



December 31, 2014

Mr. David R. Bean
Director of Research and Technical Activities
Project No. 31-1ED
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) Exposure Draft (ED), *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and is pleased to offer its comments. We support the GASB's proposal to reduce the GAAP hierarchy to two categories of authoritative generally accepted accounting principles (GAAP), as well as the guidance provided for situations when the accounting treatment is not specified within a source of authoritative GAAP. We also appreciate that the GASB is continuing the inclusion of AICPA literature specifically cleared by the GASB in category (b) GAAP.

We have included one significant concern described in the following section of this letter. Several other comments and related recommendations appear in the section below titled, "Other Comments and Recommendations."

SIGNIFICANT CONCERN

Definition of a Government. Appendix C, *Codification Instructions*, does not include mention of paragraph 1.01 of the AICPA Audit and Accounting Guide, *State and Local Governments* (SLG Guide), which defines a governmental entity for GAAP purposes. Paragraph 1.01, which was previously cleared by the GASB, is currently identified in Appendix D, *Category B Guidance*, of the SLG Guide. There is a long history associated with this guidance and with similar paragraphs included in the AICPA Audit and Accounting Guides, *Health Care Entities* (HC Guide) and *Not-for-Profit Entities* (NPO Guide). Well over 10 years ago, the AICPA partnered with the Financial Accounting Foundation (FAF), the Financial Accounting Standards Board (FASB), and GASB to develop the definition of a governmental entity. This effort was undertaken in response to an uptick at that time of apparent "governmental" entities that were reporting under the FASB financial reporting framework. It was decided that the definition would be included in an overhaul of the HC Guide since it was being exposed to the public around that time. Ultimately, both the GASB

and FASB cleared the definition included in the HC Guide and the following year the definition was incorporated into the SLG and NPO Guides.

Several years ago, when the FASB codified its standards into one level of GAAP, it did not incorporate the governmental entity definition. Now the GASB appears to be taking a similar path by not including the definition as category (b) GAAP in this ED. If we are correct, we will have to modify paragraph 1.01 to include a footnote indicating it has not been cleared by the GASB similar to other sections of the SLG Guide where GASB has asked us to attach such a footnote. While we will accommodate this change, we believe the definition is critical for purposes of an entity determining which financial reporting framework should be applied.

Since FASB has not carried the guidance into its standards and the GASB appears to be heading in the same direction, we believe now would be a good time to ensure that all parties revisit the intent of the original decision to develop a governmental entity definition and to decide whether having only a nonauthoritative definition in several AICPA Guides is in the best interest of the public. In our view, diminishing its authoritative status is not in the public interest because it would essentially give preparers the ability to choose the financial reporting framework they follow. The result will likely be more entities following an inappropriate financial reporting framework (e.g., the FASB framework when they should be following the GASB framework and visa versa). In recent years, we have noted a general trend for both GASB and FASB to limit choices that preparers have within specific accounting standards. Allowing a choice of which framework to follow seems counterintuitive to that notion.

We understand through discussions with GASB staff that resolution of this issue is a matter that must involve the FAF. Therefore, we are copying Teresa Polley of the FAF to make her aware of the issue and to request that she forward it on to the appropriate FAF staff to assist in its resolution. We are happy to engage in any needed follow-up discussions if it would be helpful.

OTHER COMMENTS AND RECOMMENDATIONS

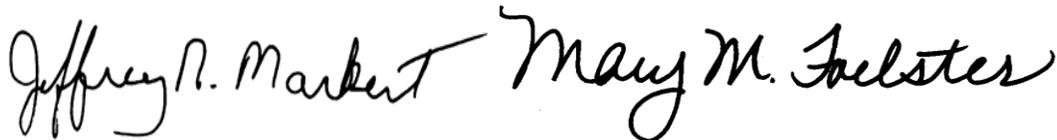
Memorandum of Understanding. Paragraph 31 of the ED discusses the importance of the need for GASB and AICPA to establish a Memorandum of Understanding (MOU) to ensure that our due process and other aspects of the clearance process meet the needs of both the Board and the AICPA. We would be happy to arrange a meeting with the appropriate AICPA staff and GASB staff to discuss the potential contents of such a MOU and to facilitate a final document.

Comprehensive Implementation Guide. For many years, the AICPA has been concerned about the lack of due process surrounding the contents of and revisions to the GASB's Comprehensive Implementation Guide. We commend the Board for incorporating the CIG into category (b) GAAP as it will provide broader public exposure and more transparency surrounding this important document.

Revisions Needed to Rule 203 References. The AICPA's Professional Ethics Executive Committee revised the Code of Professional Conduct (Code) which is effective as of December 15, 2014. As a result, references to the Code have changed. The ED includes several references to Rule 203 of the AICPA's previous Code that need to be revised. We suggest that GASB refer to the "Accounting Principles Rule" in the AICPA's Professional Code of Conduct [AICPA, *Professional Standards*, ET sec. 1.320.001] in the final standard.

The AICPA appreciates the opportunity to comment on the ED. 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
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