



April 1, 2016

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), *Fiduciary Activities*.

We have two primary concerns with the ED – defining terms (see comments relating to paragraph 7 below) and the detail required in the Statement of Changes in Fiduciary Net Position for custodial funds (see comments relating to paragraph 20 below). If these concerns are addressed, we believe this ED will function to enhance consistency and comparability in financial reporting.

In addition to our concerns noted above, we have the following specific comments that we believe the Board should consider as it finalizes this statement.

Paragraph 7

This paragraph uses the terms "equivalent arrangements" and "recipients of the government's goods and services." A literal application of these two criteria, based on the requirements and guidance provided in the proposed statement and its basis for conclusions, may result in outcomes that exclude certain activities from being fiduciary when those activities clearly are fiduciary in nature. Consider the following examples provided by our members that highlight the lack of clarity around "equivalent trust arrangements" and "recipients of the government's goods and services":

- A county is required by state statute to hold school district monies in a banking and investing function. These assets are clearly under the control of the county. No trust agreement exists and the statutes do not state that the monies are legally protected from the government's creditors. This activity clearly does not relate to paragraphs 7.b. nor 7.d. Paragraph 7.c. requires that the other governments should not be recipients of the county's goods or services. Yet the county provides various services to school districts, including elections services, accounting services, and educational support services. The conclusion would be that the activities of a county holding the assets of school districts in a banking and investing function are not fiduciary. However, these activities are clearly fiduciary in nature.
- A county administers the billing, collecting, and distributing activities for property tax collections of local governments, including cities. These assets are clearly under the control of the county. No trust agreement exists and the statutes do not state that the monies are legally protected from the government's creditors. This activity clearly does not relate to paragraphs 7.b. nor 7.d. Paragraph 7.c. requires that the other governments should not be recipients of the county's goods or services. Yet the county provides services to cities such as water, sewer and wastewater activities. The conclusion would be that the activities of a county billing, collecting and distributing tax collections of other governments are not fiduciary. However, these activities are clearly fiduciary in nature.



- A school district collects fees from parents to cover the costs of providing specific student activities. Our application of the criteria and the codification instructions in paragraph .704-3 and .706-1 would lead us to believe that these are not fiduciary activities (presumably because they are the district's own revenue sources). However, if statute requires districts to hold monies collected by student clubs that will be used to support the student's future activities, the district holds the monies for the student groups and the application of the criteria in paragraph 7.b. would fail if the monies were given to vendors in support of a student activity. Yet this student club activity would appear to clearly be fiduciary in nature to the district.
- A state holds the cash and assets of residents of a Veteran's Home. This is a statutory responsibility with no trust arrangements. Under criteria 7.b., the assets are provided to individuals who are required to be recipients of this government service, and would not qualify under this criteria. Yet this activity is clearly fiduciary in nature.
- It seems that deferred compensation funds would likely be identified as a fiduciary fund, but it is unclear whether this conclusion is derived from the criteria in paragraphs 7 or paragraphs 8.

Based on these examples, we see that there will be confusion and inconsistency regarding the classification of an activity as a fiduciary activity without better clarification about how those phrases should be understood. Therefore, we request that the Board provide further clarification regarding when situations fall under equivalent arrangements in paragraphs 7.a., and when the government services do not fall under the definition of the government provided goods and services in paragraphs 7.b. and 7.c. Incidentally, a member also noted that clarification about the term "own-source revenue" would be beneficial.

Paragraph 10

We believe an inconsistency could develop in practice related to the concept of control as it relates to the criterion of "administer or direct the use." Some governments could interpret that contracting with an external vendor to administer a fiduciary activity (e.g., 401k defined contribution plan) and requiring those vendors to change investment options (when not achieving established objectives) creates an ultimate fiduciary responsibility. On the other hand, other governments could view the same responsibilities as not at all creating a fiduciary responsibility requiring financial reporting. Consequently, to help ensure that consistent application of the final standard is made, we ask the Board to clarify its intent.

Paragraph 8.b

It appears this paragraph should exclude OPEB arrangements covered by Statement 74, paragraph 58. The similar requirement for pensions (Statement 73, paragraph 115) is not included in paragraph 8.

Paragraphs 8.c, 19, and 22

Regarding pension arrangements: Suggest adding a footnote to paragraph 8.c explaining what Statement 73, paragraph 116, requires. This would be similar to the ED's footnotes 1 and 2. Also, it appears paragraphs 19 and 22 should also refer to Statement 73, paragraph 116.

Paragraph 10

We ask the Board to better explain or provide examples of what is meant by "Restrictions from legal or other external restraints do not negate...".



Paragraph 20

While we understand conceptually the requirements of this paragraph, we are concerned about reporting disaggregated additions by source and deductions by type for certain types of custodial funds.

We have concerns about the time and cost to implement this reporting provision in the ED for certain custodial funds, formerly classified as agency funds. With the inclusion of disaggregated additions and deductions, for example of school club and activity accounts, criminal bail and restitution accounts, and patient trust accounts, in the Statement of Changes in Fiduciary Net Position, governments may need to update the reporting package software and train all organizations in order to gather the necessary information for accounting and reporting. Furthermore, currently many of the affected accounts are maintained outside of the general ledger of the state when reported on an annual basis by each state organization in conjunction with annual GAAP reporting. While we understand the desire to report all fiduciary funds' activities in a similar way, we feel that the benefit of reporting disaggregated additions to and deductions from the custodial funds outweighs the cost of providing that disaggregated data.

Appendix D - Paragraph D1 and Illustration

We request the Board provide additional background information so that the context of certain reporting treatments can be understood. For example, we are confused as to the nature and appropriateness of the receivable shown as taxes for other governments.

Codification comment

We are unclear about a codification reference; specifically, about whether the current Codification reference to Section 1300.111 found in Codification Section D25.101 should be amended to refer to either the proposed Section 1300.113 or 1300.116 or another section, or if not, whether the phrase "for a pension (and other employee benefit) trust fund" should be deleted from D25.101 since the proposed Section 1300.111 does not specifically address "Pension (and other employee benefit) trust funds. We ask the Board to consider this before finalizing the statement.

General comments

- Current guidance says the notes should include a description of the activities accounted for in fiduciary activities. We ask the Board to consider if this should be expanded slightly to include a description of relevant trust agreements or equivalent arrangements as defined in the ED paragraph 7a.
- We appreciate the inclusion of flow charts and illustrations.

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 (515) 281-4877.

Sincerely,

Calvin McKelvogue
President, NASACT
Chief Operating Officer, Iowa