March 31, 2016

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

Dear Mr. Bean:

We appreciate the opportunity to respond to the *Fiduciary Activities* Exposure Draft (ED) and provide the following comments regarding it.

In general, we agree with the provisions in the ED concerning how a government should reflect fiduciary activities in its financial statements. However, we are concerned about two concepts used in the criteria for determining fiduciary activities, as described in paragraph 7—specifically, “equivalent arrangements” and “recipients of the government’s goods and services.” There also appears to be a conflict between the proposed statement and GASB Statement No. 31 related to external investment pools.

Our concern with the “equivalent arrangements” and “recipients of the government’s goods and services” criteria is that our literal application of these two criteria, based on the requirements and guidance provided in the proposed statement and its basis for conclusions, results in outcomes that exclude certain activities from being fiduciary when those activities clearly are fiduciary in nature. For example, the activities described in the bullets below meet the overarching criteria in paragraph 7—the government controls the assets of the activity (as described in ED paragraph 10), and the activity’s assets are not derived solely from the government’s own-source revenue. However, when we look to paragraph 7.a., no trust agreement exists, and the statutory requirements for holding the monies do not state that the monies are legally protected from the government’s creditors and there are no benefit terms, so we do not believe that an equivalent arrangement exists in these examples. Therefore, these example situations would not qualify as fiduciary activities under paragraph 7.a. We also do not believe they would qualify under paragraphs 7.b. through 7.d. as described below:

- Consider these two county activities: State statute requires counties to (1) hold most school district monies in a banking function and (2) collect and distribute city and school district property taxes. These activities clearly do not relate to paragraphs 7.b. or 7.d. When we look to paragraph 7.c., these assets are to be provided to other governments that are not part of the reporting entity. However, counties provide various governmental services to school districts, including election services, accounting services, and educational support services.
Counties also provide services to cities such as sewer lines and wastewater treatment facilities. Further, the county treasurers provide services to cities and school districts to collect, invest, and distribute investment earnings. In our interpretation, the county is providing services to the other governments, and accordingly paragraph 7.c. does not apply. Therefore, these two activities and associated monies would not be reported as fiduciary under the proposed standard, and we are not clear how they should alternatively be reported.

Consider this school district activity: State statute requires school districts to hold monies that student clubs raise. These activities clearly do not relate to paragraphs 7.c. or 7.d. When we look to paragraph 7.b., the assets may be provided to individuals only if the individual is a school district student. Therefore, paragraph 7.b. does not apply. Therefore, this activity and the associated monies would not be reported as fiduciary under the proposed standard, and we are again not clear how they should alternatively be reported.

In these situations, the governments holding the monies currently report these activities in fiduciary funds. However, based on our interpretations, we are not certain if the Board would expect these activities to be reported in the government’s financial statements or if it would expect these assets to be excluded from the financial statements, which does not seem prudent. Consequently, we urge the Board to provide further clarification over (1) whether these types of situations should fall under equivalent arrangements in paragraphs 7.a. and (2) whether the government services described above do not fall under the definition of the government provided goods and services in paragraphs 7.b. and 7.c.

Regarding GASB Statement No. 31, paragraph 18, as amended, states that a governmental entity that sponsors an external investment pool should report the pool’s external portion as a separate investment trust fund. However, ED paragraph 13 states that investment trust funds are used for an external investment pool’s external portion if the resources are held in a trust that meets the criteria in ED paragraph 7.a. The ED does not amend GASB Statement No. 31, paragraph 18. If the Board believes that investment trust funds should include external investment pools only if the pool meets the paragraph 7.a. criteria, we suggest amending GASB Statement No. 31, paragraph 18, to clarify that a governmental entity that sponsors an external investment pool should report the pool’s external portion as a separate investment trust fund only if it meets the paragraph 7.a. criteria and provide additional guidance on how to report the pool’s external portion if it does not meet the paragraph 7.a. criteria.

If you have any questions concerning our comments, please contact me at (602) 553-0333 or dmill@azauditor.gov.

Sincerely,

Donna Miller
Professional Practice Director