



April 6, 2015

Mr. David R. Bean
Director of Research and Technical Activities
Project No. 3-13P
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) document, *Financial Reporting for Fiduciary Responsibilities*, and is pleased to offer its comments. While we support the Board's effort to address fiduciary activities and fiduciary responsibilities, we disagree with the overall tenet of the PV that fiduciary activities continue to be reported in funds. Instead, we believe such activities are best reflected in the notes to the financial statements. Additionally, we also have substantial concerns as to whether the control criteria concepts in the PV can be consistently applied. Our rationale for these positions and our other significant comments are included in the next section of this letter. The "Other Comments" section below includes our editorial comments and several less significant matters.

SIGNIFICANT COMMENTS

Reconsider Reporting Fiduciary Activities in the Notes to the Financial Statements. We strongly encourage GASB to eliminate the reporting of fiduciary activities as funds, and instead to require that fiduciary activities be described in the notes to the financial statements. This position is consistent with the views we expressed during the due process leading up to GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and we reaffirmed this position during our deliberations of the PV.

Our experience is that reporting fiduciary activities in separate fund financial statements can be misleading and may cause users to erroneously conclude that the net position of fiduciary funds are resources available to the government. Therefore, we recommend the government's accountability for assets held in a fiduciary capacity be communicated in the notes to the financial statements. This recommendation is more consistent with the treatment of fiduciary activities in the government-wide financial statements and would simplify the basic financial statements. Further, we strongly encourage the Board to conduct

additional research and outreach on the question of note disclosure in lieu of separate fund reporting.

The remainder of this letter provides comments on other aspects of the PV in the event the Board does not accept our recommendation and, instead, proceeds with the positions described in the PV.

Reconsider Concept of Control. The Board should reconsider its concept of control over assets in determining whether a government has a fiduciary responsibility for financial reporting purposes. First, we struggled to understand and apply the concepts of control described in chapter 3 and believe the PV's linkage to Concepts Statement No. 4, *Elements of Financial Statements* is problematic. Concepts Statement No. 4 defines an asset as a resource with present service capacity that the government presently controls. In our view, assets held in a fiduciary capacity are not a resource of the government and the notion of control is very different because of the government's fiduciary role.

Second, while we acknowledge the time and effort the Board has put into the views presented in the PV, we have significant concerns that the framework presented will also be difficult to apply in practice. In particular, the middle columns in the spectrum of responsibility for administering the exchange of assets in paragraph 10 of chapter 3 are problematic (i.e., the "government assigns and has ability to reassign responsibility" versus the "government has responsibility for establishing parameters only"). The differences between these two levels of responsibility are unclear. The end result of this challenge will likely be inconsistent reporting given the interpretive nuances between the two categories.

Simplify Criteria for Determining Whether Government is a Fiduciary. The criteria for determining whether a government is a fiduciary in paragraph 6 of chapter 2 are overly complex and should be simplified.

- **Return to "Government's Own Programs" or Clarify Concept of Citizenry.** We suggest the criterion in paragraph 6(c) be revised to focus on the condition of being a beneficiary in terms of whether the activity is part of a government's own programs rather than for the benefit of those required to be part of the citizenry. Paragraph 69 of GASB Statement No. 34 discusses the reporting of fiduciary funds for assets held that cannot be used to support the government's own programs. We recommend the Board maintain that concept in this project. While the phrase "government's own programs" is not well defined in GASB literature, we have not identified a practice issue in identifying fiduciary funds based on application of this existing criterion in GASB Statement No. 34 and believe the notion of "required to be part of the citizenry" will be difficult to apply.

Address the Pass-Through Grant Reporting through Reexamination of Existing Grant Guidance. We suggest eliminating the criterion in paragraph 6(a) addressing the fiduciary nature of pass-through grants as a factor to consider in terms of whether a government is a fiduciary. Instead, we recommend the Board reexamine the

guidance in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance* to achieve consistency with the concepts in the PV on what constitutes a fiduciary activity. Applying the flowchart in chapter 2, Table 1, *Flowchart for Evaluating and Reporting Potential Fiduciary Activities*, to pass-through grant activities without the question, "Are the resources from a pass-through grant?" will likely result in reporting pass-through grants in a fiduciary fund. Under GASB Statement No. 24, if the government has administrative or direct financial involvement with a grant program, the government would not be considered a fiduciary. Thus, we understand the criteria in 6(a) was included to avoid a conflict in reporting pass-through grants from what is currently required in GASB Statement No. 24. However, we question why pass-through grants would be subject to different evaluation criteria for reporting fiduciary activities. If the Board continues to believe that the evaluation criteria for reporting fiduciary activities should be based on control and administering assets, we suggest the Board revise criteria in GASB Statement No. 24 to be consistent in terms of what constitutes a fiduciary activity.

Reconsider Maintaining Use of Agency Funds. Paragraphs 14-17 of chapter 4 discuss the Board's view that agency funds should be eliminated and replaced with custodial funds which would encompass a financial flows statement. We recommend the Board consider maintaining agency funds for resources the government holds for a short period of time and for which the government has no responsibility for the exchange of assets. We believe the costs associated with tracking and reporting inflows and outflows of resources in these circumstances outweigh the users' need for such information.

OTHER COMMENTS

Discussion of the Scope of the Project Should be Simplified. We suggest the Board simplify the discussion of the project scope in the next due process document. As currently drafted, paragraph 3 of chapter 2 indicates that a government's fiduciary activities are subject to the guidance in the PV with two exceptions. The way it is phrased makes it seem like the scenarios in the exceptions would *not* be subject to the PV, when instead the exceptions noted are subject to *portions* of the PV. We recommend the Board modify the scope discussion to indicate the exceptions are subject to specific portions of the PV. Further, we had some confusion related to the exceptions themselves. If our understanding is correct:

- In paragraph 3(a), a component unit that meets one of the criteria of a fiduciary in paragraph 6 of chapter 2 would ignore the remaining guidance in chapter 3 and report the fiduciary activities in accordance with chapter 4. We suggest the Board provide its rationale for this exception in the next due process document to assist in understanding. In addition, we suggest the Board clarify the caveat to follow chapter 4 *unless otherwise noted*.
- In paragraph 3(b), a government should evaluate pension or OPEB arrangements that do not meet the definition of a component unit by applying the guidance in chapter 3

to determine whether the government is controlling the assets as a fiduciary. If there is control, the reporting should be in accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans* or the relevant pension or OPEB guidance rather than applying the provisions of chapter 4. We suggest the Board provide its rationale for this position in the next due process document to assist in understanding. In addition, we suggest the Board clarify the caveat that *certain arrangements will apply the requirements of Chapter 4*.

Clarify What Would be Considered Own-Source Revenues. We recommend the Board expand the discussion of own-source revenues in paragraph 11 of chapter 2 and paragraph 2 of chapter 3 to clarify what would be considered as such. GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, defines the term “own-source revenues” as revenues that are generated by a government itself. However, we believe this definition needs clarification to address shared revenues. For example, if a state levies a sales tax for which it shares the proceeds with counties and local governments, it is unclear how the portion for the counties and local governments should be reported.

Clarify Use of “Government” Throughout the PV. The Board should more clearly define what is meant by “government” as used throughout the PV. For example, paragraphs 5 and 6 of chapter 2 are not specific as to whether the government is the primary government or the primary government and its component units.

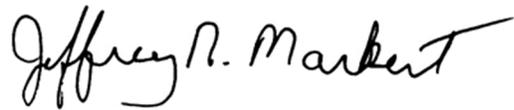
Add More Complex Examples to Clarify Spectrums. We suggest the Board add more complex examples in the next due process document to clarify how the spectrums of legal structure and responsibility for exchange of assets would apply. The few examples included in the PV are relatively straightforward. We understand that field studies are currently being conducted and we encourage the Board to include some of the more complex arrangements studied as illustrations (e.g., municipal law enforcement asset forfeiture programs, Internal Revenue Code (IRC) Section 457 deferred compensation plans, and IRC section 629 tuition savings plans).

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Mr. David Bean
April 6, 2015
Page 5

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,



Jeffrey N. Markert
Chair
AICPA State and Local Government
Expert Panel



Mary M. Foelster
Director
AICPA Governmental Auditing and
Accounting

cc: State and Local Government Expert Panel
Jim Dolinar
Dan Noll