American Institute of CPAs
1455 Pennsylvania Avenue, NW
Washington, DC 20004

January 28, 2015

Mr. David R. Bean
Director of Research and Technical Activities
Project No. 33-2ED
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

Members of the American Institute of Certified Public Accountants (AICPA) State and Local Government Expert Panel have reviewed the Governmental Accounting Standards Board (GASB) Exposure Draft (ED), *Proposed Implementation Guide of the Governmental Accounting Standards Board, Implementation Guide No. 20XX-1,* and are pleased to offer their comments. General overarching comments on the ED are included in the following section of this letter. Specific feedback on the questions and answers (Q&A) contained in various chapters of the ED are included in the following Appendices to this letter. Note that our members do not have any comments on Chapter 2, *Cash Flows Reporting,* and Chapter 6, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.*

- Appendix A - Chapter 1, *Disclosures Related to Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*
- Appendix B - Chapter 3, *Risk Financing and Related Insurance Issues*
- Appendix C - Chapter 4, *The Financial Reporting Entity*
- Appendix D - Chapter 5, *Pensions—Employer and Plan Accounting and Reporting*
- Appendix E - Chapter 7, *Basic Financial Statements and Management's Discussion and Analysis*
- Appendix F - Chapter 8, *Postemployment Benefits Other Than Pensions—Employer and Plan Accounting and Reporting*
- Appendix G - Chapter 9, *The Statistical Section*
- Appendix H - Chapter 10, *Accounting and Financial Reporting for Derivative Instruments*
- Appendix I - Chapter Z, *Other Implementation Guidance*

The comments included in each of the above appendix are broken down by substantive comments and editorial comments.

OVERARCHING COMMENTS

Avoid Repeating Q&As. A number of Q&As are repeated in different sections of certain chapters. This was particularly noted in Chapter 5. While GASB has historically structured the Comprehensive Implementation Guide (CIG) around the structure of original GASB standards, this approach results in numerous duplicative Q&As. Our members expressed concern that this approach could lead some users to miss important information. We also believe it would be more efficient and user-friendly for GASB to avoid including so many duplicative questions. An alternative approach would be to include Q&As once and then cross-reference them in other applicable sections.

Some Q&As Appear to Repeat Guidance in GASB Statements or Are Unclear About Source. Our members noted that certain Q&As appeared to repeat guidance directly from GASB Statements. In those cases, we recommended GASB delete the Q&As in our detailed comments. In a few other cases, we were unclear about the incremental authoritative guidance that was being established. We recommend that that GASB only include Q&As that provide guidance beyond GASB Statements. In situations where a Q&A is repeating information contained in a GASB Statement for contextual purposes and a small portion of the answer goes beyond the standard, it would be helpful for GASB to more clearly identify the portion of the answer that is providing additional authoritative guidance.

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The AICPA appreciates the opportunity to comment on the ED. Due to the comprehensive nature of this ED, this comment letter was prepared by members of the AICPA's State and Local Government Expert Panel and was not reviewed by the AICPA's Financial Reporting Executive Committee. Therefore, this response represents only the views of individual members of the State and Local Government Expert Panel and is not an official position of the AICPA. Representatives of the State and Local Government Expert Panel would be pleased to discuss these comments with you at your convenience.

Sincerely,

Mary M. Foelster

Mary M. Foelster
Director
AICPA Governmental Auditing and Accounting

cc: State and Local Government Expert Panel
Dan Noll

Appendix A - Chapter 1, *Disclosures Related to Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*

Substantive Comments

Question 1.14.2. We suggest adding another scenario to this Q&A addressing situations where the investment advisor hires the investment manager and then requires the investment manager to clear its trades through the trading desk of the investment advisor. This scenario does occur in practice and addressing it in this Q&A would be helpful.

Question 1.23.4. We believe the answer to this Q&A would be more useful if it explained how a corporation, as counterparty, could hold these securities (i.e., commercial paper) in a manner that would eliminate custodial credit risk.

Question 1.43.2. We are confused by the second paragraph of the answer to this Q&A and recommend GASB consider whether this portion of the answer is needed since the following Q&A (i.e., 1.43.3) addresses the question regarding custodial credit risk more succinctly. Another option would be to combine the two Q&As into one streamlined succinct Q&A.

Appendix 1-2 Illustrative Financial Statement Disclosures. We believe this appendix would be made more useful by illustrating how 2a-7 like pools and investments in money market mutual funds would be handled in the disclosures. We find that governments are sometimes unclear about the disclosures to be made in these two areas and err on the side of over-disclosure. If the illustrative disclosures in these areas highlighted that the disclosures are generally not significant, it would be helpful to illustrate that point to preparers.

Editorial Comments

Question 1.9.10. This Q&A addresses whether repurchase agreements and bankers' acceptances are subject to credit risk disclosures. We recommend including a cross-reference to Q&A 1.43.3 which further clarifies that, for repurchase agreements, custodial credit risk disclosures may be required even though other credit risk disclosures may not be.

Question 1.11.1. This Q&A could be improved by adding a reference to Q&A 1.33.2 which discusses deposits that are covered by irrevocable standby letters of credit issued by the Federal Home Loan Bank as these arrangements are being used more often than securities to "collateralize" insured deposits.

Appendix B - Chapter 3, *Risk Financing and Related Insurance Issues*

<u>Substantive Comments</u>

Question 3.28.2. This Q&A covers the reasons why it is important to consider societal and economic factors. However, in our view it does not add to a readers understanding of generally accepted accounting principles (GAAP). Therefore, we suggest deleting it. If the GASB retains this Q&A we recommend it be reframed to describe examples of the societal and economic factors that should be considered in estimating the ultimate cost of settling claims.

Question 3.38.1. This Q&A covers the unallocated claim adjustment expenses that are to be included in the 10-year revenue and claims development table. We recommend deleting this Q&A as it does not add any clarifying guidance and appears to repeat existing guidance from various paragraphs in GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues.*

Question 3.55.1. We disagree with the proposal to delete this Q&A primarily because we believe the guidance regarding when to report a transfer versus a premium revenue should be brought into GASB's literature as category (b) GAAP. This issue comes up today in practice and this Q&A provides helpful information. If the Board does not accept our recommendation, we would offer an alternative recommendation to enhance the example in Appendix 3-5 to illustrate the excess recorded as transfers, as well as the amounts recorded as revenue.

Question 3.72.1. The main topic of this Q&A is investment pool surplus disclosures and the last paragraph of the response refers to insurance refunds. This paragraph addresses something analogous to a risk sharing pool but instead is a retrospectively rated contract. While it may be analogous, we believe that an entity having such a contract would not look to this Q&A. A more user-friendly approach would be for the GASB to develop a separate follow-up Q&A to address the last paragraph of the answer.

<u>Editorial Comments</u>

Question 3.11.1. For clarity we recommend the last sentence in the second paragraph of the answer be modified as follows: "If Pool A's fiscal year is different from the policy year, the pool should report ~~a liability~~ <u>unearned revenue</u> in the statement of net position/balance sheet to the extent that the policy year extends beyond the fiscal year being presented." Specifically identifying the liability that should be reported in this scenario would promote consistent practice.

Question 3.12.3. The last sentence of the answer states "policyholder dividends that represent a return to participants <u>on</u> excess premiums…" We recommend modifying this sentence as follows: "policyholder dividends that represent a return to participants ~~on~~ **from** excess premiums." Note that our suggested edit is consistent with the wording used in paragraph 32 of GASB Statement No. 10.

Appendix C - Chapter 4, *The Financial Reporting Entity*

<u>Substantive Comment</u>

Question 4.26.2. We recommend the deletion of the following sentence from the answer to this Q&A as we believe it is inconsistent with the requirements in GASB Statement No. 14, *The Financial Reporting Entity.*

Because of the differences in the relationships that a primary government has with blended component units versus discretely presented component units, it is more likely that it would be misleading to exclude an organization that would be blended than it would be to exclude one that would be discretely presented.

Further supporting our position that this sentence is inconsistent with GASB Statement No. 14 is the decision-making flowchart for determining potential component units that appears in Appendix 4-6 of this chapter. This flowchart illustrates the requirements of GASB Statement No. 14. In following the steps in the flowchart (and GASB Statement No. 14), the consideration of the "misleading to exclude" criterion occurs before consideration of whether a component unit will be blended or discretely presented. Therefore, the sentence above is problematic and should be removed.

<u>Editorial Comments</u>

Question 4.16.1: The new added language states "Examples of component units include public benefit corporations or public authorities …." We believe this should this be reworded to say, "Examples of 'potential' component units include public benefit corporations or public authorities..." The wording proposed by GASB could lead a less experienced reader to conclude that all of the listed examples entities are always a component unit which may not be the case after an appropriate analysis.

Question 4.28.11. This question includes a reference to Q&A 4.28.8. If we are reading the ED correctly, GASB is proposing to delete Q&A 4.28.8. Therefore, we recommend this reference be removed.

Question 4.44.1. We suggest an editorial change in the second sentence of the answer to this Q&A to revise "component units" to "a component unit."

Appendix D - Chapter 5, *Pensions—Employer and Plan Accounting and Reporting*

<u>Substantive Comments</u>

Questions 5.63.3 and 5.125.1. We believe these Q&As could be improved by linking them more closely. Specifically, Q&A 5.63.3 should be revised to acknowledge that while the plan in the situation described is a single employer plan for financial reporting purposes of the reporting entity, the employer (i.e., the primary government and component units) should consider it as a cost-sharing plan and report their proportionate share (i.e., when stand-alone financial statements are prepared). This is a confusing point in practice and linking these Q&As will ensure that users do not misunderstand the appropriate employer accounting if they read Q&A 5.63.3 in isolation.

Question 5.142.21. While not exactly on point to this Q&A, reading this Q&A reminded some members of confusion surrounding the following excerpt from paragraph 33(c) of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, states "Contributions to the pension plan from the employer should not be recognized in pension expense." We recommend GASB consider providing guidance in the CIG to emphasize that while under GASB Statement No. 68 contributions are not a component of pension expense, single or agent employer contributions to the pension plan during the measurement period increase the plan's fiduciary net position. Therefore they should be included as part of the calculation of the change in the net pension liability.

Question 5.183. There are several Q&As contained within this Q&A section regarding the calculation of average remaining service life for purposes of amortizing the deferred outflows of resources/deferred inflows of resources. We are aware that some governments have inquired as to the acceptability of using weighted average calculations and none of the Q&As address this topic. Therefore, we recommend GASB address this topic directly. Additionally, we recommend changing the structure of this Q&A, which covers 21 separate questions and is six pages long, by using subcategories of topics to enhance the usability of the guidance.

Appendix E - Chapter 7, *Basic Financial Statements and Management's Discussion and Analysis*

Substantive Comments

Question 7.7.2. We recommend deleting this Q&A as we disagree with the following sentence in the answer: "Those assets and liabilities may be eliminated, but elimination is not required." Our reasoning is that we do not understand the justification for allowing elimination of the assets and liabilities at the government-wide level in this case. If the GASB retains this Q&A it should expand the answer to be more specific about supporting the potential for elimination in current GASB literature.

Question 7.7.4. We recommend that GASB add a practical example to this Q&A to provide more context around the situation described where it would be permissible for governments to realign their activities at the government-wide level if they believe it would more faithfully represent their operating objectives and philosophies. If an example cannot be provided, we recommend this Q&A be deleted. Our rationale for making this recommendation is that very few of our members were aware of a situation where this has been applied in practice. Therefore, providing an example would help readers understand the Board's intent with this aspect of the answer.

Question 7.8.3. Although the answer to this Q&A mentions GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, we question whether the answer appropriately reflects what GASB Statement No. 68 would require. That is, we believe the net pension liability would <u>not</u> be reduced by the amount of bond proceeds remitted to the plan if the remittance was after the measurement date. Instead, we believe this would be reported as a deferred outflow of resources, similar to any other employer contribution made after the measurement date. GASB should reexamine the answer to this question in light of GASB Statement No. 68.

Question 7.8.4. In our view, this Q&A is addressing an area that is fairly well understood in terms of how claims liabilities and expenses should be recognized in the government-wide financial statements when risk-financing activities are reported in the general fund (using the modified accrual basis of accounting). The real practice issues and questions surround how much claims liability, if any, can be determined to be "matured and payable" or "due" in order to be recognized as a fund liability in the general fund. Therefore we suggest GASB add an additional Q&A that would read as follows: "If a government accounts for its risk-financing activities in its general fund (using the modified accrual basis of accounting), how should its claims liabilities and expenditures be recognized in the general fund financial statements?" **Question 7.15.2**. This Q&A relates to a situation where a major length of roadway is removed from a subsystem. The answer indicates that the cost of the retired asset would be removed from the capital asset account. This is challenging in practice since, in many cases, the cost of the asset was not originally determined since it was part of a subsystem. Anything GASB can do to provide more guidance on this would be helpful.

Question 7.23.6. Reviewers believe this Q&A would be enhanced if it were to clarify that the answer would not be appropriate for a refunding of capital appreciation bonds (CAB).

This could be accomplished by revising the question to specifically refer only to serial bonds or to expand the answer to be clear that there is a different treatment for CABs (i.e., that only the portion of the new debt that refunded the original principal would be considered capital-related debt).

Question, 7.49.2. This Q&A states that the city is not required to allocate the employee benefit expenditures to functional categories in the general fund statement of revenues, expenditures, and changes in fund balances. The reference cited is paragraph 41, of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. We question this answer in light of the guidance contained in paragraph 10(b) of NCGA Statement No. 1 which appears to require fund expenditures to be reported by function. GASB should revisit this Q&A to ensure it is consistent with NCGA Statement No. 1.

Question 7.51.5. This Q&A addresses whether the provisions in paragraphs 67(b) and 67(c) of Statement 34, based on recovery of direct costs, also include indirect costs. The answer provided is no and it states that the criteria set forth in paragraphs 67(b) and 67(c) are based on laws and policies designed to recover "direct costs." However, in discussing enterprise fund criteria, paragraph 67(c) states that the pricing policies of the activity should establish fees and charges designed to recover "its costs," including depreciation. It does not specify that it is referring only to direct costs, nor does the basis for conclusions address this with any more specificity. Therefore, we recommend GASB expand the answer to describe the basis for the answer provided. Adding such information would make this Q&A more useful to readers.

<u>Editorial Comments</u>

Question 7.3.5. While the GASB did not suggest revisions to this Q&A, we recommend GASB consider clarifying that such fiduciary fund presentations are usually presented on a separate page in the report. While the Q&A does indicate that the fiduciary fund information would not be included in the combined presentation of governmental activity, our recommended addition would further help to rectify current misunderstandings in this area.

Question 7.9.9. We suggest deleting the reference to GASB Statement No. 34 in this Q&A and replacing it with GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, as that is the standard that covers intra-entity transfers. Additionally, this Q&A should be relocated to Chapter Z.

Question 7.16.5. For clarity, we recommend an editorial revision to this Q&A as follows: "…the same approach should be applied by ~~both~~ **each agency or department**."

Question 7.52.4. This Q&A asks how Internal Revenue Code (IRC) Section 457 plans that meet the criteria for reporting should be presented. For additional clarity, we recommend the GASB add to the current response that these plans should be presented as prescribed in paragraph 107 – 109 of GASB Statement No. 34, as amended.

Appendix F - Chapter 8, *Postemployment Benefits Other Than Pensions—Employer and Plan Accounting and Reporting*

Substantive Comments

Question 8.16.2. This Q&A discusses the provision in GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the actuarial determination of the annual required contribution (ARC) to be based on the covered payroll for the period to which the ARC applies. We recommend deleting this Q&A as it does not add any clarifying guidance and appears to repeat existing guidance from footnote 3 of GASB Statement No. 45.

Question 8.22.1. This Q&A discusses a "community-rated plan" as referred to in GASB Statement No. 45 and the conditions for which it would be appropriate for a participating employer to use unadjusted premiums as the basis for projection of retiree benefits. We recommend deleting this Q&A as it does not add any clarifying guidance and appears to repeat existing guidance from paragraph 13(a)(2) and footnote 9 of GASB Statement No. 45

Editorial Comment

Questions 8.41.6 and 8.41.7. To ensure an appropriate understanding by users, we recommend combining these two Q&As into one Q&A covering Other Postemployment Benefits (OPEB) expenditure recognition in governmental fund financial statements. While we recognize that these Q&As appear in sequential order, if a user only reads 8.41.6, they could come to the wrong conclusion about the amount of OPEB expenditures to be reported in the governmental funds. Paragraph 19 of GASB Statement No. 45 states "The amount recognized should be equal to the amount contributed to the plan OR (emphasis added) expected to be liquidated with expendable available resources." If a user does not read Q&A 8.41.7, they may miss the guidance to record a liability for payments not yet made that should be included in the "contributed to the plan" amount.

Appendix G - Chapter 9, *The Statistical Section*

<u>Substantive Comments</u>

Question 9.7.2. We recommend that GASB retain this Q&A. We assume it is being proposed for deletion since a portion of the Q&A repeats information from paragraph 10 of GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment of NCGA Statement 1*. However, we believe the latter part of the Q&A includes additional guidance, beyond GASB Statement No. 44, describing the option for governments to present the other charges for services or the grants and contributions by function, program, or identifiable activity in the same schedule or a separate schedule. While we recognize that several of the Exhibits illustrate this option, we recommend retaining this Q&A because the additional guidance is useful and it should be considered category (b) GAAP.

Question 9.21.1. This focus of this Q&A is on how governments with overlapping governments determine which year's rates to include for each government when some of the overlapping governments have varying fiscal year ends. We question why the answer would not advise the preparer to include the rates based on levy year since the levy year would likely be the same for all of the governments. Additionally, we recommend that GASB clarify that this Q&A relates to property taxes.

Question 9.24.6. With regard to providing debt capacity information, this Q&A states that the amounts should include discounts, premiums, and other adjustments. We suggest GASB consider modifying the answer to require only the inclusion of the gross principal amounts as this would be more informative for users of the statistical section and more consistent with the purpose of debt capacity information as stated in GASB Statement No. 44 "to assist users in understanding and assessing a government's debt burden and its ability to issue additional debt. The basis for the answer provided by GASB appears to be an emphasis of tying the amounts back to the financial statements. In practice, this is challenging because of the requirement in paragraph 31 of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* to report liabilities in their order of relative liquidity and liabilities whose average maturities are greater than one year in two components—the amount due within one year and the amount due in more than one year. If the GASB were to accept our recommendation, the information could easily be tied to the notes to the financial statements.

Question 9.48.1. We question the continued relevance of this Q&A which contains effective date and transitional guidance for providing 10-year information in light of the number of years that have passed since GASB Statement No. 34 became effective. Therefore, we recommend it be deleted. If the Board does not accept this recommendation, the Q&A would be more useful if it were to be made more generic to refer to any current or future GASB statement that includes new requirements that would affect the 10-year information presented in the statistical section.

Question 9.48.2. We question why the Board deleted this Q&A as it provided the following useful guidance that continues to be relevant: "If a government does not restate, it should clearly indicate the year in which the information changed and explain the nature of the difference." We recommend the Board retain this Q&A.

Editorial Comment

Question 9.17.1. We recommend enhancing this Q&A by adding a reference to paragraph 16 of GASB Statement No. 44 as the source of the requirement. This would be similar to the way it is addressed in Q&A 9.17.2.

Appendix H - Chapter 10, *Accounting and Financial Reporting for Derivative Instruments*

Substantive Comment

Question 10.5.1. We recommend deleting the last sentence in the answer to this Q&A which states, "Both contracts, however, will experience similar fair value gains and losses due to the changes in the market price for the commodity." This sentence implies recording gains/losses on the purchase of a commodity and does not add value to the answer.

Editorial Comments

Question 10.13.5. This Q&A states, "Transactions of derivative instruments that are exchange-traded (for example, a commodity future) should be accounted for based on the trade date." We recommend the following clarifying revision: "Transactions of derivative instruments that are exchange-traded (for example, a commodity future) should be ~~accounted for~~ recorded based on the trade date."

Question 10.20.6. We found the last sentence of the answer to this Q&A to be confusing. Therefore, we recommend replacing it with "If the likelihood that the counterparty will default appears to be probable, the government should no longer conclude that the derivative instrument is effective."

Appendix I - Chapter Z, *Other Implementation Guidance*

Substantive Comments

Question Z.33.14. We recommend restructuring the answer to this Q&A as it is very confusing. The question asked is whether GASB Statement No. 33, *Reporting for Nonexchange Transactions*, changed revenue recognition requirements for reimbursement-based (expenditure-driven) grants under the modified accrual basis of accounting. The answer starts with a "yes" but is immediately followed by a sentence stating that the Statement does not change the modified the accrual basis revenue recognition requirement. Alternatively, we recommend the Board consider deleting the Q&A in its entirety since GASB Statement No. 33 was issued more than 10 years ago and the relevance of how it changed the accounting from previous requirements is minimal.

Question Z.54.50. We were unclear in the answer to this Q&A how unassigned fund balance of the general fund of a blended component unit could be reclassified to restricted or committed fund balance upon reporting it as a special revenue fund in the primary government. While we understand how it would be reclassified as assigned fund balance, we question how GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, requirements would be met in the special revenue fund for restricted or committed fund balance if they had not been met in the general fund. GASB should provide the rationale for reclassifying it as restricted or committed fund balance when presented as a special revenue fund.

Editorial Comment

Question Z.23.1. For clarity purposes, we recommend the following slight wording change to the second sentence in the question "The city intends to place the amount owed for the accrued interest in ~~an~~ <u>the</u> escrow account ~~to~~ <u>and</u> will include ~~the~~ <u>this</u> accrued interest amount in calculating the reacquisition price for advance refunding (footnote 3 of Statement 23, as amended)."