December 19, 2014

Mr. David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
Project 33-2ED
401 Merritt 7
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Governmental Accounting Standards Board (GASB or the Board) on the Proposed Implementation Guide (Guide) Project No. 33-2ED, which was issued on December 20, 2013. This letter provides comments on Chapters 5, 8 and 9 of the Implementation Guide. The FMSB has provided additional letters of comment regarding all other Chapters in the Guide.

The FMSB is comprised of 24 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

Reference to Standards

In our previous letters of comment regarding the Implementation Guide we noted that throughout the draft Guide, frequent references are made to the supporting Standard and the Basis for Conclusion for the cited Standard. These references are in both the question and the answer portion of the Guide. We believe that GASB should more appropriately refer to the section and paragraph in the Codification of Governmental Accounting and Financial Reporting Standards (Codification) rather than a paragraph in a specific Standard. We continue to believe that this change will improve the usefulness of the Guide.

Overall Comments Regarding Chapters 5, 8 and 9

The FMSB has reviewed Chapters 5, 8 and 9 and overall, we believe the GASB has done excellent work in reviewing and modifying the Guide to conform to current GASB standards. The staff has done a very good job in eliminating unnecessary and outdated guidance and providing appropriate answers to the questions. We recognize that this was a significant undertaking and commend the GASB staff for their work on this project.
The FMSB has several suggested changes that we believe would improve the Guide and we have grouped our comments by Chapter. Where we have suggested modifications to a question or answer in the draft Guide, we have struck out language that we believe should be eliminated and bolded additional language or words that we believe should be added to an existing question or answer. In some cases we have suggested that a new question and answer be added to the Guide and we have identified them as new questions.

Chapter 5

Overall Comments

First and foremost, it was important to mention in the drafting of the Guide for Chapter 5 that material addressing Statements 25 and 27 will be removed from the forthcoming guide. We believe that many practitioners are still confused as to what to do with current disclosure once GASB-68 is implemented.

New Questions -

Applicability of GASB-67 - We suggest adding a question in section 5.60 about the applicability of deferred compensation arrangements (Internal Revenue Code Sections 457, 403(b) and similar arrangements and how they are not applicable to GASB-67 or GASB-68. We are suggesting this as a placeholder for any potential changes forthcoming once the GASB finalizes due process on the Financial Reporting for Fiduciary Responsibility project in a few years. We know of one arrangement in accordance with Section 457 which has an interest crediting provision similarly to the fact pattern in proposed question 5.62.1. Therefore, it would be good to eliminate confusion at the outset.

Other Post-Employment Benefit Plans - We suggest adding a question to section 5.64 (or 5.74 or 5.79) with regard to Internal Revenue Code Section 420 Transfers of Excess Pension Assets to Retiree Health Accounts. See following suggested question and answer.

Q. 5.64.X - A defined benefit pension plan is in a net pension asset position as of the statement of net position date. Common trustees of a post-employment benefit system administer both the defined benefit pension plan and a defined benefit other post-employment benefit plan. During the fiscal year, the trustees vote to effectuate an annual qualified transfer from the defined benefit pension plan to the defined benefit other post-employment benefit plan. The transfer will be used solely to pay for the employer’s OPEB liability. All other federal tax provisions have been met. What is the treatment of the transfer in the financial statements of the system?

A. 5.64.X - In the combined Statement of Changes in Plan Net Position for the system, a deduction would be declared for a transfer to the other post-employment plan in the defined benefit pension plan information. The additions section of the defined benefit other post-employment benefit plan would contain the same amount as a transfer from the defined benefit pension plan. The two amounts should not be netted and note disclosure should be included explaining the transfer and the authority for the transfer.

Plan Assets - We suggest a question be added with regard to assets used in plan operations.

Q. 5.7X.X - How should capital assets used in pension plan operations be accounted for and reported in the Statement of Plan Net Position?

A. 5.7X.X - Assets used in pension plan operations are capital assets including buildings and building improvements that are potentially purchased from plan net position and have operations that ultimately
benefit the beneficiaries of the plan. The provisions of GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments paragraphs 18-29, as amended by GASB Statement Nos. 37, 42 and 51 apply to the accounting and financial reporting treatment. Depreciation or amortization expense could be charged to administrative expense or reported separately as a deduction, if material. (See also question 5.72.1 for a long-term capital lease on an office building used for plan administration.)

Calculation of the Discount Rate - We suggest a question be added with regard to the discount rate calculation as follows:

Q.5.108.X - With regard to calculating the discount rate, what is the definition of “long-term”?

A.5.108.X - In paragraph 92 to the Basis for Conclusions to GASB Statement No. 67, the Board concluded that “Rates of return for a single year should be considered in the context of the rates of return that have been earned over time. After observing the variability of rates of return over various periods, the Board was persuaded that 10 years of annual rates would provide an appropriate context for a rate of return of an individual year.” However, individual plans will have different policies, procedures and demographics that could adjust this definition. GASB Statement No. 62 contains guidance in paragraphs 30 to 44 defining current assets and current liabilities permitting only the use of a one-year period for determining current assets and current liabilities. Therefore, long-term would be longer than a one-year period.

Illustration 3 - We suggest the Board attempt to increase the font size or reorient these pages as the printing is difficult to read.

Pages 130-131 - Table 3: Actuarial Present Values of Projected Benefit Payments

Chapter 8

Overall Comments

Referencing to Existing Other Post-Employment Benefits and Remaining Pension Standards - We are aware that the Board is in the process of reviewing exposure drafts to supersede GASB Statement Nos. 43, 45 and 57 and the remaining provisions of Statement Nos. 25, 27 and 50. Assuming that the Technical Plan for the final third of 2014 remains on schedule, the Other Post-Employment Benefit Accounting and Financial Reporting standards for Plans and Employers as well as the Pensions Not Within Statement 68’s Scope will be released in the same quarter as the Implementation Guide.

There are numerous references to the prior Statements in Chapter 8 that will need to be addressed prior to implementation of the new Standards. We would assume that the existing questions would be relegated to an appendix, similarly to what is contained in each chapter of the 2013-2014 Comprehensive Implementation Guide, showing the questions without the effects of the new Statements to allow for continued guidance during the transition period.

We would also assume that many additional implementation questions for the new standards will be added soon after promulgation. We have not included those potential new questions. Until the final standards are promulgated by the Board, it would be next to impossible to draft the new questions based upon uncertain language in the standards.

The existing appendix 8-8 in the proposed Chapter 8 showing the Questions Without The Effects of Statement 67 should be removed upon publication. Statement 67 will likely to have been implemented
by all plans at that time. As Employers will be in the midst of implementing Statement 68, the questions contained in Appendix 8-9 should be incorporated into the final chapter.

New Questions

Calculation of the Discount Rate - We suggest a question be added with regard to the discount rate calculation as follows:

Q.8.26X With regard to calculating the discount rate, what is the definition of “long-term”?

A. Individual plans will have different policies, procedures and demographics that could adjust this definition. GASB Statement No. 62 contains guidance in paragraphs 30 to 44 defining current assets and current liabilities permitting only the use of a one-year period for determining current assets and current liabilities. Therefore, long-term would be longer than a one-year period.

Transfers to / From Other Post-Employment Benefit Plans - We suggest adding a question to section 8.71 similar to our suggested question for Chapter 5 with regard to Internal Revenue Code Section 420, Transfers of Excess Pension Assets to Retiree Health Accounts. This would provide symmetry with the added question in Chapter 5. This would also provide symmetry with the existing questions 8.71.4-6 and could conceivably be repeated as a new question in 8.5 with regard to the Employer’s perspective. Our suggested question and answer is detailed below.

Q. 8.71.7 – A defined benefit pension plan is in a net pension asset position as of the statement of net position date. Common trustees of a post-employment benefit system administer both the defined benefit pension plan and a defined benefit other post-employment benefit plan. During the fiscal year, the trustees vote to effectuate an annual qualified transfer from the defined benefit pension plan to the defined benefit other post-employment benefit plan. The transfer will be used solely to pay for the employer’s OPEB liability. All other federal tax provisions have been met. What is the treatment of the transfer in the financial statements of the system?

A. 8.71.7 – In the combined Statement of Changes in Plan Net Position for the system, a deduction would be declared for a transfer to the other post-employment plan in the defined benefit pension plan information. The additions section of the defined benefit other post-employment benefit plan would contain the same amount as a transfer from the defined benefit pension plan. The two amounts should not be netted and note disclosure should be included explaining the transfer and the authority for the transfer.

Assets - We suggest a question be added with regard to assets used in plan operations. Our suggested question follows.

Q.8.79- How should capital assets used in pension plan operations be accounted for and reported in the Statement of Plan Net Position?

A.8.79 - Assets used in pension plan operations are capital assets including buildings and building improvements that are potentially purchased from plan net position and have operations that ultimately benefit the beneficiaries of the plan. The provisions of GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments paragraphs 18-29, as amended by GASB Statement Nos. 37, 42 and 51 apply to the accounting and financial reporting treatment. Depreciation or amortization expense could be charged to administrative expense or reported separately as a deduction, if material. (See also question 5.72.1 for a long-term capital lease on an office building used for administration of a pension plan which would provide similar guidance.)
Illustrations in Chapter 8- We suggest that the Board attempt to increase the font size or reorient these pages as the printing is difficult to read.

Chapter 9

The FMSB agreed with the questions and answers contained in Chapter 9. We suggest adding one more question and answer to the Chapter.

New Question

Q 9.49.3. A government wants to present a glossary of terms and references to existing laws, ordinances and other items approved by those charged with governance. Where should this glossary be placed in a CAFR?

A. This information is primarily narrative in nature. As statistical information, references should agree to the most up to date versions of laws, ordinances and other items that are publicly available. Ideally, the information would be placed as part of an overall introduction to the Statistical Section or as a section after operating information or compliance information (if included).

We appreciate the opportunity to comment on this document and will be pleased to discuss this letter with you at your convenience. A majority of the FMSB members approved of the issuance of this letter. If there are any questions regarding the comments in this letter, please contact Steven E. Sossei, CPA, and AGA’s staff liaison for the FMSB, at ssossei@agacgfm.org or at 518-522-9968.

Sincerely,

Lealan Miller, CPA
Chair- AGA Financial Management Standards Board

cc: William Miller, CGFM
AGA National President
Association of Government Accountants
Financial Management Standards Board

July 2014 – June 2015

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