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April 12, 2016

David R. Bean, CPA
Director of Research and Technical Activities
GASB
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Re: December 8, 2015 Exposure Draft of a Proposed Statement of the Governmental Accounting Standards Board, Fiduciary Activities [Project No. 3-13E]

Dear Mr. Bean:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 412,000 members in 144 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC appreciates the Board's attention to comments received on the Preliminary Views document that asked for clarification of the scope and applicability of the proposal. Although the ED reflects a number of improvements, TIC is requesting clarification of some remaining points and the addition of specific guidance in the final standard related to student activity funds. TIC also continues to believe that the presentation of additions and deductions in the statement of fiduciary net position be required for trust funds only. Custodial funds should be presented in the same manner as today's agency funds (assets and liabilities only).

SPECIFIC COMMENTS

Student Activity Funds

TIC believes adoption of this proposed standard will have a significant impact on many local school districts and how they account for student activity funds. Under the proposed criteria, TIC believes many student activity funds will be part of governmental funds. Revenue of the fund will be accounted for as part of governmental fund revenue—a

significant change from today's agency fund accounting. In at least one state, Wisconsin, if a government exceeds revenue limits as a result of the proposed accounting, it could incur penalties. This would be detrimental to a school district, even though the district had not changed its activities. TIC also believes that the guidance may be either overlooked or misinterpreted by some governments, potentially resulting in diversity in practice. If the Board cannot be dissuaded from this proposal, then, it's important to ensure that its constituency is provided with enough guidance to identify activities that do not meet the fiduciary fund criteria and to understand the implications of the new requirements.

Accordingly, TIC strongly encourages the Board to include specific guidance in the final standard related to student activity funds. TIC believes many student activity funds that are now classified as agency funds will be classified as governmental funds under the new standard. Since this will be a surprise to many and will represent a significant change, TIC believes it is especially important to include examples of activities that would not meet the criteria of a fiduciary fund. Examples help a government understand the impact of a new standard in ways that otherwise might not have been obvious. TIC offers the following scenario as a potential example for the final standard:

Example A: A school district utilizes student activity funds at the individual schools to provide support for school extracurricular activities. The funds are held in separate bank accounts in the school's name and are controlled by the local school superintendent. Since the assets of the student activity funds are controlled by the school district, and the assets are used to benefit the residents or recipients, i.e. the students, of the school district, the school district concludes that the student activity funds and related activity would be reported within the governmental activities of the school district financial statements.

If the Board would prefer not to provide specific examples, then the standard should at least draw attention to the issues for student activity funds and some of the key principles that governments need to assess. For example, if the assets of the fund are to be provided to residents or recipients of the government's goods or services, then the student activity fund would not fall within the scope of a fiduciary fund, even if the government has control over the assets of the fund.

Certain TIC members noted that their states (e.g., Florida and Idaho) require student activity funds to be accounted for as agency funds. To mitigate confusion, the final standard should also include guidance that specifies whether state law or the GASB standard would predominate when accounting for student activity funds. The standard should also offer guidance on how a government could comply with relevant state statutes and simultaneously follow the standard (e.g., presenting a supplementary schedule). Such guidance would also serve as a reminder that governments should be aware of any relevant state statutes or regulations that may apply.

TIC believes student activity funds may represent the most significant implementation issue of the new standard. As such, including examples and guidance specific to these

funds will be imperative. TIC prefers that they be included as part of the standard and not deferred for inclusion in the Implementation Guide. Governments will need to understand as soon as possible that an accounting change will be required for many student activity funds. The quickest way to educate governments and practitioners is to avoid the publication delay that is involved with the Implementation Guide.

Clarification of Fiduciary Fund Criteria

As proposed, paragraph 7c implies that assets that are to be provided by a county government to a local government would not represent a fiduciary activity if the local government is a recipient of the county's goods or services. However, paragraph 18 is clear that a county government that is collecting tax revenue on behalf of local governments would qualify as fiduciary activities even though the local government is a recipient of the county's services. TIC believes further clarification may be needed to paragraph 7 to state that the assets of the activity (e.g., the taxes collected by the county on behalf of the local government) qualify as a fiduciary activity because the asset to be received by the local government is not related to the other goods or services the local government may receive from the county government.

Paragraph 10 of the ED discusses the control criterion for a fiduciary activity and is defined as follows:

*A government controls the assets of an activity that are used by the government (or its assignee) to provide benefits to specified or intended beneficiaries if (a) the government (that is, the primary government) holds the assets or (b) **the government has the ability to administer or direct the use, exchange, or employment of the present service capacity of the assets.** (Emphasis added)*

TIC believes the concept of having the "ability to administer or direct the use, exchange, or employment of the present service capacity of the assets" should be clarified. The phrase "ability to administer" is particularly vague and implies that primary governments that perform administrative support activities for another entity may meet the definition of "control." TIC noted that footnote 2 to paragraph 7(d) explains administrative involvement in the context of a pass-through grant. TIC believes that similar guidance is necessary for the "ability to administer" in other contexts.

To mitigate potential diversity in practice in implementing the final standard, TIC recommends expanding paragraph 10 to include examples and other guidance of the types of activities that would and would not represent the primary government's control over the assets of an activity.

Custodial Funds with Net Position

Under the proposal, a custodial fund could have a positive net position in the statement of fiduciary net position. As discussed in TIC's March 19, 2015 comment letter on the Preliminary Views document, financial statement users may erroneously assume that any

remaining net position belongs to, and can be used by, the reporting government. Although an argument could be made that the illustration on page 23 of the ED shows that the net position in the custodial and other fiduciary funds is restricted for the benefit of another organization, TIC believes the status of these funds was clearer to financial statement users when it was presented as a liability under current standards. For this reason, TIC continues to believe that the presentation of additions and deductions in the statement of fiduciary net position be required for trust funds only.

Flowchart for Evaluating and Reporting Potential Fiduciary Activities

TIC noted that the placement of the decision box relating to assets held by component units in Table 1 seems to be inconsistent with the discussion of the component unit considerations in the ED. Paragraphs 9 and B17 state that component units that are fiduciary in nature would be reported as fiduciary activities of the primary government. Paragraph B17 also states:

...the primary government would not need to consider the provisions in paragraph 10 of this Statement regarding whether it controls the assets of the component units.

Based on the above guidance, the first two decision boxes in the flowchart seem to be out of order. The first decision box asks if the assets related to the activity are controlled by the government. If the answer is "No," then the second decision box asks if the assets are held by a component unit. The placement of the decision boxes in the flowchart forces the primary government to consider the control criteria in paragraph 10 before determining whether the assets related to the activity are held by a component unit. The flowchart therefore contradicts the guidance in the Basis for Conclusions. TIC recommends that the order of the first and second decision boxes be reversed to correct the inconsistency and that the above sentence from paragraph B17 be moved to paragraph 9 to ensure that this concept will be understood and implemented correctly.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,



Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees