October 3, 2019

Mr. David Bean  
Director of Research and Technical Activities  
Project No. 3-33  
Governmental Accounting Standards Board  
PO Box 5116  
Norwalk, CT 06856-5116

Dear Mr. Bean:

The State and Local Government Finance Division (SLGFD), as staff to the Local Government Commission (LGC), has oversight over local governments in North Carolina. One important way we exercise oversight for most local governments is through review of the annual audited financial statements. The statements are audited by independent CPAs, submitted to the SLGFD, and reviewed by our staff for GAAP presentation and signs of financial weakness. Almost all our entities have a June 30 fiscal year end and because they issue GAAP statements, we are able to compare statements and study trend data utilizing a number of variables including size or type of government. We also provide guidance to our local governments on the application of new or revised accounting standards in the form of memos, journal entry templates and illustrative financial statements.

We appreciate the opportunity to comment on the Exposure Draft: Internal Revenue Code Section 457 Deferred Compensation Plans That Meet the Definition of a Pension Plan and Supersession of GASB Statement 32. We believe the issues being discussed in this document are important in the GASB’s efforts to provide better and more complete information to financial statement users. After careful consideration of the material, we offer the following comments.

The discussion in Appendix B, specifically B6 of the Exposure Draft, appears to indicate that a Section 457 plan which includes employer contributions during the employee’s active service period demonstrates that a benefit is being provided by the government, thus the plan meets the definition of a pension plan and would be required to be reported in accordance with the relevant pension standards. The discussion also appears to indicate that a Section 457 plan to which only the employee contributes would not meet the definition of a pension plan and therefore would not be required to be reported in accordance with pension standards. However, further discussions throughout the document are confusing as to whether the definition of a pension plan include a Section 457 plan which contains no employer contributions.

We encourage the Board to clearly define whether a Section 457 plan that does not include employer contributions is within the scope of the proposed statement and such clarification be included in the Scope and
Applicability section. In addition, for Section 457 plans that allow employer contributions as stated in the plans’ governing document, but have not had any employer contributions since date of plan inception, please provide clarification of the reporting requirements upon statement adoption, if any. If no reporting is required at that time, and the governmental unit makes a contribution to such a plan at a date subsequent to the adoption of the proposed statement, please indicate if that contribution triggers reporting requirements per the proposed statement.

Our recommendation is that a Section 457 plan that does not include employer contributions be excluded from the scope of the proposed standard. Employee only contributions in a Section 457 plan are not assets of nor create a liability for the governmental unit and inclusion of such plans as a pension plan would distort the financial statements of the applicable government.

In paragraph B8 of Appendix B of the Exposure Draft, we encourage the Board to expand upon the final sentence that states, “governments that have a Section 457 plan that meets the definition of a pension plan may need to reconsider the fiduciary reporting of that plan”. Please provide specific detail of such consideration of fiduciary reporting and how this proposed statement would impact that reporting, especially if the definition of a pension plan and the scope of this statement includes Section 457 plans that are fully funded by employee contributions only.

Thank you again for the opportunity to comment on this proposed statement.

Sincerely,

Sharon G. Edmundson, MPA, CPA
Director, Fiscal Management Section