September 2, 2014

Mr. David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board (GASB)
Project 3-20E
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 of the Governmental Accounting Standards Board (Project No. 33-2ED) that was issued on December 20, 2013. 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.

The FMSB has reviewed Chapters 7, 10 and Z of the Proposed Implementation Guide and has several suggested changes to clarify answers provided in the Guide. These changes are listed by Chapter. We believe that for Chapters 3, 7 and Z, GASB has done excellent work in modifying the Implementation Guide to conform to current GASB pronouncements, eliminated unnecessary and outdated guidance, and provided appropriate answers. Following are our comments regarding specific matters. We have also struck out language that we believe should be eliminated and bolded additional language or words that we believe should be added to the Implementation Guide.

Chapter 7 Comments

Q7.5.10. Q-Paragraph 9 of Statement 34 encourages the use of charts and graphs in MD&A. Can the comparison of condensed financial information required by paragraph 11b, as amended, of that Statement be provided with charts and graphs? (Q&A34-12)

A-No. The information required by paragraph 11b, as amended, should be presented in the form of condensed financial statements. Charts and graphs may
be used to supplement, or elaborate on, information in the condensed statements, but should not be used in place of them. **Such charts and graphs are most useful when they are prepared in a format that compares current period information with prior period information.** For example, a comparative bar graph could be used to display the net program costs of selected functions that are not apparent in the limited detail of the condensed statements of activities. Paragraph 9 further provides that the information in MD&A, including illustrative charts and graphs, should address the positive and negative aspects of the comparison. (See the illustrative MD&A in nonauthoritative Appendix 7-1, Illustration A.)

Q7.5.8. Q-Paragraph 11 of Statement 34, as amended, explains what should be in MD&A and states that only the most relevant information should be included. Based upon that notion, should paragraph 11d be interpreted to mean that only major funds are required to be addressed? (Q&A34B-7)

Chapter 7
7-11

A-The analysis of balances and transactions of individual funds, as required by paragraph 11d, would normally be confined to major funds. Nevertheless, governments can discuss significant transactions or significant changes in account balances of nonmajor funds.

Q7.5.13. Q-What are “currently known facts, decisions, or conditions” that may need to be discussed in MD&A to comply with the requirements in paragraph 11h of Statement 34? (Q&A34-13)

A-As explained in footnote 6 to paragraph 8 of Statement 34, “currently known” means to have been aware of as of the date of the auditor’s report. The key word in this requirement is known—that is, this discussion should be based on events or decisions that have already occurred or have been enacted, adopted, agreed upon, or contracted. Governments should not discuss in MD&A the possible effect of events that might happen (although such matters could be addressed in the letter of transmittal). The award and acceptance of a major grant, the adjudication of a significant lawsuit, a significant change in the property tax base, the completion of an agreement to locate a major manufacturing plant in a city, an adopted increase in a state’s sales tax rate, an approved increase in a university’s tuition, a flood that caused significant damage to a government’s infrastructure, and a renegotiated labor contract with government employees are just a few examples of facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations. On the other hand, predicting how much sales tax revenues would increase if a planned shopping mall is built or that a data-processing system under consideration “will pay for itself” over a certain period of time would be examples of statements that are not based on currently known facts, decisions, or conditions.

In some instances, issues discussed in MD&A as “currently known facts” will also be disclosed in the notes to the financial statements as subsequent events or contingencies. The discussion in MD&A should highlight but not repeat the information required to be disclosed in the notes.

New Suggested Question - In some instances “currently known facts, decisions, or conditions” that are discussed in MD&A will need to be disclosed in the notes to the financial statements as subsequent events or contingencies. Is it expected that the MD&A discussion will duplicate the disclosures contained in the notes to the financial statement?

A- Where “currently known facts, decisions, or conditions” must be discussed in the notes to the financial statements as a subsequent event or contingency, it is not expected that the MD&A discussion of these matters will duplicate the information in the notes to the financial statements. The discussion in the MD&A should highlight the information disclosed in the notes to the financial statements and not duplicate the information to the extent practicable.
Q 7.73.1 Comment - We have also reviewed the guidance offered in paragraph 7.73.1 and do not have any suggestions. However we believe that GASB should discuss with the AICPA regarding its guidance on this matter provided beginning in paragraph 6.77 of the Accounting and Audit Guide, State and Local Governments. We find that the AICPA guidance on this matter in the past has been inconsistent with GASB guidance provided by this question. We believe that the first sentence in the 7.73.1 answer should either be repeated in the AICPA Guide, paragraph 6.77, or that the AICPA should refer to this particular Q&A in its guidance. Making a statement like the one in the first sentence of this Q&A should help to clarify this for those who have referred to the AICPA Guide in the past.

Chapter 10 Comments

Appendix 10-1 Comment – Our review of the Implementation Guide, Appendix 10-1 noted that certain definitions contained in the Standards have been omitted from the Implementation Guide. These include definitions for such terms as “Assignment” and “In-Substance assignment” had been omitted from Appendix 10-1. (Our review of the Implementation Guide noted that the term Assignment is used in the Implementation Guide although the term “In-Substance assignment” is not used.) To insure consistency we suggest that GASB include all definitions from the Standards in the appropriate Chapter of the Implementation Guide.

Appendix 10-1, page 10-38 - London Interbank Offered Rate (LIBOR)

A daily reference rate published by the Intercontinental Exchange, Inc. British Bankers’ Association based on the interest rates at which banks offer to lend unsecured funds to other banks in the London wholesale money market (or interbank market). This is the taxable rate that the most creditworthy banks charge each other. It is a common reference rate used in derivative instruments

Chapter Z Comments

Q Z33.4 - Are donated food commodities within the scope of Statement 33?

A—Yes. Statement 33 applies to nonexchange transactions involving capital or financial resources. The fair value of donated commodities should be recognized as revenue in the period when all eligibility requirements are met (typically, the period when the commodities are received).

We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. A majority of the FMSB members approved of the issuance of this letter of comments. 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  

Lealan Miller, Chair  
Devi Bala  
Frank D. Banda  
Eric S. Berman  
Robert L. Childree  
Vanessa Davis  
Jeanne B. Erwin  
Richard Fontenrose  
Melanie L. Geesaman  
J. Dwight Hadley  
David R. Hancox  
David C. Horn  
Albert A. Hrabak  
Drummond Kahn  
Simcha Kuritzky  
Valerie A. Lindsey  
Edward J. Mazur  
Craig M. Murray, Vice Chair  
Suesan R. Patton  
Harriet Richardson  
Roger Von Elm  
Donna J. Walker  
Sheila Weinberg  
Brittney Williams-Spross  

Relmond P. Van Daniker, Chief Executive Officer, AGA (Ex-Officio Member)  
Ann R. Ebberts, Chief Executive Officer, AGA (incoming)  
Steven E. Sossei, Staff Liaison, AGA