Proposed Statement of the Governmental Accounting Standards Board “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments” (December 20, 2013)

May 23, 2014

Director of Research and Technical Activities
Governmental Accounting Standards Board, Project No. 33-1ED

Dear Sir or Madam:

The Virginia Government Finance Officers Association appreciates the opportunity to provide our perspective on the Exposure Draft of a Proposed Statement of the Governmental Accounting Standards Board, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. These recommendations and comments represent the position of the VGFOA rather than that of any individual members of the Association or of the organization with which the members are associated.

Project No. 33-1ED Summary:

The Governmental Accounting Standards Board (“GASB”) released a proposed statement, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (“Exposure Draft”). This exposure draft would supersede GASB Statement No. 55. The proposed draft categorizes authoritative sources of generally accepted accounting principles (“GAAP”) into two categories from the current four categories. This includes GASB statements (the most authoritative) and GASB Technical Bulletins, GASB Implementation Guides and American Institute of Certified Public Accountants (“AICPA”) literature. If the accounting treatment for a particular transaction is not found in either of these authoritative sources, then a non-authoritative source that does not conflict should be considered. Examples of non-authoritative accounting literature are accounting literature, textbooks, articles and professional association literature, etc.

VGFOA Comments:

The VGFOA agrees with the major conclusion of the Exposure Draft, which is to streamline its hierarchy and elevate the implementation guides to a higher level. The higher level of Implementation Guides will ensure that there is the opportunity for input from the accounting and reporting community who will be closer to the complexities, issues, and matters of cost, benefit, and practicality that can arise when determining the most efficient ways to implement new standards. Public comment and input at this stage will help the GASB better respond to and address issues at hand. We also agree that this proposed statement will facilitate the preparation of financial statements in conformity with GAAP.

Other considerations in support of this GAAP hierarchy proposal include:

- Centralize all authoritative literature in one place
- Improve financial reporting and guidance
- Promote consistency and simplicity of accounting guidance application
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Specific comments on other items within the exposure draft are:

The GASB Board believes that the purpose of GASB Interpretations can be met in the future through additional GASB pronouncements. To eliminate interpretations by issuing future pronouncements becomes the potential for an abundance of pronouncements being issued. However, this in effect does elevate future “interpretations” to the highest level of the hierarchy, which we think is appropriate as interpretations are intended to provide further guidance on a statement. If the GASB’s intent is to incorporate guidance that was previously found in the interpretations with technical bulletins and implementation guides, then this would fall at level 2 of the hierarchy. For either intent, the GASB should consider treating previously issued interpretations in a manner similar to previously issued implementation guides and including them in at least level 2 of the hierarchy, so that they at least have authoritative status and some level of consistency between past and present treatment.

VGFOA has additional comments/concerns as follows:

1. When GASB Statement No. 55 was in an ED mode, a number of respondents had expressed concern regarding GASB Interpretations being placed low in the hierarchy (Level D); in this iteration, they were essentially removed from the discussion in the proposed Statement, except for a brief mention of them in the footnote to paragraph 3a and in paragraphs 18-19 of Appendix B. While it is good to see that existing GASB Interpretations have been moved up to Level A GAAP by the footnote to paragraph 3a, this leads to the following additional comments and questions:

   a) The discussion of all GASB Interpretations should be in the body of the proposed Statement instead of being referred to in the footnote 1 to paragraph 3a or specific paragraphs within Appendix B, BASIS FOR CONCLUSIONS.

   b) Per paragraph 18 of Appendix B, the Board concluded that GASB Interpretations are no longer needed. Is it the GASB’s intention to alter, amend, supplement, revoke, or rescind any of the existing interpretations totally? If so, this intent should be clearly explained in the body of the proposed Statement.

   c) What will be the status of any future interpretations issued by GASB (since they are not mentioned in the proposed Statement)? Is GASB contemplating the cessation of the practice of issuing interpretations? If that is so, what is the basis of the Board’s conclusion? Paragraph 18 of Appendix B mentioned that the Board concluded that GASB Interpretations are no longer needed and their purpose can be met in the future through other GASB pronouncements. No true reasons for the conclusion are given other than the infrequency of the need for GASB Interpretations, the commonality of their purpose with that of GASB Technical Bulletins and Implementation Guides and that GASB Interpretations are the subject of Rule 203 of the AICPA’s Code of Professional Conduct.

   d) Paragraph 19 of Appendix B discusses the Board’s consideration of two approaches to address the effect of the removal of GASB Interpretations from the GAAP hierarchy on the existing GASB Interpretations. These approaches include 1) the incorporation of the guidance in existing GASB Interpretations into either a new GASB Statement or 2) in this proposed Statement. The Board needs to include this discussion not in the Appendix B but in the body of the proposed Statement to be effective.

2. Also removed from the hierarchy is any mention of “practices that are widely recognized and prevalent in state and local government”. Again, this was discussed in paragraph 30 of Appendix B and not in the body of the proposed Statement. This could leave governments uncovered if there are gaps in the authoritative literature. While these practices are given a brief mention in paragraph 6, they are not included as part of GAAP, and if material to a financial statement, could lead to difficulties with the opinion letter from an auditor’s standpoint.
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An issue relevant to the second point above was encountered this year during the implementation of GASB Statement No. 67, where a specific situation is not discussed in that pronouncement, or any other GASB or FASB pronouncement. Fortunately, the numbers are immaterial, and this will not be an issue; however, our concern would be a similar situation where the numbers are material, and there is nothing in the hierarchy that allows us to treat such a transaction in a way that we and our auditors agree is best and most common, and still be considered to be in conformity with GAAP.

Thank you for your consideration.

Respectfully Yours,

Barbara Dameron, President