March 6, 2015

Director of Research and Technical Activities  
Project No. 3-13P  
Governmental Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, Connecticut  06856-5116

The Governmental Executive Committee (Committee) is pleased to comment on Project No. 3-13P, “Preliminary Views of the Governmental Accounting Standards Board on major issues related to Financial Reporting for Fiduciary Responsibilities”. In conjunction with this response we have reviewed the Board’s November 11, 2014, preliminary views statement describing the Board’s views on “the most fundamental issues related to what constitutes fiduciary responsibility and how to report fiduciary activities.” Our comments represent the collective views of this Committee and not the individual views of the members or organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

We offer the following general comments about the project:

1) The Committee is very interested in the results of the Board’s field tests to determine whether the costs incurred through the implementation of the standard are justified when compared to the expected public benefit as discussed on pages 5-6, especially given the Board’s pre-agenda research on pages 2-3 indicates users have “expressed little interest in requirements for reporting additional types of fiduciary activities.”

It appears to the Committee the Board’s view is to adopt the traditional accounting equation where assets, less liabilities, yields net position (in this case, held for the benefit of others) with its liabilities definition on pages 26-27 for all fiduciary fund types, including today’s agency funds. The costs for the Board to consider will come in two forms: the cost to implement and the cost to audit funds that were previously agency funds but are now custodial funds. The requirement to implement an income statement that is part of the basic financial statements impacts most governments who do not have those activities established with the revenue or expenditure accounts in the general ledger. Second, any activity within these funds (increases or decreases), if it was previously reported and audited at all, were only given an in-relation-to opinion. Finally, the Board’s preliminary view indicates all amounts meeting certain criteria will be reported as a fiduciary fund of
some sort. This is problematic for some amounts currently reported by most local
governments in either the general fund (like developer deposits) or in the water/sewer funds
(water deposits).

2) The Committee agrees with the interviewees on page 3 that accountability should be the
foundation for the reporting of fiduciary activity; therefore, the Committee concurs with
the Board’s preliminary view that stand-alone business-type activities, such as a public
university, should present fiduciary fund financial statements within its basic financial
statements as described on pages 30-31. As such, the Committee recommends the GASB
amend Paragraph 138 of Statement 34 to clearly indicate this proposed requirements for
stand-alone governments engaged in business-type activities. However, the Committee
struggled with understanding the scope paragraph and how the scope paragraph clearly
indicates how the fiduciary funds of a discretely presented component unit would be
reported. If the Board moves to an Exposure Draft, it would be helpful to revisit this area
and make the scope clearer.

3) The Committee agrees with the Board’s views on the scope of fiduciary activities as
described on pages 7-8 and the determination process for when governments act as a
fiduciary on pages 8-10. The Committee notes, however, that the phrase “not required to
be part of the citizenry as a condition of being a beneficiary” could use some fleshing out
through examples within future implementation guidance.

4) The Committee agrees with the Board’s views on pages 11-13 regarding the proposed
definition of controlling assets within a fiduciary capacity.

5) The Committee views accountability as a government’s primary function when serving as
a fiduciary. The Committee questions the Board’s conclusion on page 13 when it notes:

    The Board believes that many duties of a fiduciary are not relevant to financial
reporting. Other duties of a fiduciary, such as acting prudently and with care, represent
standards of conduct that a government is expected to follow in fulfilling the fiduciary
responsibility it has accepted through the controlling of assets. If a government is
controlling assets in a fiduciary capacity as discussed above, the responsibility to
follow a certain standard of conduct when acting in this capacity is implicit in the role
of a fiduciary.

The Committee notes two instances its members have seen in practice calling into question
this assumption. First, individuals and corporations serving within a fiduciary capacity are
generally required to invest resources not needed within a reasonable period of time using
a reasonable investment strategy and can be held liable for not performing this function.
However, it is not uncommon to find unaccountable governmental entities not seeking any
return, even the extremely low rates of returns associated with nearly risk-free passbook
savings accounts today, for assets held in a fiduciary role for individuals or other
governments. The prevailing viewpoint of these entities that the amounts are immaterial
to the governmental entity as a whole; however, even a small return may very well be material to the parties the government is serving as a fiduciary and represent practices a reasonable person would implement for their own funds. Second, it has become common practice in some governments to perform “fund sweeps” or administrative chargebacks in excess of real costs within fiduciary funds to cover the government’s own operating deficits. These types of activities violate the fundamental purpose of fiduciary fund accounting, which is to segregate and provide accountability for assets held for the benefit of others and not for the government itself.

As such, the Board should consider require footnote disclosures beyond those described on page 28. The disclosures should provide pertinent information, including the purpose of the fund; administrative and investment costs charged to the fund and the purpose for those charges; any interfund activity either through loans or transfers; specific investment policies; and procedures governing the fiduciary activity. This information is critical to assessing a government’s accountability for these resources to external parties.

6) The Committee views the establishment of a “custodial fund” as a major improvement to a financial statement user’s understanding of fiduciary fund accounting. The Committee agrees and has seen cases where financial statement users, including external and internal parties to a government, confuse an agency fund with the agencies of the government as described on page 26.

7) The Board’s viewpoint that liabilities are recognized when to government is compelled to disburse the assets on page 27 is a reasonable standard; however, the Committee believes that the immediate claim standard would lead to more consistent reporting and better represent the real economic substance across all governmental types. The Board’s example of college savings plans provides a clear example where the compelled to disburse standard is not ideal. The Board’s statement on page 27 assumes a government is not compelled to disburse resources (“when no further action or condition is required to be met”) “until the beneficiary is obligated for tuition.” In the case of a college savings plan, the account owner can withdraw at any time and take a penalty, which would appear to meet the “no further action” requirement to record a liability. (see generally https://us.axa.com/plan/education/529-plans/non-education-expenses.html) Under the immediate claim standard, it would be clear that a college savings account where the owner or beneficiary has not made a request for distribution represents net position held for the benefit of an entity other than the government.

The Board’s concerns with the immediate claim standard seems to focus on the current fund fiduciary model, a model that the Board’s own views suggest (as represented in this document) is not sufficient and requires reconsideration leading to the potential adoption of new accounting standards. Further, it seems that the concerns about misinterpretation can be addressed by clearly laying out a framework for what an immediate claim is and providing practitioners and users with adequate examples within future implementation guidance.
We appreciate the opportunity to offer our comments to the Board.

Sincerely,

Kent Oliven, CPA, CGMA, CIMT
Chair, Governmental Executive Committee
The Governmental Executive Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from government and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of governmental accounting and auditing standards. The Committee’s comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint.

Current members of the Committee and their business affiliations are as follows:

**Public Accounting/Professional Service Firms:**

- Linda Abernethy, CPA | McGladrey LLP
- Angela Allen, CPA | Washington, Pittman & McKeever, LLC
- Julie Barrientos, CPA | KPMG LLP
- John Blackburn, CPA | Swartztrauber & Co.
- Derek Brown, CPA | John Kasperek Co. Inc. CPA
- Jason Coyle, CPA | Baker Tilly Virchow Krause, LLP
- Martin Friedman, CPA | McGladrey LLP
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- Irwin Lyons, CPA | Miller, Cooper & Co., Ltd.
- Christopher McCormick, CPA | Mulcahy, Pauritsch, Salvador & Co. Ltd.
- Bert Nuehring, CPA | Crowe Horwath LLP
- Deborah Ringer, CPA | Kerber, Eck & Braeckel LLP
- Michelle Ringold, CPA | Ringold Financial Management Services, Inc.
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- Moises Sanchez, CPA | Deloitte LLP
- James Savio, CPA | Sikich LLP
- Colin Thompson, CPA | Legacy Professionals LLP
- Christine Torres, CPA | Crowe Horwath LLP
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**Government:**

- Abiola Bankole-Hameed, CPA | The County of Will
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