



March 4, 2015

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 Preliminary Views (PV), *Financial Reporting for Fiduciary Responsibilities*.

We generally agree with the provisions of the PV and believe that it will improve financial reporting. However, we have the following specific comments that we believe the Board should consider as it finalizes this statement.

#### Chapter 1

##### Paragraph 4

The Board specifically references the example of child support funds classification as “a noticeable inconsistency in classifying activities as private-purpose trust funds or agency funds.” The Board then describes that the PV will propose “revisions to the descriptions of individual fiduciary fund types to resolve that inconsistency.” However, there is no further discussion of child support funds throughout the remaining chapters of the PV. If the Board intends to resolve the inconsistency of how child support funds are classified in fiduciary fund statements, we believe the Board should add discussion that could be carried forward to the exposure draft (ED) that specifically speaks to the nature of the inconsistencies and how the standard is resolving the issue.

#### Chapter 2

##### Paragraph 3

This paragraph is key to understanding how to apply the PV, but unfortunately the paragraph has several references, and even a self-reference, that it is difficult to understand what the Board intends. The first sentence in the paragraph states “...for which a government is a fiduciary...”; however, the term fiduciary is not explained until paragraph 5 which begins: “To determine whether a government is a fiduciary...” As this project moves forward into an ED, we ask the Board to more clearly explain these important aspects of the proposed standard.

##### Paragraph 3.b.

The last sentence of the paragraph states that most pension funds will apply Statement 67 or one of the Exposure Drafts, but “certain arrangements will apply the requirements of Chapter 4”. We believe “certain arrangements” is a vague way of referencing the pension plans that did not meet the criteria in paragraph 3. We ask that the Board make this more clear as they move into an ED.

##### Paragraph 6.a.

We ask the Board to consider the way fiduciary activity is defined as it moves forward to an ED. Consider the following example in which it may appear to be misapplied. If a government is a



recipient of a pass-through grant, we believe that the government usually has some substantive level of administrative oversight responsibilities. While these responsibilities may be delegated to sub-recipients, they cannot be viewed as being subrogated for financial reporting purposes unless allowed under the contract (in which case the government would be viewed as a fiduciary based on criteria of paragraph 6.b. or 6.c.). This view is consistent with audit requirements for federal grants in OMB Circular A-133 that impose compliance and audit requirements on pass-through grant recipients.

*Paragraph 6.c.*

We recommend that the Board reconsider the relevance of the criteria describing that the beneficiary is *not* required to be part of the citizenry. We believe this criteria is significant when establishing whether a fiduciary responsibility exists, particularly when *citizenry* is defined as including “residents of general purpose governments.” For example, if a government holds assets in a fiduciary capacity for an individual residing in a state correctional center, by definition that individual is a resident of the general purpose government and part of the citizenry. However, by applying the criteria in this paragraph, it now appears that a fiduciary responsibility has not been established and that activity would have to be reported as either governmental or business-type activities of the primary government. We believe it would be misleading to include those assets in the primary government’s financial statements as they do not have “present service capacity” to that government.

Chapter 3

*Paragraph 10.b.*

We request that the Board provide more clarification and an example on the meaning of the government’s ability to “reassign responsibility.” For example, it is not clear whether termination of a contract as a result of breach or lapse of time would constitute a government’s ability to reassign responsibility. The Board’s contract example addresses a very specific type of contract, when it may be more appropriate to use a broader example of a contractual relationship or to provide additional examples as the Board moves forward to an ED.

Chapter 4

*Paragraph 7*

Please provide clarification as to what constitutes an “equivalent arrangement.” A definition and some examples are needed for consistent application.

*Paragraph 19*

Please provide clarification on how the obligations in a custodial fund should be reported “if the event that compels the government to disburse the fiduciary resources” has not yet occurred. The PV indicates that a liability would not be recognized until the event has occurred; however, we do not believe the Board intends to establish a net position in the custodial funds. As the Board moves to an ED, please better explain the proposed concepts and clarify its intent.

*Paragraphs 25-30*

We request that the Board make clear how a fiduciary component unit aggregates into the primary government’s financial statements. For instance, if a fiduciary component unit has multiple columns (e.g., investment trust, private purpose trust, and custodial funds), we would presume that each fund type would roll into and aggregate with the primary government’s



respective fund type, rather than the primary government incorporating a single combined aggregation of the component unit.

Further, if the component unit has its own component unit that is fiduciary, but of a different fund type (e.g., component unit is an investment trust fund type and its component unit is a custodial fund), we would presume the primary government would place information about the component unit and its component unit into the two respective fund types of the primary government, rather than an aggregate amount into only one column of the primary government's financial statements. We suggest that any future due process document's provisions explicitly cover this aggregation requirement complexity so that respondents can weigh in on the appropriateness of any proposed reporting requirements.

General Comments

- We request that the Board carry forward the flowcharts and exhibits to the ED and final standard because they provide useful tools in assisting preparers and auditors in determining the appropriate presentation and fund type.
- We concur that a field test should be performed to gather information relative to the cost of reporting fiduciary activities in accordance with the provisions of the PV document to ensure that the benefits outweigh the cost.
- Moving forward to an ED, we ask the Board to clarify circumstances like restricted assets such as customer deposits, so it is clear when these would be a fund's assets and when they would be custodial assets.

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