistencies that could be introduced by each agency applying remeasurement guidelines.

As briefly pointed out in the draft (in paragraph 26), the problem with all valuation adjustments is that they can easily be both nebulous and very complex, unless one has a very ready market such as a stock exchange. The land example in paragraph 13 illustrates the *concept* well, but most government assets are much more complex and would be much more difficult to value. Professional appraisals can be extremely expensive and can vary widely in valuation; the need to obtain them could also delay the issuance of financial statements, because good professional appraisers do not typically work quickly on large valuations. As noted in paragraph 26, remeasured amounts can "introduce significant uncertainties and subjectivity into the information". We think that a discussion of the cost of obtaining valid remeasurement valuations, relative to their perceived usefulness, should be addressed in this concept statement.

We don't see how, as stated in paragraph 27, "a comparison of current-period taxes and other revenues with remeasured (current) costs of the resources consumed in providing goods and services is more relevant for assessing operating performance," etc. If a government building was built many years ago to provide goods and services, how is knowing the building's current economic cost going to be of use to most users of the financial statements? We think that we have

all been conditioned to make the necessary allowances and adjustments in broad, general terms; we do not see how a factoring in a professional appraisal of the building adds anything of value to the reporting.

c. Do you agree with the decision to exclude any discussion of the advantages and disadvantages of inflation-adjusted amounts from this Statement? (See paragraphs 14–15.) Please provide the rationale for your answer.

Yes. We believe that inflation adjustments should be left to statisticians who mine historical data for broad trends and overviews. Unless one has federal inflation-adjustment criteria and rates that will be used consistently by all federal agencies, and which are set on an routine basis (such as quarterly or annually), one is probably not going to get consistent reporting on this basis.

Q2. This Statement distinguishes among “measurement approach,” “measurement attribute,” and “measurement method.” (See paragraph 7.) Are the distinctions clear? If not, please suggest improvements.

We are not sure if the word “approach” in “measurement approach” captures the meaning as well as a word like “rationale” or “category” or “classification” might, because one is talking about examining types of assets and liabilities and assessing whether historical cost or a “remeasured amount” should be reported. Measurement classification would be based upon measurement attributes, and measurement methods would be used to arrive at remeasured amounts, where appropriate.

Q3. The Statement asserts that: [W]hen the goal is to help ensure that reported information meets several financial reporting objectives in response to the various decision-making needs of a range of users, it is necessary to accept that different measurement approaches, measurement attributes, and measurement methods may be appropriate to convey useful information about different transactions and underlying events. (See paragraph 33.)

Do you believe that it is appropriate to measure items presented in accrual-basis financial statements using different measurement approaches, attributes, and/or methods? Please provide the rationale for your answer.

Yes. We think the Draft’s Appendix A illustrates the value of using different measurement approaches, attributes, and/or methods. It represents a practical and useful solution, and shows why using historical cost alone would not be useful. On the other hand, full conversion to remeasurement amounts would require remeasurements of things like fixed assets, which, as indicated in response to Question 1, may be of doubtful usefulness.

Suppose, for example, that a large and complex bridge, using a very new design, is built. Its value would be difficult and expensive (specialized appraisal) to formally remeasure annually, and experts will probably disagree on basic criteria for its valuation. It may greatly exceed, or greatly fall short of, the best efforts at valuation, and determining the bridge’s economic value does not seem to add to the usefulness of annual reporting about the bridge’s operations.

We think that entities should be allowed the flexibility to use the measurement approach that meets their needs. We agree with using a mixed measurement approach dependent upon the asset, its requirements and whether it provides services with no foreseeable intent to sell or if it will be converted to cash.

Q4. Beginning in paragraph 34, this Statement presents the definitions of measurement attributes and discusses each attribute in relation to the qualitative characteristics that information in financial reports should demonstrate. These attributes will be relied on in establishing accounting standards in the future.

- a. Is the definition of each attribute clear and understandable? If not, please identify the attribute(s) for which you found the definition lacking, explain why, and suggest improvements. Yes*
- b. Is the list of attributes complete? If not, please identify and define the attribute(s) that you would add to this Concepts Statement and explain why you would add it (them).*

How about Going Concern value of the entity as a whole? While we don't think that trying to quantify a federal agency's going concern value is a good idea, conceptually it does represent the 'up and running' value of an existing entity.

Are there any attributes in the list that you believe are inappropriate for accrual-basis federal government entity financial statements? If so, please identify the attribute(s) that you would exclude and explain why. No, all appear to be appropriate.

- c. Do you agree with the discussion of the extent to which the measurement attributes and methods fulfill the individual qualitative characteristics? If not, please identify which aspects you view differently and explain why.*

We suggest that the FASAB consider whether perhaps it would be relevant to mention here the impact that the "different degrees of uncertainty in the resultant amounts" (paragraph 37) could have on the users' confidence, or lack of confidence, in the financial reports?

Editorial Comment: We believe that paragraph 3 could be improved by rewriting it as follows: "The measurement concepts in this Statement focus on assets and liabilities because remeasuring elements after their initial recording is only directly applicable to assets and liabilities. As articulated on balance sheets and operating statements, the measurement and recognition of changes in assets and liabilities affect reported revenues and expenses."

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 members approved the issuance of this letter. If you have questions concerning the comments in this letter, please contact Anna D. Gowans Miller, CPA, AGA's director of research and staff liaison for the FMSB, at amiller@agacgfm.org or at 703.684.6931 ext. 313.

Sincerely,



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

cc: Lisa Casias, CPA
AGA National President

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Financial Management Standards Board**

July 2010 – June 2011

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