



March 30, 2016

Mr. David Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the National Association of State Auditors, Comptrollers and Treasurers, we appreciate the opportunity to respond to the Governmental Accounting Standards Board's Exposure Draft (ED), *Certain Asset Retirement Obligations*.

We believe there is a need for establishing uniform accounting and financial reporting requirements for asset retirement obligations; however, we are concerned about the inconsistencies between this ED and GASB Statement Nos. 18 and 49. We believe the GASB should provide consistent guidance in the areas of accounting and reporting (i.e., when the asset retirement obligation should be expensed, how it should be measured and how it should be reported).

In addition to our concern about consistency, we have the following specific comments we believe the Board should consider as it finalizes this statement.

Paragraph 9a

One external obligating event is the approval of federal, state, or local laws or regulations. Certain laws do not become effective for a number of years after approval and subsequent legislation can negate, change or extend effective dates for such laws before they become effective. Considering this, we believe the trigger for this external obligating event should be when laws become effective, not when they are approved.

Paragraph 11

We believe the Board should consider deleting this paragraph. The paragraph provides no context as to why the statement specifically addresses this one item that is not an internal obligating event. Paragraph 10 adequately explains what an internal obligating event is, and because it does not mention completion of an asset retirement plan, it should be known that it would not be an internal obligating event.

Paragraph 16

We ask that more guidance be given regarding how to determine the best estimate of the liability and the use of probability weighting. While the background information (paragraph B42) referred to more detailed guidance on probability weighting in other guidance, it would be helpful to have the information available in the statement.

Paragraph 20

It is unclear if paragraph 20 applies to just paragraph 19 or both paragraphs 18 and 19. We ask that the Board clarify which paragraphs paragraph 20 applies to.



Paragraph 21

This paragraph discusses the recognition of the deferred outflows of resources as an expense in a systematic and rational manner over the estimated useful life of the tangible capital asset. It is possible that a tangible capital asset with an asset retirement obligation might continue to be used beyond its estimated useful depreciable life and service life. We request that GASB provide guidance as to how a government should proceed, for example, when the related deferred outflow of resources has been amortized to zero.

Paragraph 23

We suggest GASB include the reference to Statement No. 54 (currently in paragraph B52) in footnote 2 since it establishes disclosure requirements.

Paragraph 25

We request that the Board clarify whether changes to the liability from inflation/deflation, or from significant changes in estimated capital outlays should be disclosed. Paragraph B64 includes discussion on required disclosures; however, including an all-inclusive list of required disclosures related to asset retirement obligations in the statement would benefit users.

Paragraph B4

This paragraph discusses healthcare organizations and institutions of higher education, and specifically the retirement of equipment. We request that the Board consider including examples of equipment, such as X-ray or MRI machines, within the “Introduction” section to reinforce the scope and applicability of the standard.

Notes to Financial Statements Section

The deferred outflow recognized in accordance with paragraph 12 is amortized pursuant to paragraph 21. Therefore, the difference could become significant between the deferred outflow and the liability recognized pursuant to paragraph 8. GASB Statement No. 63, paragraph 14 requires that if the difference is significant between a deferred outflow of resources or a deferred inflow of resources and the balance of the related asset or liability, governments should explain the effects on net position in the notes to financial statements. However, this ED does not address whether assets restricted for payment of asset retirement obligations should be considered part of the recognition of the deferred outflow when determining the effect on net position. If the assets were considered, the difference would likely not be significant and the note disclosures would not apply. Therefore, we ask that the Board consider adding to the final document clarification about the net position calculation and whether the disclosures required by GASB Statement No. 63, paragraph 14 should be considered, or consider revisions necessary to GASB Statement No. 63 to provide guidance there.

General Comment

We encourage the Board to include illustrations that encompass the financial statement presentation and note disclosures.

Editorial Comment

Paragraph B28

The fourth sentence states: “Therefore, this alternative could the recognition of outflows of resources to periods to which the consumption of net assets is not applicable.” This sentence is missing a word or phrase. It seems the word *delay* should be inserted after the word *could*.



We appreciate the opportunity to provide our comments. Should you have any questions or need additional information regarding our response, please contact Kim O’Ryan of NASACT at (859) 276-1147 or me at (515) 281-4877.

Sincerely,

A handwritten signature in blue ink that reads "Calvin McKelvogue". The signature is written in a cursive style.

Calvin McKelvogue
President, NASACT
Chief Operating Officer, Iowa