October 12, 2015

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

Project: 3-28E

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 Government Accounting Standards Board (GASB) on its June 22, 2015 exposure draft entitled Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14. The FMSB is comprised of 23 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB 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.

This proposed Statement would improve guidance regarding the presentation of the financial reporting entity in the financial statements. The proposed statement would amend the blending criteria established in GASB Statement No. 14, The Financial Reporting Entity by providing additional blending criterion for component units as well provide criterion requiring blending of component units incorporated as not-for-profit corporations when the primary government is the sole corporate member of the no-for-profit.

The FMSB has reviewed this exposure draft and generally supports the adoption of this proposed standard. Since the scope of the proposed statement is limited to not-for-profit component units, we consider the blending of these wholly-owned entities with the primary government as appropriate. We agree with the Board's conclusion that being a sole corporate member of a not-for-profit corporation establishes a unique financial accountability relationship that is best represented by the blending financial reporting method rather than the discreetly presented method.

However the FMSB has a few concerns that we believe need further clarification by the GASB. The proposed standard uses the term “sole corporate member” for which the standard does not provide a definition. While for majority of auditors and preparers that deal with accounting terminology, it seems the wording in paragraph 4 “sole corporate member” is not clarified, even though it should be self-evident. Based on our research, we noted the FASB uses the term in ASC 958-810-05-06 but also does not provide a definition. We encourage GASB to provide a definition for “sole corporate member” to mitigate the potential misinterpretations.

For years the Comprehensive Implementation Guide provided the only guidance as to the treatment of including a component unit that reported under FASB, but needed to be included as part of a governmental reporting entity. Since this proposed standard is for a very narrowly scoped issue, we believe it is appropriate for GASB to provide clear guidance on this matter.

In paragraph B6 of the proposed standard, GASB provides a basis for its conclusion that a not-for-profit corporation establishes a unique relationship, from the standpoint of financial accountability between the
primary government and component unit. The relationship is established through articles of incorporation and bylaws and is not found in other traditional component unit relationships in which the primary government appoints the component unit’s governing body. Based on this unique relationship, the Board concluded that the appropriate presentation of a component unit that is a not-for-profit corporation, of which the primary government is the sole corporate member, is the blended presentation. The FMSB is not sure why GASB believes that the proposed standard concluded that being a sole corporate member would meet the accountability and control criterion as presented in Statement 61. Even though, this is a narrowed scope standard, we believe GASB should be consistent when addressing blended component criterion as addressed in GASB Standards No. 14 and 39. GASB may be able to address this issue when providing a definition of a “sole corporate member”.

We appreciate the opportunity to comment on this document and will be pleased to discuss this letter with you at your convenience. If there are any questions regarding the comments in this letter, please contact me at (208)383-4756 or Lmiller@eidebailly.com

Sincerely,

[Signature]

Lealan Miller, CGFM, CPA
Chair- AGA Financial Management Standards Board

cc: John E. Homan, MBA,CGFM,CPA,CGMA
AGA National President
Association of Government Accountants
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