



December 10, 2015

Mr. David R. Bean  
Director of Research and Technical Activities  
Project No. 24-16ED  
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), *Implementation Guide No. 20XX-X, Implementation Guidance Update - 20XX*, and are pleased to offer their comments. We have two overarching comments on the ED that are included in the following section of this letter. Our specific feedback on the questions and answers (Q&A) included in the ED are presented in the “Other Comments” section of this letter. We have arranged our comments by topic in the order they appear in the ED and we noted our more significant comments in **bolded underlined font**. We also included each question we refer to marked to show any changes we are recommending.

## OVERARCHING COMMENTS

***Clearly Identify Changes Made in the Update.*** We strongly suggest that GASB explicitly state in future EDs and final Implementation Guides Updates which GASB pronouncements are incorporated into the Update (or alternatively, which issued pronouncements are not incorporated). Adding a discussion similar to that included in the Preface to the *2013-14 Comprehensive Implementation Guide* (2013-14 CIG) would help readers better understand the scope of future implementation guides.

***Define What Constitutes a New Question.*** The ED’s designation of what constitutes *new questions and answers* in paragraph 4 is unclear. We identified questions in paragraph 4 of the ED that appeared in implementation guides prior to the issuance of *Implementation Guide No. 2015-1*. For example, question 4.26 in this ED is question 6.6.2 in the 2013-14 CIG and question 4.47 in this ED is question 6.42.1 in the 2013-14 CIG. Both of these questions were included in the December 20, 2013, *Implementation Guide No. 20XX-1* ED but were not incorporated into the *Implementation Guide No. 2015-1*. We suggest for future updates, the Board categorize questions that existed prior to but not included in the *Implementation Guide No. 2015-1* as something other than new. In addition, we recommend the Board review comments received on questions that were previously exposed.

## OTHER COMMENTS

### **Disclosures Related to Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements**

**Question 4.2. We suggest the last sentence in the third paragraph of the answer be deleted.** This question and answer addresses when GASB Statements No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3* and No. 72, *Fair Value Measurement and Application*, apply and the sentence in question addresses the applicability of these statements to “deposits and investments held by another entity for the government – for example, amounts held by fiscal agents for bond payments and reserves—if they are reported on the face of the government’s financial statements.”

We believe this is a change in practice as disclosures for GASB Statements No. 3 and 40 are not currently made for amounts held by fiscal agents for bond payments and reserves. Fiscal agent transactions can be for a variety of reasons, such as for debt or capital projects. The reporting government generally does not have information about how the fiscal agent is holding the asset to apply the disclosure requirements of Statements No. 3, 40 and 72. For example, if a county holds cash on deposit for debt service or a capital project of a city, typically those funds would be commingled with the county funds.

**4.2. Q**—Are the requirements of Statements 3 and 40, as amended, and Statement No. 72, *Fair Value Measurement and Application*, applicable to all of the reporting entity’s deposits and investments?

A—Except for certain component unit presentations subject to Statement No. 14, *The Financial Reporting Entity*, as amended, Statements 3 and 40, as amended, and Statement 72 apply to all deposits with financial institutions and investments that are reported on the face of a governmental reporting entity’s financial statements. Therefore, the Statements apply to deposit and investment transactions of all funds, including those for which the reporting entity is a custodian and that are reported in an agency, trust, or other fund—such as deferred compensation plan assets and pooled amounts invested by a state treasurer on behalf of local governments. (See also Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, as amended, and Question 1.52.1 in Implementation Guide 2015-1 concerning Internal Revenue Code [IRC] Section 457 deferred compensation plan assets.)

Many of the deposits and investments that are subject to the disclosure requirements of Statements 3 and 40, as amended, and Statement 72 may be reported in the statement of net position/balance sheet using different titles. For example, some deposits and investments may be reported in the statement of net position/balance sheet as “cash and cash equivalents.” (See Question 1.26.6 in Implementation Guide 2015-1.) Others may be reported in the statement of net position/balance sheet using titles that do not identify their nature as deposits and investments. For example, securities held as escheats or other unclaimed property may be reported in an agency fund or private-purpose trust fund without specific identification of the nature of the item. Despite the statement of fiduciary net position presentation, those securities are subject to the disclosure requirements of Statements 3 and 40, as amended, and Statement 72 for investments.

Sometimes questions arise as to whether annuity contracts that are in the name of lottery prize winners are subject to the disclosure requirements of Statements 3 and 40, as amended, and Statement 72. If they are reported in the government’s financial statements, they are subject to those requirements. **Further,**

~~Statements 3 and 40, as amended, and Statement 72 apply to deposits and investments held by another entity for a government—for example, amounts held by fiscal agents for bond payments and reserves—if they are reported on the face of the government's financial statements.~~

Statements 3 and 40, as amended, and Statement 72 also apply to deposits and investments of component units included in a reporting entity's financial statements, although the manner in which they are applied should consider the requirements of Statement 14, as amended. Specifically, Statement 14 requires that disclosures for discretely presented component units be made separately from disclosures for the primary government and its blended component units. Applying the requirements of Statement 14 also may result in not presenting disclosures required by Statements 3 and 40, as amended, and Statement 72 for some discretely presented component units. (See Question 1.4.5 in Implementation Guide 2015-1 about disclosures for discretely presented component units.)

Disclosure requirements do not apply to deposits and investments that are not reported in the statement of net position/balance sheet—for example, amounts held by escrow agents on debt that is reported as defeased in substance in accordance with Statements No. 7, *Advance Refundings Resulting in Defeasance of Debt*, and No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, as amended.

**Question 4.4.** We suggest adding clarification to the end of the answer to indicate that for component units the accounting treatment is only applicable to those that have separately issued financial statements (see edits below). This proposed addition would clarify that this guidance is only applicable for component units, including blended component units, in the context of their separately issued financial statements.

**4.4. Q—**How should the investments of an internal investment pool be disclosed under the requirements of Statements 3 and 40, as amended, and Statement 72?

**A—**Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, defines an internal investment pool as “[a]n arrangement that commingles (pools) the moneys of more than one fund or component unit of a reporting entity.” For financial reporting purposes, the funds participating in the pool report their pro rata share of participation in the pool. Internal investment pools are a government's own cash and investments and, accordingly, require all applicable disclosures from Statements 3 and 40, as amended, and Statement 72. A component unit's position in an internal investment pool is its investment, and “looking through” to the underlying investments of the pool is not appropriate ~~in separately issued component unit financial statements~~. A component unit should make its investment disclosures with respect to its position in the internal investment pool and not the underlying investments of the pool ~~in separately issued component unit financial statements~~.

## The Financial Reporting Entity

**Question 4.13. We suggest this question and answer be deleted as it is currently being deliberated by the Board.** The 1<sup>st</sup> sentence indicates that “If the primary government is acting in a trustee capacity for a defined benefit pension plan that is administered through a trust that meets the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, the assets of the pension plan should be reported in a pension trust fund of the primary government.” The reporting of pensions as a fiduciary fund is being deliberated by the Board as a part of the Fiduciary Responsibilities project and will address this question. One specific concern relates to how the 1<sup>st</sup> sentence of this question will impact governments reporting solely as business-type activities due to the disparity in practice with respect to whether they include pension trust funds in their financial statements.

If the Board maintains the question, we suggest that it be revised to address this issue as it relates to business-type activities. We also suggest deleting the 2<sup>nd</sup> and 3<sup>rd</sup> sentences as untrusted plans are irrelevant to the question as it is posed in terms of a trustee, which presupposes the existence of a trust.

4.13. Q—If a primary government is the trustee for a defined benefit pension plan, should the plan be evaluated as a potential component unit?

A—No. If the primary government is acting in a trustee capacity for a defined benefit pension plan that is administered through a trust that meets the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, the assets of the pension plan should be reported in a pension trust fund of the primary government. ~~If the primary government is acting in a fiduciary capacity for a defined benefit pension plan that is not administered through a trust that meets the criteria in paragraph 3 of Statement 67, the assets accumulated for purposes of providing pensions to the employees of other governments through the plan should be reported in an agency fund. Balances reported in the agency fund should exclude any amounts that pertain to the primary government, which should be reported as assets of the primary government.~~

## Accounting and Financial Reporting for Certain Investments and for External Investment Pools

**Question 4.26. We suggest this question and answer be deleted.** It is unclear whether the “separate fund” referred to in the phrase “a statute or contract requiring the use of a separate fund” is referring to a separate accounting fund or referring to a segregation of assets (e.g., separate bank account). Often when contracts or legal documents refer to the requirement to establish a separate fund, the use of the word “fund” is understood to mean a separate bank account.

A contract is not likely to require a separate fund in GAAP terms, but rather a segregation of assets and such a segregation would not, in and of itself, require a separate fund for GAAP reporting. By referring to a statute in the answer, we believe confusion could occur because many states have statutes with requirements to separately account for transactions (sometimes using the word “fund”), but that reference has not commonly been interpreted to mean an accounting fund under GAAP. Therefore, we recommend that the question and answer be removed to avoid potential misunderstandings.

4.26. Q—Under the terms of a construction contract, a county government withholds 5 percent of periodic progress payments due to a contractor. The contract requires that the “retainage” be accounted for in a separate fund or evidenced by a specific investment. This retainage is invested for the benefit of the contractor and is released upon completion of the contract. How should the retainage be reported?

A—If a statute or contract requires the county to use a separate fund, the retainage should be reported in a private-purpose trust fund or, if held for a short period, an agency fund. Because the county has invested the retainage, the county should value and report that investment in accordance with Statement 31, as amended, and Statement 72.

**Question 4.28. We disagree with the answer to this question and suggest it be revised to align with existing GAAP.** Requiring a regulated entity to report increases and decreases in fair value when such a measure would not affect utility rates is unnecessary reporting. Paragraph 480 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, as amended

indicates that rate actions of a regulator can provide assurance of the existence of an asset. The treatment proposed in this question seems to contradict existing GAAP. If the regulator concludes that the fair value changes should not affect utility rates, then the reversal discussed in the 3<sup>rd</sup> sentence would not be appropriate as the adjustment is to “net costs to be recovered from future billings.” Instead, the fair value increase or decrease should be reported in the flows statement. Further, we suggest the answer also address situations where the regulator concludes that fair value increases and decreases should affect utility rates. See below for our recommended changes to the answer.

4.28. Q—How should fair value increases and decreases be reported when a qualified governmental entity follows the provisions of the regulated operations guidance in paragraphs 476–500 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, as amended?

A—The regulated operations guidance of Statement 62, as amended, may be applied to activities of entities that meet the criteria in paragraph 476 of that Statement. If the entity’s regulator concludes that fair value increases and decreases should not affect utility rates, those increases and decreases should be reported as required by Statement 31, as amended, and Statement 72 and reported in the flow statement as gains or losses. They should then be reversed at the end of the change statement (for example, the statement of revenues, expenses, and changes in net position) using a heading such as “Net costs to be recovered from future billings,” and the applicable provisions of paragraphs 480–483 of Statement 62, as amended, should be applied. Alternatively, if the regulator concludes that fair value increases and decreases should affect utility rates, those amounts should be capitalized as or credited to a regulated asset in accordance with paragraph 480 of Statement 62. A regulated asset is often titled “Net Costs to be Recovered from Future Billings.”

**Question 4.33.** We have two suggestions to improve this question. First, we recommend the Board revise the final sentence as follows: “meet the definition of an investment or be reported as another type of asset” to provide clarity. Second, to improve understanding, we suggest the answer be revised to provide factors to contemplate in terms of whether mineral rights would be considered an investment.

4.33. Q—For conservation purposes, a government acquires land with mineral rights, leases the mineral rights, and receives royalty payments from the lease transaction. How should the land and the mineral rights be classified?

A—There is no accounting requirement to separate the land from its mineral rights. If the government chooses to report the land and mineral rights aggregated in a single unit of account, the land and the mineral rights (as one unit of account) should be classified as a capital asset. If the government separates the land and mineral rights, the land should be reported as a capital asset (the primary purpose of acquiring the land is conservation instead of income or profit). In this circumstance, the mineral rights would be evaluated in the context of whether they meet the definition of an investment or be reported as another type of asset.

**Question 4.34.** For clarity, we suggest the last sentence of the question be revised as follows, “How can the government distinguish between the principal and most advantageous market for purposes of determining fair value?”

4.34. Q—An asset is sold in two different active markets at different prices. A government enters into transactions in both markets and can access the price in those markets for the asset at the measurement date. In Market A, the price that would be received at the measurement date is \$26, transaction costs in that market are \$3, and the costs to transport the asset to that market are \$2 (therefore, the net amount that would be received from selling that asset is \$21). In Market B, the price that would be received at the measurement date is \$25, transaction costs in that market are \$1, and the costs to transport the asset

to that market are \$2 (therefore, the net amount that would be received in Market B is \$22). How can the government distinguish between the principal and most advantageous market for purposes of determining fair value?

A—If Market A is the principal market for the asset (that is, the market with the greatest volume and level of activity for the asset), the fair value of the asset would be measured using the price that would be received in that market, after taking into account transportation costs (\$24).

If neither market is the principal market for the asset, the fair value of the asset would be measured using the price in the most advantageous market. The most advantageous market is the market that maximizes the amount that would be received to sell the asset after taking into account transaction costs and transportation costs (that is, the net amount that would be received in the respective markets).

Because the government would maximize the net amount that would be received for selling the asset in Market B (\$22), the fair value of the asset would be measured using the price in that market (\$25), less transportation costs (\$2), resulting in a fair value measurement of \$23. Although transaction costs are taken into account when determining which market is the most advantageous market, the price used to measure the fair value of the asset is not adjusted for those transaction costs.

**Question 4.37.** We have two suggestions to improve this question. First, we suggest the Board add more complex examples to enhance understanding such as, capital assets associated with waste management operations, landfills, golf courses or other recreation. Second, we suggest the answer provide a reference to the definition of an investment in GASB Statement No. 72.

4.37. Q—Some capital assets produce income but are, nevertheless, classified as capital assets. What are examples of such capital assets?

A—The following are examples of circumstances in which capital assets should not be classified as investments because the present service capacity of the assets is not based solely on the assets' ability to generate cash or to be sold to generate cash:

- a. An airport authority, in its purpose to serve the traveling public, owns passenger terminals and hangars that yield lease income.
- b. A water utility, in its purpose to provide clean water to its citizens, owns a water-treatment plant and a distribution system that produces income from the sale of water.
- c. A state government, in its purpose to protect the environment, owns land surrounding a waterway that produces income from leased easements.

**Question 4.42.** We suggest the following clarification to the last sentence of the answer: "Governmental external investment pools other than 2a7 like pools are prohibited from applying....."

4.42. Q—What is the "one-year option" for money market investments and participating interest-earning investment contracts? How does the one-year option affect the valuation of these investments?

A—The one-year option in paragraph 9 of Statement 31 relates to money market investments and participating interest-earning investment contracts that have a remaining maturity *at time of purchase* of one year or less, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Statement 31, as amended, allows those investments to be reported at amortized cost. Governmental external investment pools other than 2a7 like pools are prohibited from applying the one-year option for money market investments and participating interest-earning investment contracts. (See also Question 6.40.3 in Implementation Guide 2015-1.)

**Question 4.47.** We agree with the answer to this question but suggest the Board add references to the appropriate accounting for short sales of securities to improve understanding.

4.47. Q—Are short sales of securities covered by Statement 31, as amended?

A—No. A short sale is the sale of a security not owned by the seller. The seller borrows the security, sells it, and then buys it at a later time to close the transaction. Short sales represent obligations to deliver securities, not investments.

**Question 4.52. We suggest this question be deleted as it does not provide interpretative guidance.** We question the benefit of addressing the applicability of specific pronouncements for one type of special-purpose government (i.e., external investment pools) but then instruct that all pronouncements should be reviewed for applicability.

4.52. Q—Statement 31, paragraph 17, provides that all applicable GASB pronouncements should be applied in the separate or stand-alone financial reports of governmental external investment pools. What are the other GASB pronouncements that most likely apply?

A—The other GASB pronouncements most likely to apply to governmental external investment pools are Statement 3, as amended; Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, as amended; Statement 34, as amended; Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, as amended; Statement No. 38, *Certain Financial Statement Note Disclosures*, as amended; Statement 40, as amended; Statement 53, as amended; Statement 62, as amended; Statement 72; and Interpretation No. 3, *Financial Reporting for Reverse Repurchase Agreements*, as amended. However, there might be other transactions or balances subject to GASB pronouncements. All GASB pronouncements should be reviewed for applicability.

**Question 4.53. We suggest the answer addressing reclassifications be made more specific as to the point in time the classification should be considered.** We agree with the answer to this question that classifications of capital assets, investments, and other assets should be evaluated to determine if they should be reclassified with the implementation of GASB Statement No. 72. We believe the decision regarding the reclassification of existing assets for purposes of implementing GASB Statement No. 72 should be evaluated based on the on the original intent at acquisition. This would be consistent with the guidance in paragraph 68 of GASB Statement No. 72. However, we are concerned that some may make the evaluation as of the date of implementation. Providing clarity as to the appropriate point in time to make this evaluation when implementing GASB Statement No. 72 will promote consistency in practice.

4.53. Q—Prior to the implementation of Statement 72, a government classified as capital assets certain assets that meet the definition of an investment in paragraph 64 of Statement 72. Likewise, the government classified as investments certain assets that do not meet the definition of an investment in Statement 72. Should the government reclassify those assets upon implementation of Statement 72?

A—Yes. Upon implementation of Statement 72, classifications of capital assets, investments, and other assets should be evaluated, **based on the original intent at the time of acquisition**, to determine if any should be reclassified to be consistent with the definition of an investment in Statement 72. After those classifications have been established as part of the implementation of Statement 72, they should not be changed for financial reporting purposes.

## **Basic Financial Statements and Management's Discussion and Analysis**

**Question 4.62.** We recommend the Board clarify the answer to indicate where the notation discussed in the last sentence of the answer should be made to promote consistency in practice. The last sentence of the answer states, "To accommodate the requirements for additional details of investments and investment income, governments also should provide that level of detail for all other fiduciary funds or clearly note that summarized amounts exclude the more detailed pension data that is displayed." We are unclear where such notation should appear (e.g., statement of net position and statement of changes in net position of the sponsoring government or in the notes to the financial statement).

4.62. Q—Are the financial reporting formats required for investment trust funds similar enough to pension trust funds that they can be reported on the same statement?

A—Yes. Paragraph 18 of Statement 31, as amended, requires only that a statement of fiduciary net position and a statement of changes in fiduciary net position be presented for investment trust funds in the financial statements of the sponsoring government. The only other display requirement is that the difference between the external pool's assets, deferred outflows of resources, liabilities, and deferred inflows of resources be captioned "net position held in trust for pool participants." Those requirements are easily accommodated in the pension trust fund display requirements set forth in Statement 67. To accommodate the requirements for additional details of investments and investment income, governments also should provide that level of detail for all other fiduciary funds or clearly note that summarized amounts exclude the more detailed pension data that is displayed.

### **Statement No. 77, *Tax Abatement Disclosures***

**Question 4.82.** We suggest the answer be modified to say information about the agreements should be disclosed either in the aggregate or individually. As discussed in paragraph 6 of GASB Statement No. 77, *Tax Abatement Disclosures*, the government could choose to disclose abatement programs individually.

4.82. Q—A government with 25 tax abatement agreements identifies 3 major tax abatement programs that encompass 20 of those agreements. Is the government required to disclose information about the five tax abatement agreements not included in the major programs?

A—Yes. Information about those five agreements should be disclosed either in the aggregate or individually.

### **Amendments to Questions and Answers from *Implementation Guide No. 2015-1***

**Question 5.37.** We recommend the Board clarify the answer to this question to avoid misunderstanding. We recognize that this question is only being modified to incorporate GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, and Question 5.122.1 into the answer. However, we found the structure of the answer confusing and offer the following suggestions for clarity. First, the 1<sup>st</sup> sentence should be restructured to directly answer the question of reporting in governmental funds (see our edit below). Second, the 2<sup>nd</sup> sentence should clarify that such

reporting is required in governmental funds. Third, the 3<sup>rd</sup> sentence should be deleted as it is redundant of the 1<sup>st</sup> sentence which already states that GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, is applicable. It is also unclear as to the meaning of “in other circumstances.”

Question Z.24.1

5.37. Q—A state department of education makes on-behalf payments for individual school districts' active employee health and life insurance premiums and retirement contributions. The state payments are made directly to the insurance carriers and the pension plan. Are the school districts required to recognize those payments in their governmental funds, or can they recognize them only in the government-wide statement of net position?

A—~~Reporting in the governmental funds for payments with the characteristics described in this question is required by~~ Statements 24 and 68, as amended, and Statement 73 ~~provide guidance for reporting certain payments with the characteristics described in this question in fund financial statements.~~ If the state is legally required to make the payments for pensions, the districts should report revenues and expenditures related to the payments in the funds (including governmental funds), as required by Statement 68, as amended, or Statement 73, as applicable (see Question 5.122.1 in Implementation Guide 2015-1). ~~In other circumstances, revenues and expenditures related to employee benefits should be reported in the funds, as required by Statement 24, as amended.~~ In the statement of activities, the school districts should report the payments as direct expenses and program revenues of the appropriate programs or functions. (See Question 7.34.4 in Implementation Guide 2015-1.)

\* \* \* \* \*

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  
Director  
AICPA Governmental Auditing and Accounting

cc: State and Local Government Expert Panel  
Dan Noll