



December 16, 2014

Mr. David Bean  
Director of Research and Technical Activities  
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), *Implementation Guide No. 20XX-1*.

We generally agree with the requirements of the ED. However, we have the following specific comments that we believe the board should consider as it finalizes this implementation guide.

#### Chapter 1

1.3.8: Please clarify if this same answer would apply to the government entity that sponsors as well as participates in the external pool.

1.9.2:

- Some states present credit risk on an aggregated "equivalency" scale. Please include guidance on the use of an equivalency rating in lieu of specific agency ratings.
- We also request that the Guide include an illustration relative to the sponsoring government of an external investment pool showing the assets on the Statement of Net Position and the disclosures relative to Statements 3 and 40.

1.63.3: In Appendix C of the ED, GASB indicated that it had deleted a portion of this question to remove a nonauthoritative illustration. However, we believe the truncated answer to the question removed guidance in addition to the nonauthoritative illustration. We believe the answer should be truncated at the sentence beginning with "For example..."

#### Chapter 2

2.7.1: We believe this question and answer should be excluded because it only provides guidance that is quoted verbatim or essentially rephrased from the standards.

2.20.5: We recommend this question be expanded to include guidance in situations when cash flow items meet the definition of the noncapital financing, capital and related financing, or investing activities category, but are immaterial items in relation to other cash flows. Providing clarification on whether an "other" line item can be used in cases when multiple "miscellaneous" items properly classified within a category are considered immaterial for segregated presentation would be helpful.

#### Appendix 2-1, Example C (page 2-31)

Within the "Note" that is in brackets, it is not clear which reconciliation is being referring to. Please reword the note to explain that the above reconciliation of cash and cash equivalents is likely not necessary. Otherwise, readers might believe the note is referring to the required reconciliation of operating income directly below the note.



### Chapter 3

3.11.1: We believe the revision would be enhanced by adding a reminder that significant differences in the amounts of the deferred inflow of resources and the related asset should be explained in the notes to the financial statements.

3.11.2 and 3.11.3: We believe there would be a benefit to combining these questions. For example, the second paragraph to the answer for question 3.11.3 could be useful in answering question 3.11.2.

3.12.5: Please clarify that this would be a “special item” since it would meet the definition of one as given in Statement 34 paragraph 56, and would harmonize the answer with the guidance in paragraph 53. It would also be helpful to mention whether Statement 69 requirements for mergers should be applied or not.

3.19.3: This question was removed because the guidance pertains to the applicability of nonauthoritative language; however, the answer includes instances where the nonauthoritative language is applicable and where it is not applicable. We believe these distinctions warrant retaining the question.

3.23.1 and 3.23.2: These questions were removed because of reference to nonauthoritative literature. Considering that the reporting basis for certain investments held by a risk pool differs in some instances from that provided in Statement 31 for investments held by governmental entities (generally fair value), we recommend similar questions and appropriate guidance be retained, along with guidance regarding appropriate disclosure of the reporting basis for the investments held by a risk pool. This guidance would help to identify and clarify the authoritative references and rationale for the reporting basis for these investments.

3.61.1: We recommend including an explanation of the acronym “IBNR” similar to question 3.17.1.

### Chapter 4

4.2.2: We suggest adding more emphasis to the answer with bolding or underlining the following sentence to help clarify that financial accountability criteria in Statement 14 should be applied to all potential component units, including nongovernmental organizations: “The financial accountability criteria in paragraph 21 of Statement 14, as amended, should be applied to all potential component units, including nongovernmental organizations.” It might also be helpful to add an example to this question.

4.6.1 and 4.6.2: We suggest adding a reference to 4.7, 4.8 and 4.9, all of which help address the issue of defining a primary government.

4.11.6: Please consider adding more referenced reporting examples, especially due to the growth and variations of charter schools.

4.33.2: This appears to be a duplication of question 4.2.2; however, it is in a different section so it is addressing a different issue. We suggest expanding the response to include the additional details provided in the answer for question 4.2.2. The additional information would provide a more comprehensive response and guidance as to when Statement 14 or Statement 39 applies for nongovernmental organizations. We also suggest expanding the proposed example to make it more useful.



Chapter 5

5.63.5: To improve consistency, we believe this answer could be modified to include which requirements of Statement 67 should be applied for each circumstance or portion of the trust, as was done for the answer to question 5.120.6. See the underlined portions that have been added to the answer: If the assets of each of the nonpool employers cannot legally be used to pay benefits to the employees of any other employer, the portion of the trust that is being used to administer benefits to the employees of the nonpool employers is a separate (agent multiple-employer) plan, and nonpool employers should apply the requirements of Statement 67 for agent employers. In this circumstance, the portion of the trust that is being used to administer the benefits of the employees of pool employers is a cost-sharing multiple-employer plan, and pool employers should apply the requirements of Statement 67 for cost-sharing employers. If, however, the assets in the trust may legally be used to pay benefits to the employees of any of the employers (pooled or nonpooled), the trust should be reported one cost-sharing multiple-employer plan, and all of the employers should apply the requirements of Statement 67 for cost-sharing employers.

5.64.1: We request that references to paragraphs 6 and 70 be added to the end of the sentence: “Consistent with prior pension and other postemployment benefit (OPEB) Statements, Statement 67 distinguishes between pensions and OPEB.”

5.64.2: We believe the phrase “but not the same as or part of, the pension plan” in the last sentence of the answer should be changed to: “but separate from the pension plan.” It is confusing as currently written.

5.66.3: The abbreviation for cost-of-living adjustments (COLAs) should be introduced in this question, rather than in question 5.98.4.

5.71.2: We believe this question and answer should be excluded as it does not clarify or explain existing GASB Standards. It is essentially adding requirements to GAAP by “encouraging” disclosure of the fact that these expenses are not determinable, yet at the same time stating that the disclosure is not a requirement.

5.77.2: We request that the phrase: “allocation to investment expense of a portion of salary and related costs for a plan employee is appropriate” be changed to: the “50% allocation to investment expense is appropriate.” The suggested change is less verbose and answers the question in a clearer manner.

5.87.4: We believe the paragraph reference should be added to the answer as follows: “Consistent with the measure of the long-term expected rate of return required by Statement 67 (paragraph 31b), the money-weighted rate of return for purposes of that Statement should be determined net of investment expense but not net of pension plan administrative expense.”

5.97.1: We request that the following sentence be added to the end of the answer paragraph: “However, the disclosure of the different tiers is required.”

5.98.3: In the answer, “projected service cost” was modified to “service cost” to improve consistency with questions 5.142.6 and 5.183.6. Therefore, in the question, “projected service cost” should be modified to “service cost” to remain consistent.

5.98.8: In order to improve consistency, we believe that the first sentence of the answer should be modified to reflect the wording in the answers to questions 5.142.12 and 5.183.12, as follows: “The purchase of the allocated insurance contract results in a reduction of the pension plan’s fiduciary net



position for the amount paid for the contract and a reduction in the total pension liability for benefit payments.”

5.100.7: This question was modified to specify cost-sharing pension plans; however, we believe this question would also apply to single-employer plans.

5.107.3: The last two sentences should be deleted as they are duplicates of the two prior sentences.

5.116.8: We believe that “Yes,” should be added to the beginning of the first sentence of the answer. The question should be answered in a clearer manner.

5.116.9: We believe the question should read “pension plan” instead of “pension plant.”

5.120.6: For consistency in presentation, a space should be added between the question and answer paragraphs.

5.121.2: We request that this question be enhanced to address whether the segregated assets are subject to separate plan reporting when assets are segregated for purposes of paying benefits subject to the limitations established in Section 415(b) of the Internal Revenue Code, but pooled for investments purposes.

5.136.5: The answer needs clarification because it does not appear to address whether the COLA should be included in the “projection of future benefit payments.”

5.146.3: Footnote 12 in Statement 67 seems to conflict, or at a minimum, make confusing this answer given the requirements of paragraph 43 and footnote 12 of GASB Statement 68. We request that this answer more fully and clearly explain the requirements, given paragraph 43 and footnote 12.

5.147.3: The answer refers to amounts recognized as additions in the pension plan’s “schedule” of changes in fiduciary net position. However, Statement 67 refers to a “statement” of changes in fiduciary net position, not a “schedule” of changes in fiduciary net position. The terminology appears confusing since Statement 67 refers to “schedules” in the RSI section; however, it does not refer to a “schedule” of changes in fiduciary net position, as mentioned in the above answer. Note: the same also applies to the answers for questions 5.157.1; 5.187.2; 5.194.1; 5.228.2 and 5.235.1.

5.163.5: To provide more and clearer guidance, we request that the answer include an illustrated adjustment as an example.

5.183.5: We believe the answer should refer to question 5.183.6 instead of question 5.183.7.

5.235.1: The answer refers to question 5.233.2 which does not exist in the implementation guide. We believe that the answer should instead refer to question 5.235.2 regarding current receivables.

5.243.1: The word “deter- mined” should be changed to “determined.”

#### *Chapter 5 Glossary*

We believe adding the acronym “PERS” in parentheses next to the term “Public Employee Retirement System” (i.e., Public Employee Retirement System (PERS)) in the glossary would be beneficial.



*Illustration 2 (page 5-134)*

The heading at the top of the page appears to be a draft, as it has portions that are crossed out. It should be cleared up.

*Illustrations 4a and 6 (pages 5-141 and 5-153)*

- We do not follow the math behind the +1% / -1% discount rate in calculating the school district's share of the NPL. Please clarify.
- We struggled with the difference between the terms districts' and district's. However, we also struggled to come up with a better solution for the districts' vs. district's differentiation. While grammatically correct, the wording is unnecessarily awkward. Please clarify.

*Illustrations 5, 6 and 7a (pages 5-145, 5-146, 5-150, 5-151, 5-154, 5-155, 5-159, 5-160, 5-161, 5-168 and 5-169)*

We believe the example entity should be added to the headings for the Statement of Changes in Fiduciary Net Position, Notes to the Financial Statements, and other schedules. Because some entities might not have the strongest skill sets to implement Statements 67 and 68, the examples should be very clear in their formats. Please see the heading on page 5-163 for a good example.

*Appendix 5-1 (page 5-115)*

We request that some examples be added to the Nonemployer Contributing Entities section.

*Appendix 5-2 (pages 5-147, 5-148, 5-156 and 5-157)*

We request that examples be added to the following sections: Receivables, Allocated Insurance Contracts, Reserves, Deferred Retirement Option Program, Allocated Insurance Contracts, Reserves, and Deferred Retirement Option Program.

*Appendix 5-2, Illustration 5 (page 5-148)*

We request that an example be added in the Net Pension Liability of the County section to compliment the sentence: "[If the benefit terms included ad hoc postemployment benefit changes, the pension plan should disclose information about assumptions related to those changes, as required by paragraph 31b of Statement 67.]".

*Appendix 5-2, Illustration 6 (page 5-157)*

We request that an example be added in the Net Pension Liability of Participating School Districts section to compliment the sentence: "[If the benefit terms included ad hoc postemployment benefit changes, the pension plan should disclose information about assumptions related to those changes, as required by paragraph 31b of Statement 67.]".

*Appendix 5-2, Illustration 7-a (page 5-163)*

We request that an example be added to the "Note X" section.

*Appendix 5-2, Illustration 7-a (page 5-164)*

We request that an example disclosure be added to the General Information about the Pension Plan section to compliment the sentence: "[If the pension plan was closed to new entrants, the County should disclose that fact, as required by paragraph 40b of Statement 68.]".

*Appendix 5-2, Illustration 7-a (page 5-165)*

We request that example disclosures be added to compliment the following sentences: "[If the benefit terms included ad hoc postemployment benefit changes, the County should disclose information about assumptions related to those changes, as required by paragraph 41 of Statement 68.]". "[If there had



been a change in the discount rate since the prior measurement date, the County should disclose information about that change, as required by paragraph 42a of Statement 68.]”.

#### Chapter 6

The heading *Pension and Deferred Compensation Plans* on page 6-5 is numbered incorrectly. It should be 6.5 instead of 6.4.

6.5.1: We believe that "benefit" has incorrectly been omitted from the phrase "defined pension plans."

6.9.2: This question has not been changed in the ED; however, the answer seems vague and doesn't seem to directly answer the question. Please provide clarification.

6.11.3: We believe this question and answer should be retained, as this is still useful information.

6.12.2: We believe question 6.11.6 was removed because the response included nonauthoritative guidance from the American Institute of Certified Public Accountants (AICPA); however, question 6.12.2 remains and that response includes AICPA guidance. Unless that particular guidance from the AICPA is cleared by GASB and; therefore, becomes authoritative, we believe question 6.12.2 should be removed to ensure consistency.

6.28.4: We believe this question and answer should be retained, as this is still useful information.

#### Chapter 7

7.3.1: We believe this question and answer should be excluded because it only provides guidance that is quoted verbatim or essentially rephrased from the standards.

7.5.2: In the second paragraph of the response, line 5 is not using the exact citation. It should be "currently known facts, decisions, or conditions," as shown in paragraph 11(h) of Statement 34.

7.8.5: We suggest that the abbreviation "ARC" within the answer be spelled out because it was not previously defined (it is spelled out on page 7-300).

7.9.2: Within the answer there is a parenthetical reference to see question 7.5.1. We believe this should instead refer to question 7.15.1.

7.16.1 and 7.16.2: We believe these questions and answers should be excluded because they only provide guidance that is quoted verbatim or essentially rephrased from the standards.

7.16.6: Within the answer there is a parenthetical reference to see question 7.38.1. However, question 7.38.1 was deleted; therefore, we suggest that this reference be deleted.

7.19.3: We believe this question should reference paragraph 23(b), footnote 18.

7.20.1: The second sentence of the answer should reference paragraph 23, footnote 17.

7.24.7; 7.24.25 and 7.24.29: We suggest that these questions refer to deferred inflows/outflows because the implementation guide will incorporate Statement 65.

7.29.3: This question describes how to record depreciation when first implementing Statement 34. Consider removing this question and answer as implementation is complete.



7.67.1: The answer uses the term "business-types activities" in the second sentence. The 's' should be removed from "types."

*Section 7.71 (page 7-89)*

The heading says "See also Questions 7.24.15-7.24.23 on net position restricted by enabling legislation." We believe it should be Questions 7.24.15-7.24.24.

7.84.3: The answer states "(See also Question Z.54.20 ....). Question Z.54.20 states [Not used in GASBIG 20XX-1] indicating its removal from the implementation guide. Please remove the reference.

7.104.15: The answer references paragraphs 150 and 151, but does not give the GASB Statement number which should be Statement 34.

*Appendix 7-1, Figure A-4 (page 7-129)*

The percentages in the example add up to 99% (rather than 100%).

*Appendix 7-1 (page 7-134)*

In the second paragraph from the bottom, the second sentence states "...an increase of 3.2 percent over the final 2012 budget..." We believe this should be 3.1 percent.

*Appendix 7-1, Exhibit 35 (page 7-191)*

The description of the internal service funds uses the term "net assets" which should be changed to "net position."

*Appendix 7-2, Exhibit 10 (page 7-218)*

- This exhibit contains an explanation of why the governmental fund balances are not the same as the government-wide net position. The amount listed (\$125,245,655) does not agree with the Net Position amount on page 7-207 nor on page 7-202. Those values are \$125,245,665. Please change to the correct amount.
- The Note 4a column heading at the top of the page has an extra space in the middle of "Funds" that should be removed.

*Appendix 7-2, Note 5a (page 7-221)*

The interest expense section under (3) is missing the 't' at the end of the first line in the word interest.

*Appendix 7-2 (page 7-227)*

The dash next to the word "statements" in the first sentence of the second paragraph should be removed.

*Appendix 7-3, Exhibit 3A (page 7-242)*

Explanation I states that "The deferred property taxes adjustment adds to net position the "unavailable" revenues that were excluded from fund balances on the modified accrual basis of accounting." This seems to be inconsistent with question 7.62.1 (page 7-87). In addition, the deferred property taxes adjustment should be listed under deferred inflow of resources and should be indented on the schedule.

*Appendix 7-3, Exhibit 3B (page 7-243)*

Explanation J shows "unavailable" revenues from property taxes as deferred, rather than a deferred inflow. We believe this is inconsistent with question 7.62.1. The explanation also states that "...adjustment adds to net assets..." We believe this should be net position.



*Appendix 7-3, Exhibit 3C (page 7-244)*

Explanation J shows "unavailable" revenues from property taxes as deferred, rather than a deferred inflow. We believe this is inconsistent with question 7.62.1.

*Appendix 7-3, paragraph 75 (page 7-253)*

The first line of this paragraph says "... proprietary fund financial a statement is..." Please remove the letter 'a' and add an 's' to the end of the word "statement."

*Appendix 7-4 (page 7-273)*

This page titled "Basic Financial Statements" does not have a header or footer. In order to maintain consistency, we believe a header and footer should be added to this page (refer to page 7-285 which has a header and footer for the Notes to the Financial Statements, page 7-305 for RSI and page 7-309 for SI).

*Appendix 7-4, Exhibit 3.1 (page 7-277)*

- There appears to be an extra space between each of the first three sentences.
- The word 'different' in the second line (Total net position) is spelled with only one 'f'.

*Appendix 7-4 (page 7-289)*

The Receivables and Payables section only discusses receivables. If the entity does not have any payables, consider removing this from the header. Also, since this disclosure appears to be in order of the balance sheet, consider moving the payables after Capital Assets.

*Appendix 7-4, Note 8 (page 7-299)*

There's an apostrophe after the word "Employees" in the first line of the first paragraph but not one after the same word on the next line. Please make these consistent.

*Appendix 7-4 (page 7-300)*

- The second sentence in the Funded Status paragraph indicates the liability was \$437.9 million, the assets are \$435.1 million, and an excess of assets over liability of \$2.8 million. This appears to be a typographical error, as the liability is larger than the assets.
- In the second line of the State General Retirement System section the word "subdivision" should have an 's' added at the end.

*Appendix 7-4 (page 7-301)*

In the fifth line of the second paragraph, in the phrase "unfunded actuarial liabilities (of funding excess)..." the word "of" should be "or."

*Appendix 7-4, Exhibit 23 (page 7-322)*

Since a Statement of Net Position for the Agency Funds is included, it seems that a Statement of Changes in Net Position should also be included in the example.

*Appendix 7-4 (page 7-323)*

We recommend highlighting each heading below Supporting Worksheets.

Chapter 8

8.4.1: The answer references Statement 45 in its assertion, but Statement 43 is the direct quoted reference regarding the use of the term *plan*.



8.5.3: Although the answer restates the standard, we believe this question and answer should be retained because it offers clarification and complements question 8.58.2. Consider keeping the question or combining the answer into question 8.5.2.

8.6.3: There is confusion about the conclusion that the life insurance benefit in this circumstance is an OPEB benefit. We request that the reasons for this conclusion be clarified in the answer.

8.24.1: We believe this question and answer should be excluded because Statement 45 clearly defines an allocated insurance contract. We do not believe the example (paid-up life insurance contract) is sufficient to include the question.

8.26.1: We believe the term "long-term yield" should instead be referred to as the "long-term expected rate of return" to be consistent with the same terminology in Statements 67 and 68. This change should be made throughout the document.

8.27.3: Although the answer restates the standard, we believe this question and answer should be retained because it provides a concise answer to information located within a couple different paragraphs of Statement 45.

8.61.2: We believe this question and answer should be retained because it provides additional useful information to question 8.61.1.

8.61.4: We believe this question and answer should be retained because it provides comparative information to question 8.61.3.

8.86.1: The format of presentation in the currently published edition of the Guide (with an illustration of the calculation) is easier to understand than the proposed narrative-only explanation. We suggest reverting to the previous presentation.

*Appendix 8-8 (page 8-187)*

In the *Summary of Significant Accounting Policies*, we believe that a new paragraph should begin for the subsection *Method Used to Value Investments* (as in the current edition of the Guide).

Chapter 9

9.13.4: We believe "In the past" should be replaced with "Prior to the implementation of GASB 44."

9.23.3: We request that the answer provide clarification for when there is no ability to track these changes by levy year. We request that an alternative presentation for Statement 44, paragraph 21c be included.

9.26.2: Paragraph 24 of Statement 44 describes what to use when personal income or population information is not available. However, the options presented in the 4-part answer seem to be a stretch from the guidance in paragraph 24 and not easily viewed as the same. We suggest clarifying or better lining these options to paragraph 24, or remove those options that do not appear to be allowed.

9.28.1: We believe this is a repeat of question 9.25.4 and should be removed.

9.38.5: The question and answer rephrases paragraph 40 of Statement 44.

9.41.2: We request clarification that special assessments should be presented if not backed by full faith and credit.



*Appendix 9-2, Exhibit C-8 (page 9-105)*

The note box refers to question 9.15.2 as discussing options for presenting complex rate structure information. We believe that the reference should be question 9.18.1.

Chapter 10

*Appendix 10-1, Glossary*

- The glossary states that "This appendix contains definitions of certain terms as they are used in Statement 53, as amended, and this chapter." Statement 64 amended Statement 53, including its glossary, introducing two new terms, "Assignment" and "In-substance assignment." We believe these two terms, as defined in Statement 64, be included in Appendix 10-1.
- The Glossary includes the term for London Interbank Offered Rate (LIBOR). We believe GASB should update this definition to replace "British Bankers' Association" with "Intercontinental Exchange Benchmark Administration." The IBA took over responsibility for administering LIBOR rates on February 1, 2014.

Chapter Z

Z.33.14: In the answer, we believe the word "the" after modified should be removed.

Z.47.4: This question was moved to Appendix Z-1, Example 2 because it was considered nonauthoritative. When comparing Appendix Z-1, Example 2 to the prior question and answer, we noted that the modification for Statement 69 was not included in Appendix Z-1, Example 2. We believe the following statement should be included in Appendix Z-1, Example 2: "Because the termination plan is directly associated with a disposal of government operations, only termination costs recognized subsequent to June 30 would be included in the gain or loss from the disposal of operations as of September 30 in accordance with footnote 7 to paragraph 53a of Statement No. 69, *Government Combinations and Disposals of Government Operations*."

Z.48.2: The answer to this question is presented *without* the application of Statement 65. The penultimate sentence in the answer reads: "If those criteria are met, the revenue from the sale would be deferred as required by paragraph 14 in Statement 48, as amended." However, we believe it should read: "If those criteria are met, the revenue from the sale would be reported as a deferred inflow of resources and recognized as revenue over future periods as required by paragraph 14 in Statement 48, as amended."

Z.54.19: Given that the example included in the answer was moved to the appendix, we suggest deleting the two sentences starting with "To illustrate, consider the following example..."

*Appendix Z-2*

- There are four examples included in this appendix. The examples build upon data provided in one or more of the prior examples in the appendix. It would be helpful if GASB added "Example 1," "Example 2," etc. above each scenario similar to what was done in Appendix Z-1.
- In the third example (page Z-50), the paragraph states "In that example, assume that \$7,654 was spent for signage and lighting purposes..." We don't know if "that example" means the first or second set of facts. It would be helpful to begin with "In Example 1, assume that \$7,654 was spent..."

*Chapter Z Organization*

The following sections of Chapter Z are quite lengthy and significant and might deserve to have individual sections, instead of being included in the Other Implementation Guidance chapter. For



example, it is not intuitive to look in the Other Implementation Guidance chapter for 63 questions on Fund Balance Reporting (Statement 54).

- Z.33 – Accounting and Financial Reporting for Nonexchange Transactions (26 questions)
- Z.51 – Accounting and Financial Reporting for Intangible Assets (38 questions)
- Z.54 – Fund Balance Reporting and Governmental Fund Type Definitions (63 questions)

*Appendix C of the ED (page 15)*

This table itemizes the changes that were made to the Q&A.

- Z.54.51 says “Incorporated guidance from Z.51.58.” We believe this should say “Incorporated guidance from Z.54.58.”
- Z.54.52 says “Incorporated guidance from Z.51.53.” We believe this should say “Incorporated guidance from Z.54.53.”

*General Comment*

We found the answers more useful when the question or answer made reference to a specific GASB pronouncement by Statement and paragraph. This provided context for the answer and helped in identifying specific issues within the pronouncements that the question was about. We encourage that GASB, moving forward, reference their pronouncements in the answer whenever possible.

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 NASACT at (859) 276-1147 or me at (217) 782-3536.

Sincerely,

William G. Holland  
President, NASACT  
Auditor General, Illinois