



National Association of State Auditors, Comptrollers and Treasurers

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Mr. David Bean
Director of Research
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), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

We support the objective of this proposed statement, to incorporate certain accounting and financial reporting guidance into GASB's authoritative standards, and to codify governmental GAAP in a single source. Unless otherwise noted, we generally agree that specific accounting and financial reporting requirements from the FASB and AICPA pronouncements are appropriately included and excluded from this Exposure Draft.

General comment:

- The presentation of multiple glossaries throughout the ED is distracting. We suggest the GASB consider a single glossary in an Appendix which would include all of the definitions from the various topics. This format would mirror most other GASB statements.

Comments by paragraph:

- Paragraph 23 - footnote 8 (page 7)
The last sentence in the footnote reads: "Under the cost recovery method, equal amounts of revenue and expense are recognized as collections are made until all costs have been recovered, postponing any recognition of profit until that time". The term "profit" does not seem appropriate. Net income would appear to be a more appropriate term since Enterprise Funds report operating and nonoperating income – not profit and loss.
- Paragraph 34 (page 10)
The third sentence states: "Other liabilities whose regular and ordinary liquidation is expected to occur within a relatively short period of time, usually 12 months, also are intended for inclusion". The wording "usually 12 months" leaves ambiguity that is not consistent with guidance elsewhere in the ED. We recommend a change in wording similar to the following: "Other liabilities whose regular and ordinary liquidation is expected to occur **within one year** also are intended for inclusion..."

- Paragraphs 68 and 81 (pages 19-20 and 23)

These paragraphs mention the inventory pricing method of last-in first-out (LIFO). It is also included in the section on *Inventory* on pages 50 – 52. Although not in current conflict with GASB pronouncements, FASB has proposed the elimination of LIFO as an acceptable accounting inventory pricing method in their proposed reconciliation of U.S. GAAP to International Financial Reporting Standards (IFRS). The GASB should keep this in mind as it finalizes this standard.
- Paragraph 99 (page 26)

It would be helpful to the reader's understanding if a footnote was added explaining that GASB guidance for items (a) through (f) already exists in GASB Statement 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*; and that guidance for item (g) already exists in GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Pointing the reader to the location in GASB standards where the equivalent GASB guidance to the FASB standards on topics (a) through (g) can be found would help the reader to know that these items have many characteristics similar to contingent liabilities, and may either require accrual or disclosure based on the likelihood of loss and whether the amount of loss can be reasonably estimated.
- Paragraph 123 (page 31)

We suggest the second sentence be reworded as follows: "Accordingly, costs of contracts in process and current billings should be accumulated, but no interim revenue or expense should be recognized other than provisions for losses".
- Paragraph 126 (page 32)

Consistent with using clearer, more current terminology, we suggest the term "billings" be changed to "receivable," "cash receipts" or other appropriate term.
- Paragraph 128b (page 32)

If a debtor reacquires certain debt instruments in the public securities market and those debt instruments are retired with no provisions for resale of such debt securities then the debt should be considered extinguished. However, if the debtor reacquires such instruments for resale (so-called treasury bonds) or potential resale, then the debtor should not consider the debt extinguished. It would appear that the purchase of this debt in the public securities market may be more of an investment (asset) if the intent is to resell the debt instrument in the future for cash or other assets. In such case, we recommend that the debt continue to be reported.
- Paragraph 130 – Glossary (page 33)

For consistency with the structure of other glossaries, we suggest the following changes be made:

 - Net Carrying Amount: We suggest removing the lead-in phrase "Net carrying amount of debt is" and capitalize the word "The".
 - Reacquisition Price: We suggest removing the lead-in phrase "Reacquisition price of debt is" and capitalize the word "The".
- Paragraph 192 (page 50)

It appears that the two sentences included in paragraph 192 may be redundant. We recommend removing the second sentence and merging the first sentence into paragraph 193.

- Paragraph 195 (page 50)
The ED changed the phrase in ARB 43, Chapter 4, paragraph 6, from "matched against revenue" to "charged to operations". We believe "matched against revenue" is preferable, because inventory sales are not a period cost. Note the contrast versus paragraph 196, which properly describes general & administrative expenses as period costs.
- Paragraph 206b (page 53)
The second sentence of this paragraph is very long. We suggest a period be inserted after the word "investor" on the fifth line of the paragraph; remove the word "and" and capitalize the word Such. Also, change "reflects adjustments including adjustments" to "includes adjustments".
- Paragraph 255 (page 78)
"Income and expense" was struck three times in this paragraph from the original FASB statement, leaving "recognition" without explanation of what is to be recognized. We suggest the Board replace "income" with "revenue" and leave in "and expense". Therefore, the codification would read "revenue and expense recognition".
- Paragraph 269b – footnote 124 (page 82)
Footnote 124 is a duplicate of footnote 98. We suggest the board reference footnote 98 rather than duplicate the footnote, for consistency with other footnote references.
- Paragraph 274 – Glossary (pages 83-88)
 - Initial Direct Costs (footnote 129, page 85): The reader is directed to paragraphs 434-454; however, yield adjustments are only discussed in paragraph 448.
 - Lease Term (page 86): To ensure consistency with other glossaries, we suggest the Board remove the lead-in phrase "Lease term is" and capitalize the word "The".
 - Minimum Lease Payments (page 87, paragraph a): The second sentence says "executory costs such as". Taxes may need to be included in the definition. Governments are not normally subject to taxes; however, a non-governmental lessor may be subject to taxes on the leased property and may pass those taxes on to the lessee. In that case, we believe the taxes should remain a part of the executory costs. Otherwise, if included as part of the minimum lease payments, the present value at the beginning of the lease term of minimum lease payments during the lease term may very well end up exceeding the fair value of the leased property which would probably be an unintended consequence.
 - Minimum Lease Payments (page 87, paragraph b): This paragraph states, "...The payments described in (1) above..." After reviewing the strike-out version, we believe the wording should be "a. above" instead of "(1) above". We ask that the GASB review this reference.
 - Footnote 135 (page 87) and footnote 137 (page 87): Both footnotes reference footnote 133. However, we believe the correct reference is footnote 134.
 - Footnote 138 (page 88): This footnote references footnote 134. However, we believe the correct reference is footnote 136.
- Paragraph 311 (page 96)
Limited partnerships would seem to rarely apply to state and local governments since a state or local government would rarely take on the role of a general partner in a limited partnership that acquires an interest in the property sold.

- Paragraph 364 (page 108)
The last sentence in the paragraph references paragraph 85 for reporting guidance. However, paragraph 83 appears to be the appropriate paragraph to reference.
- Paragraph 410 (page 122)
We believe this paragraph should be reworded. It seems to be saying that the accrual should be made "when the insured events occur". However, by definition, *Incurred but Not Reported* events have not been reported, the enterprise does not know that the event has occurred; therefore, it cannot accrue a liability (when the event occurred) unless an estimate is used. A suggested change would be something similar to the following: "A liability for unpaid claim costs relating to insurance contracts should be accrued when insured events occur. The liability should include estimates for costs relating to claims incurred but not reported as of the reporting date".
- Paragraph 18 - Appendix D (page 223)
Rather than removing private sector examples altogether, consider replacing them with public sector examples that could apply to state and local governments. For example, three private sector examples were properly removed from the ED due to the rare application to governments. Adding specific public sector examples where private sector examples have been removed would be valuable and helpful in applying the guidance to state and local governments.

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 NASC at (859) 276-1147 or me at (304) 558-2251.

Sincerely,



Glen B. Gainer III
NASACT President