



July 31, 2010

Mr. David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board (GASB)
401 Merritt 7, P. O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Governmental Accounting Standards Board (GASB or the board) on its exposure draft (ED) of the proposed Statement entitled, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The FMSB, comprising 21 members with accounting and auditing backgrounds in federal, state and local government, academia and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately. The majority of FMSB members approved issuance of this comment letter.

The FMSB has some general comments and specific comments on the proposed guidance.

General Comments

The FMSB commends the GASB for undertaking this significant endeavor. We think the guidance will prove invaluable in the future.

There are several places where a good cross reference would be helpful. One example is the guidance on premium deficiencies; see page 123, paragraphs 418 and 420.

The FMSB notes that the exposure draft eliminates the option provided by GASB Statement No. 20 that permitted regulated entities the option to continue to follow FASB guidance. There are about 20 or 30 governments who took advantage of that option, so we ask that the board address the change in guidance somewhere in the exposure draft.

Specific Comments

Par. 16, *Capitalization of Interest Costs, The Capitalization Period*—The FMSB thinks section b conflicts with the guidance in Statement 51, *Accounting and Financial Reporting for Intangible Assets*. Section b. states that: “Activities that are necessary to get the asset ready for its intended use are in progress.” The FMSB would like the board to clarify the guidance in this paragraph and we would like it to be clarified in conformance with the provisions for internally generated assets, (pars. 7-15) in Statement 51.

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Pars. 23-26, Revenue Recognition for Exchange Transactions, Revenue Recognition when Right of Return Exists and Criteria for Revenue Recognition When Right of Return Exists—The FMSB suggests that references to the recognition event, such as sale being effected, or to the time of a sale, or to the transaction being completed, be restated to make clear both when the burdens (risks) and benefits of ownership have been transferred from seller to buyer, and also that this is not necessarily when the contractual arrangements are finalized. The GFOA Blue Book, (2005 ed., page 40), points out that, for purposes of determining when to recognize an exchange transaction, the contract is merely a commitment until what's contracted for has been provided. In addition, according to the GASB Codification Section 1600.110, “Golf and swimming fees, inspection charges, parking fees and parking meter receipts, and the vast multitude of miscellaneous exchange revenues are best recognized when cash is received.” [NCGAS 1, ¶67, as amended by GASBS 33 ¶3]. However, FMSB members note that one could have some large-scale substantial sales, such as prison-product sales of office furnishings, that would not necessarily be ‘best recognized’ when cash is received.

Par. 29, Statement of Net Assets Clarification—We think that GASB needs to address the placement of changes in deferred assets amounts in the statement of net assets. We realize that this is not addressed in GASB literature and that GASB may be planning to issue a Technical Bulletin on the topic.

Par. 49, Special and Extraordinary Items—The guidance in this paragraph relating to when items are special and when they are extraordinary may be in conflict with existing GASB guidance, specifically Statement 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments* and Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

Par. 49 of the proposed Statement has:

Certain gains and losses should not be reported as special or extraordinary items because they are usual in nature or may be expected to recur as a consequence of customary and continuing operations. Examples include:

- a. Write-down or write-off of receivables, inventories, equipment leased to others, or intangible assets
- b. Gains or losses from exchange or translation of foreign currencies, including those relating to major devaluations and revaluations
- c. Other gains or losses from sale or abandonment of property, plant and equipment used in operations
- d. Effects of a strike, including those against major suppliers
- e. Adjustment of accruals on long-term contracts.

Statement No. 34, paragraph 56 states that:

“56. Significant transactions or other events *within the control of management* that are *either* unusual in nature *or* infrequent in occurrence are *special items*. Special items should also be reported separately in the statement of activities, before extraordinary items, if any. In addition, governments should disclose in the notes to financial statements any significant transactions or other events that are either unusual or infrequent but not within the control of management.”

Statement No. 42, paragraph 17 states that:

“17. Unless the impairment is considered temporary as described in paragraph 18, the loss from impairment should be reported in the statement of activities and statement of revenues, expenses, and

changes in fund net assets, if appropriate, as a program or operating expense, special item, or extraordinary item in accordance with the guidance in paragraphs 41 through 46, 55, 56, 101 and 102 of Statement 34 and paragraphs 19 through 24 of Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations –Reporting the Effects of a Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. Impairment losses appropriately reported as program expense generally should be reported as a direct expense of the program that uses or used the impaired capital asset. Impairment loss should be reported as indicated regardless of whether the capital asset is being depreciated individually or as part of a composite group. If not otherwise apparent from the face of the financial statements, a general description, the amount, and the financial statement classification (for example, public works or instruction) of the impairment loss should be disclosed in the notes to the financial statements.”

We ask that the board review the proposed guidance to make sure it articulates properly with Statements 34 and 42.

Secondly, in Par. 49, section c above, there is a reference to “property, plant and equipment.” This should be changed to “capital assets” to better articulate with Statement 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*.

Par. 54, Related Parties—The FMSB thinks that there is an overlap situation between the guidance in this proposed Statement and the proposed *Statement on The Financial Reporting Entity; an amendment of GASB Statements No. 14 and No. 34*. The guidance here should reference component units but does not. We urge the board as they finalize the two statements, to make sure the guidance is synchronized between the two documents. It might be appropriate to add, “as defined in Statement 14, as amended.”

Also, Par. 54, ninth line. The term “property and equipment” should be replaced with “capital assets.”

Par. 57, Glossary—The FMSB members found the definitions to be vague and suggest they be clarified, for example, the definition of the immediate family.

Pars. 61-62, Prior-Period Adjustments—There should be a definition of prior-period adjustments to distinguish them from restatements.

Also, Par. 61, Footnote 32 does not include the governmental fund statement of revenues, expenditures and fund balance and should.

Par. 76 or 77, Reporting a Change in Accounting Principle—We suggest that the phrase, “except for existing GASB Statements to the contrary” should be added.

Par. 93, Content—There is a significant omission in this paragraph. Some reference to changes in cash flow should be added. Some governments do prepare statements of cash flows.

Par. 98, Contingencies—There is some confusion in this section. “**Lawsuits**” have been taken out from the scope as shown in par. 98 under “Risks of loss from the following kinds of events are included within the scope of paragraphs 96-116.” Likewise, in the following paragraph, “**torts**” are included in the list of “Risks of loss from the following kinds of events are **not** included within the scope of paragraphs 96-116. But in paragraph 105, the example chosen is that of a **government involved in litigation**. We realize that this may be because of an overlap with GASB 10, but as it stands, the guidance in this section is confusing and inconsistent as written. We suggest that lawsuits

should be added back to par 98 and torts taken out of par 99. At a minimum there should be a cross reference to Statement 10.

Also, Par. 98—The scope does not include standby letters of credit. The redline version stated that this is because these are not applicable to governments, but FMSB state members know of at least one state which does use this kind of arrangement. The board may want to re-title them as “obligations of governments” or obligations of funds.”

Par. 114, *General or Unspecified Operations Risk*—This paragraph is very unclear as written. The previous version in the redline was much more clear. We suggest adding an example of how this normally works to clarify the guidance.

Par. 117-126, *Construction-Type Contracts - Long-Term*—We do not know of any instance in government that this applies to. It is hard to believe that a general purpose government would be in the construction business for profit. The FMSB would like to request the board add a clarification as to why they are including this section.

Pars. 127-130, *Extinguishment of Debt*—The wording is all about accrual accounting. The FMSB members wondered why it would not include wording on modified accrual. We do realize that extinguishment of debt in modified accrual would not have an effect on the fund statements because there is no cash flow from the extinguishment.

Pars. 134, 135, *Troubled Debt Restructuring (131-167)*—We would like to know how these situations could impact the income statement. FMSB members thought that this could be a current inflow of resources. They compared it to Statement 58. They thought that Footnote 50 may be too limiting and wondered how the standard should apply.

Par. 147, *Related Matters*—FMSB members would like to see the wording clarified and an example added (a short one, preferably) to further explain the guidance. They wondered about what gets recognized currently, what gets recognized in the future. There are two different gains and losses, one on the restructuring, one on the transfer or resolution of assets.

Par. 156, *Modification of Terms*—Contingent assets are treated differently than contingent liabilities. Conceptually, the treatment of each should be a mirror image of the other. The FMSB asks the board to check that they are worded comparably and that the guidance blends properly. They are dealing with the reverse side of the same issue.

Par. 165, *Disclosure by Creditors*—The FMSB suggests that the board add examples of the government acting in that capacity to section a, subsections 1, 2 and 3 for clarity. There should be some sort of current inflow or outflow of resources. They discussed how it could be small business loans, or for institutions of higher education, student loans. If you write down a student loan, it should be a current period expense, i.e., bad debt. The situation can get complicated when there are assets swapped. There could be a long-term portion because of contingencies.

Par. 170, *Foreign Currency Transactions*—The lead-in says, “for other than forward exchange contracts” but there is nothing on guidance on forward exchange contracts. The contents of the footnote should be worked into the first phrase. The phrase “that meet the definition of a derivative” should be added after the phrase, “for other than forward exchange contracts.” We also think the following clarifications are necessary to improve readability.

Par. 170 subparagraph b.—Add “following” after, “At each financial statement date” and add after “recorded” and before “balances” the words “assets and liabilities” and add after “balances” the words “related to transactions.”

Par. 174—Drop “if significant” and rely on the basic materiality concept.

Par. 177, *Interest Costs—Imputation*—Add “financial” before “statement preparation.”

Par. 188 and 189, *Amortization of Discount and Premium*—We are not sure this is proper. We suggest the guidance should say that it should be amortized in a systematic and rational manner. Dictating the effective interest method is not appropriate. If this was a note payable or bond payable, it could be either straight line or effective interest method.

Pars. 191-204, *Inventory*—In paragraph 3.e of the exposure draft, the board states that “Paragraphs 191-204 pertaining to inventory apply only to business-type activities and proprietary funds.” We understand that the detailed costing provisions related to inventories *available for sale* aren’t relevant to government activities. However, allocating costs to periods is relevant. Codification Section 1600, paragraph 127a, states, “Inventory items (for example, materials and supplies) may be considered expenditures either when purchased (purchases method) or when used (consumption method), but significant amounts of inventory should be reported in the balance sheet” [our emphasis added]. Most governmental activities that report using the consumption method also report the method used to track the flow of inventory—for example, first in first out (FIFO) or average cost or weighted average cost—in their summary of significant accounting policies. The FMSB would like to know what the board’s plans are for providing guidance on cost flow assumptions for governmental activities that report inventories using the consumption method. It wouldn’t be appropriate to refer them to new Codification Section I40 because they have been excluded from its scope.

Par. 192, *Definition of Inventory*—The FMSB found that the two sentences in the paragraph appeared somewhat redundant. We ask that the board consider rewriting the paragraph so that it is more succinct.

Par. 193, *Definition of Inventory*—The FMSB wondered what about inventory held for use and thinks the board needs to address cost allocation in this paragraph.

Pars. 199 and 200, *Lower of Cost or Market Basis*—Some FMSB members found these two paragraphs did not flow very well or logically and would like the board to consider a rewrite to clarify the guidance.

Par. 203, *Net Losses on Firm Purchase Commitments*—The recognition in a current period of losses arising from the decline in the utility of inventory is equally applicable to similar losses that are expected to arise from firm, uncancelable and unhedged commitments for the future purchases of inventory items. The net loss on such commitments should be measured in the same way as are inventory losses and should be separately recognized in the flows statement. The utility of such commitments is not impaired, and, therefore, there is no loss when the amounts to be realized from the disposition of the future inventory items are adequately protected by firm sales contracts or when there are other circumstances that reasonably assure continuing sales without price decline.

The FMSB thinks that the last part of the second sentence, specifically, “and should be separately recognized in the flows statement” should be eliminated, because no member thought that it would ever occur. The footnote accompanying the sentence would also be eliminated.

Par. 206, *Investments in Common Stock*—should be moved so that it follows Par. 207 rather than preceding Par. 207. The logical flow of the document is improved by reversing the order of the two paragraphs.

Par. 208, *Criteria for Applying the Equity Method, first sentence*—The equity method of accounting for an investment in common stock should be followed by a government whose investment in voting stock gives it the ability to exercise significant influence over operating and financial policies of an investee even though the government holds 50 percent or less of the voting stock.

The FMSB thinks that a footnote is needed at the end of this sentence. The footnote should read: “Governments holding more than 50 percent should follow GASB 14, as amended.” If the guidance that comes from the outstanding exposure draft that will update GASB 14 addresses this, the footnote will serve as a cross reference to GASB 14.

Par. 212, *Applying the Equity Method, Subparagraph k*—An investment in common stock of an investee that previously was accounted for by other than the equity method may become qualified for use of the equity method by an increase in the level of ownership described in paragraph 208 (that is, acquisition of additional voting stock by the government, acquisition or retirement of voting stock by the investee, or other transaction). When an investment qualifies for use of the equity method, the government should adopt the equity method of accounting.

This as written only includes half of the definition as written in Par. 208, *Criteria for Applying the Equity Method*. That paragraph states, in part, that: “the equity method of accounting for an investment in common stock should be followed by a government whose investment in voting stock gives it the ability to exercise significant influence over operating and financial policies of an investee even though the government holds 50 percent **or less of the voting stock.** Ability to exercise that influence may be indicated in various ways, such as representation on the governing body, participation in policy making processes, significant intra-entity transactions, interchange of managerial personnel, or technological dependency.”

We suggest that the board consider either of the following suggested changes to clarify paragraph 212, section k.

- 1) Add the following phrase after the second bracket in the first sentence above: “or by an ability to exercise significant influence in policies of the organization”
- 2) Replace the phrase “other transaction” at the end of the first sentence with: “changes in representation on the governing body, changes in participation in policy making processes, significant intra-entity transactions, interchange of managerial personnel, or creation of technological dependency”

Par. 212, *Applying the Equity Method, Subparagraph l*—The carrying amount of an investment in common stock of an investee that qualifies for the equity method of accounting as described in subparagraph (k) may differ from the underlying equity in net assets of the investee. The difference should be accounted for as goodwill and amortized in a systematic and rational manner.

As the FMSB understands it, there cannot be goodwill in governmental GAAP. We think what the board is referring to is not goodwill but a deferred inflow or outflow of resources. However, at present, there is no suitable place to put this on the statement of net assets, where those deferred flows should go. We ask that the concept of goodwill and how it should be disclosed be reviewed by the board. For purposes of responding to this proposed document, we ask that the board delete “accounted for as goodwill” until the business combinations project is completed. The last sentence of subparagraph k should read as follows: “The difference should be amortized in a systematic and rational manner.”

Pars. 214-274, *Leases*—Broadly speaking the paragraphs on leasing deal with accounting for and reporting based upon the economic substance of various lease transactions. While this fits well with the accrual basis of accounting at the government-wide reporting level and in proprietary fund reporting, at the governmental fund level it does not seem to fit well with the modified accrual basis of accounting.

Par. 214—FAS 5 applies. GASB 13 as amended already applies to governmental funds.

Par 215 (b)(1), *Criteria for Classifying Leases(Other Than Leveraged Leases*—From the standpoint of the lessor for sales-type leases, the wording is very difficult to follow: “. . . that meet one or more of the criteria in Paragraph 216 and both of the criteria in Paragraph 217, except as . . .” The FMSB recommends that the wording be reduced down or clarified – perhaps replace with a simple definition and just flow into the criteria of 216 and 217 without the convoluted references. Other comments members had were:

- Should this apply at the fund level when the lessor is a government and the asset is owned by the government’s general fund?
- Couldn’t there be significant problems both with determining the fair market value of an asset owned by a government, and with determining its cost and/or carrying amount?
- FMV: often government-owned assets are unique, and not types that are usually encountered in the regular business world. For example, a historic government building, or a park facility. Often there are very significant non-business factors, such as community renewal, or the lessee is in a special class such as a school, prison, or facility for the developmentally disabled. These considerations could/should substantially skew a FMV determination.
- Cost/carrying amount: Would you use a ‘government-wide’ amount (net of depreciation), or a governmental fund (no depreciation) amount?

Par. 217—Same bullets as for Par 215(b)(1) above.

Pars. 220–224, *Capital Leases*—We recommend this be clarified to refer only to government-wide reporting and proprietary fund reporting. It refers to “recording”, as in the books and records of the entity. But amortization would be reported only on the government-wide statements – not in the governmental fund records and reporting. (This is an important distinction in New York State, because many local governments do not report in a GASB compliant manner; they only report on the governmental fund basis - modified accrual).

Par. 225, *Operating Leases*—Same concern as for Pars. 220 – 224. It’s applicable only for government-wide reporting, and for proprietary fund reporting.

Par. 226, *Disclosures*—Again, should it be made clear that this would be for government-wide reporting and proprietary fund reporting?

Par. 230, *Operating Leases*— Refers to statement of net assets and depreciation. Again this would not apply to funds on modified accrual basis of accounting.

Pars. 237-241, *Leases Involving Land and Building(s)*—Same concern as above.

Pars. 242, 243, *Leases between Related Parties*—Recommend using a reporting entity criteria (GASB statements 14 and 34, currently under some revision), instead of this related party criteria.

Pars. 244-246, *Sale-Leaseback Transactions*—Again, this would apply to government-wide and proprietary fund; we're not sure it's necessary to keep making the same point.

Pars. 267-271, *Accounting and Reporting for Leveraged Leases*—Same comment as Pars. 244-246 above.

Par. 274, *Glossary - Fair Market Value of Leased Property*—As noted for Paragraph 215, above: this is workable for things that are fairly easy to value, like a fleet of leased cars or leased computers. But it would be difficult to value things like unique government buildings.

Par. 318 states that: If the buyer is not independent of the seller, for example, if the seller holds or acquires an equity interest in the buyer, the seller should recognize the part of the gain proportionate to the outside interests in the buyer at the date of sale. The FMSB considers this to conflict with GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, par 15, *Inter-Entity Transfers of Assets and Future Revenues*.

15. When accounting for the transfer of capital and financial assets and future revenues within the same reporting entity, the transferee should recognize the assets or future revenues received at the carrying value of the transferor. For example, in an intra-entity sale of receivables, the transferee government should recognize the receivables acquired at the carrying value of the transferor government. The difference between the amount paid (exclusive of amounts that may be refundable) and the carrying value of the receivables transferred should be reported as a gain or loss by the transferor and as a revenue or expenditure/expense by the transferee in their separately issued statements, but reclassified as transfers or subsidies, as appropriate, in the financial statements of the reporting entity. In an intra-entity sale of future revenues, the transferor government has reported no carrying value for the rights sold because the asset recognition criteria have not been met. Therefore, the transferee government should not recognize an asset and related revenue until recognition criteria appropriate to that type of revenue are met. Instead, the transferee government should report the amount paid as a deferred charge to be amortized over the duration of the transfer agreement. The transferor government should defer the recognition of revenue from the sale in its government-wide and fund financial statements and recognize it over the duration of the sale agreement.

Also, the FMSB asks that the term, “independent” be defined and added somewhere in this section and wonders why the phrase ‘reporting entity’ was not used. Also, we would like to see clarification

whether when the buyer and seller are part of the same reporting entity, as in a component unit/primary government type of relationship, that gains and losses should be eliminated.

Par. 333, Disclosures—The FMSB suggests that the phrase, “otherwise required by GAAP” be omitted. It seems redundant here.

Par. 356, Costs and Initial Operations of Real Estate Projects—The FMSB suggests that the board check to ensure that this guidance does not conflict with the provisions of the federal government agencies funding these activities (Department of Housing and Urban Development and the Department of Agriculture). HUD prescribes a form that is the format of the financial statements and there should be consistency.

Pars. 388 – 391 -- Broadcasters -- Appendix C, *Status of FASB and AICPA Original Pronouncements*, starting on page 179, has one paragraph on page 176 under the heading, *Broadcasters*, as follows:

585. Broadcasters should account for license agreements as intangible assets in accordance with GASB Statements 34, 42 and 51, *Accounting and Financial Reporting for Intangible Assets*, and, therefore, the guidance from FASB Statement 63 pertaining to accounting for license agreements, including the amortization and valuation, was omitted from incorporation into the GASB literature. [Emphasis added by FMSB]

In the mark-up for Broadcasters which starts on page 474, the board has eliminated many items stating that a conflict exists between this guidance and existing GASB guidance. If you look at page 475, paragraphs 5 and 6 under *License Agreements for Program Material, Amortization*, the board has deleted the wording because they say it conflicts with GASB Statement No. 34, paragraphs 21 and 161. The FMSB wonders why the board thinks there is a conflict, because it does not see a conflict, and recommends that the deleted wording be restored. GASB 34 simply states to do it in a systematic and rational manner. The FMSB also notes that the board did this differently from all the others, especially for the amortization issue. GASB 34, paragraphs 21 and 161 states:

21. Capital assets should be depreciated over their estimated useful lives unless they are either inexhaustible or are infrastructure assets reported using the modified approach in paragraphs 23 through 25. Inexhaustible capital assets such as land and land improvements should not be depreciated.

161. Governments may use any established depreciation method. Depreciation may be based on the estimated useful life of a class of assets, a network of assets, a subsystem of a network, or individual assets. For estimated useful lives, governments can use (a) general guidelines obtained from professional or industry organizations, (b) information for comparable assets of other governments, or (c) internal information. In determining useful life, a government also should consider an asset’s present condition and how long it is expected to meet service demands.

We do not see the conflict, it is good information.

For insertion after Par. 389 -- Page 475, par. 7—License Agreements for Program Material, Valuation – The entire paragraph was deleted, but not all of the guidance in the paragraph conflicts with GASB 34. FMSB believes that only the last sentence of the paragraph should be deleted: the rest of the paragraph should be inserted after paragraph 389. The FMSB agrees that the final sentence of the paragraph, “A write down from unamortized cost to a lower estimated net realizable value

establishes a new cost basis” should be deleted, and a reference should be made to GASB 42. FMSB does not see a conflict with the rest of the paragraph.

For insertion after Par. 390 -- Page 476, *Network Affiliation Agreement, par. 9* –The entire paragraph was deleted but FMSB believes that the first sentence should be kept and inserted after paragraph 390. The FMSB also believes that the following phrase should be added after the retained first sentence: “if they meet the definition in accordance with GASB statement No. 42.”

For insertion in Par. 391 -- Page 478, *Glossary, Daypart*—If par. 7 is kept on page 475, this should be kept also.

For insertion in Par. 391 -- Page 478, *Glossary, License Agreement for program material*—FMSB believes that this definition is needed and does not understand why it was deleted. FMSB is not sure whether the definition is current, however. If it is kept, it should be added to the Glossary (paragraph 391).

Par. 391, *Glossary, Network Affiliation Agreement*—This definition should be deleted.

For insertion after Par. 401 -- Page 482, *Franchise Costs, par. 13*— FMSB believes that this paragraph should be inserted after paragraph 401 and that the following should be added to the second sentence: “and cost of successful franchises applications should be capitalized in accordance with GASB 51.”

Pars. 403 – 433 -- *Insurance Enterprises*— The FMSB notes that the kind of insurance funding prevalent in governments is self-insurance, and believes that the board should clarify that this section is not applicable to self-insurance. Perhaps there should be a reference to GASB Statement No. 10, where self-insurance is addressed. GASB 10 also addresses public interest risk pools, which was derived from FASB 60. When the board incorporated FASB 60 it changed the guidance slightly to better apply to governmental entities; the same changes should be made here, in particular the guidance on premium deficiencies, paragraphs 418 through 420 on page 123. FMSB asks that that the board refer to GASB 10 section on public interest risk pools (FASB 60).

For insertion in Par. 404 – Page 486, *Long duration contracts, par 7(b)* -- FMSB does not agree with the elimination of long-duration contracts from the scope. The board has deleted the section giving guidance on long-duration contracts, stating that it has a rare application to government. We like the guidance and do not see why it should not be included. FMSB believes it should be included. Par 8 includes the sentence, “Accident and health insurance contracts may be short-duration or long-duration depending on whether the contracts are expected to remain in force for an extended period.” Without the wording in 7 b, there is no guidance for long duration contracts in the section.

For insertion after Par. 441 -- Page 510, *par 10, Commitment Fees and Costs*—The wording was deleted but FMSB believes that it should be included, and inserted after paragraph 441. Even if it has only rare application, it is good guidance.

For insertion after Par. 441 -- Page 510, *par 11, Syndication Fees*— Similarly, the wording was deleted because the guidance is considered to have rare application to government. But FMSB believes that it should also be included, and inserted after paragraph 441. Even if it has only rare application, it may be applicable in the future.

Pars. 489 and 490 -- *Intra-Entity Profit*—The guidance in GASB 34 states that if it is an intra-entity sale, profits do not get eliminated. GASB 34 amends GASB 14 in this area. We think the board should drop paragraphs 489 and 490 and add a paragraph here. We question footnote 223. It is wrong as written since GASB 34 changed the guidance. We think the board should consider letting GASB 34 take care of the situation. We recommend the board keep a placeholder paragraph that should not be eliminated but that this guidance should be consistent with GASB 34. If it remains in the standard, the board should revise the footnote to be consistent with GASB 34, not GASB 14.

Pars. 491 – 494 -- *Accounting for the Impairment of Regulatory Assets*—The FMSB does not understand why the board retained all the wording on impairment here that was deleted for Broadcasters.

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We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. We would like to acknowledge the help of AGA members who volunteered to help with reviewing the proposed guidance and providing comments. The AGA members who participated in the consideration of this ED are Lealan Miller, Partner, Eide Bailly LLP, Boise, Idaho, Donna J. Walker, New York State Office of the State Comptroller and Kim Thompson, Washington State Financial Consultant. We are very grateful for their input.

If you have questions concerning the letter, please contact Anna D. Gowans Miller, CPA, AGA's director of research and staff liaison for the FMSB, at amiller@agacgfm.org or 703.684.6931 ext. 313.

Sincerely,



Eric S. Berman, CPA, Chair
AGA Financial Management Standards Board

cc: Lisa Casias, CPA
AGA National President

**Association of Government Accountants
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