March 30, 2016

Mr. David R. Bean
Director of Research and Technical Activities
Project No. 3-13E
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Mr. Bean:

Baker Tilly Virchow Krause, LLP (“Baker Tilly”) appreciates the opportunity to respond to the GASB Exposure Draft (“ED”), Fiduciary Activities.

Baker Tilly is a large accounting firm with approximately 300 partners and 2,600 team members, and is ranked in the top 12 of American CPA firms. Baker Tilly performs approximately 1,000 audits of governmental entities annually. We have drawn on this experience, as well as ED comments provided by our clients, in preparing our response for your consideration.

General

Statement of Changes in Fiduciary Net Position for Custodial Funds

We disagree with the addition of a Statement of Changes in Fiduciary Net Position for custodial funds because we believe the addition of this information in a basic financial statement will inappropriately divert the reader’s attention from the annual activity of the government itself. To highlight this impact, one of our county clients has over $4 billion of annual activity related to tax, court, and clerk collections for other governments currently flowing through agency funds. Assuming these activities will meet the ED definition of custodial funds (see comment on paragraph 7), the $4 billion of activity related to collection activities for other governments will now be reported in the basic financial statements. The county government has a total annual operating budget of less than $1 billion for all of its governmental and business-type activities. We believe the reader’s focus should be on the under $1 billion of activity of the government itself and not distorted by the $4 billion addition of custodial activities.

Business-Type Activities

The summary of how the changes in this proposed statement would improve financial reporting specifically cites clarification of whether business-type activities ("BTA"s) should report their fiduciary activities. However, when reading the actual language of the ED, the discussion on BTAs was very limited. We have seen widespread divergence in practice in reporting fiduciary activities in standalone BTA financial statements, and we believe this standard provides an opportunity to gain consistency. However, more explicit discussion of standalone BTA reporting within the standard is needed to achieve that result. In addition to more instruction in the standard, we recommend the Board consider adding an example of a standalone BTA with fiduciary funds to Appendix D.
Paragraph 7

We believe there will be many existing fiduciary funds (not held in a trust or equivalent arrangement) that no longer meet the criteria to be reported as such based on how we are interpreting the language of paragraph 7.

For example:

a. County nursing homes and human service departments hold patient accounts in a fiduciary capacity. Since the patients are required to be residents, and the patients are required to be recipients of the government’s services in order to establish a patient account, these activities will not meet the criteria of paragraph 7(b) or any other criteria in paragraph 7.

b. Many governments run court systems and collect fines for other governments. The assets collected by the courts on behalf of other units of government are typically collected for a period of time, such as a month, and then subsequently disbursed to the other governments. Since the other governments are recipients of services provided by the government running the court system, the activities will not meet the criteria of paragraph 7(c) or any other criteria in paragraph 7.

c. Governments commonly collect property taxes for other governments and periodically distribute these collections to the units of government that imposed the property tax. Since the other governments are recipients of the tax collection services of the collecting government, the activities will not meet the criteria of paragraph 7(c) or any other criteria in paragraph 7.

In each of these situations, since the criteria for fiduciary fund reporting is not met, it appears these activities will be reported as part of the governmental or business-type activities of the government. We believe that is a misleading presentation to the users of the financial statements, and that activities similar to those described above should continue to be reported as fiduciary funds. If we are misinterpreting the requirements of paragraphs 7(b) and 7(c) related to “recipients of services”, we recommend you consider modifying the language or adding a clarifying footnote.

Paragraph 7

The definition of own source revenues in the footnote could be improved by adding more specificity surrounding “tax revenues”. We assume this means property taxes or other locally-imposed taxes, but as written could be interpreted to include taxes collected for other governments or other types of state-shared tax distributions.

Paragraph 21

Related to the provision that allows for a single aggregated total for additions and deductions of custodial funds expected to be held three months or less, it is unclear what level of detail is needed to describe the “nature of the resource flows”. For example, is a summary description that states “additions to custodial funds” and “deductions from custodial funds” an appropriate level of detail? It would be helpful if this could be clarified.

Table 1

The flowchart is very helpful in applying the requirements of this ED. However, it would be easier to follow if it could be revised to avoid the various double negatives in the questions.
Appendix D

This illustrative example is also helpful in applying the requirements of this ED. It could be enhanced by adding an example of custodial funds expected to be held for three months or less as allowed for the paragraph 21. In addition, we noted that the Statement of Fiduciary Net Position on page 23 is missing a title to the statement.

We appreciate the opportunity to provide comments on this exposure draft. Should you wish to discuss any of these comments, please contact me at heather.acker@bakertilly.com or 608 240 2374.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

Heather S. Acker, CPA
Public Sector Professional Practice Leader