December 4, 2014

David Bean, Director of Research and Technical Activities
Project No. 33-2ED
Governmental Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116


Dear Mr. Bean:

We appreciate the opportunity to respond to GASB’s Exposure Draft (ED) on the Implementation Guide No. 20XX-1: Chapter 4 - The Financial Reporting Entity.

Initially we have a general comment applicable to the entire document. It would be our preference to keep the original Q & A references instead of eliminating them from the implementation guide. The reference provides a trail to the original guidance which can be helpful and expedite the research process.

We also appreciate the addition of examples to several of the implementation guide questions; however, many examples are simplistic so they do not provide additional guidance in clarifying the question and underlying standard. While the example added to Q.4.21.1, “a gaming enterprise that shares its revenues through transfers to the primary government would be considered to have a financial benefit relationship” demonstrates financial benefit, a more complex example might be more helpful to users when they are evaluating their component units.

Question 4.2.2 - We suggest adding more emphasis to the answer below with bolding and or underlining the highlighted sentence to help clarify that financial accountability criteria in Statement 14 should be applied to all potential component units, including nongovernmental organizations. It might be helpful to add an example to this question.

4.2.2. Q—Should the reporting entity criteria be applied in determining whether nongovernmental organizations are component units? (Q&A11-2) [Amended 2003 and 2004]

A—Yes. Footnote 4 of Statement 14 provides that “a component unit may be a governmental organization (except those that meet the definition of a primary government in paragraph 13), a nonprofit corporation, or a for-profit corporation.” The financial accountability criteria in paragraph 21 of Statement 14, as amended, should be applied to all potential component units, including nongovernmental organizations. Requirements for governmental and nongovernmental organizations that do not meet the financial accountability criteria are provided in paragraph 39, as amended, and paragraph 40 of Statement 14 and paragraphs 5 and 6 of Statement No. 39, Determining Whether Certain Organizations Are Component Units. Paragraph 5 of Statement 39 provides criteria that, if met, require certain organizations to be included as part of the financial reporting entity because of the nature and significance of the organizations’ relationships with the primary government. Paragraph 6 of Statement 39 states that other organizations should be
considered for inclusion as component units if they are closely related to, or financially integrated with, the primary government.

Question 4.33.2 – This appears to be a duplication of question 4.2.2; however it is in a different section so it is addressing a different issue. We would suggest expanding the response to include the additional details provided in the answer for question 4.2.2. This additional information would provide a more comprehensive response and guidance to when Statement 14 or Statement 39 applies for nongovernmental organizations. We also suggest expanding the proposed example to make it a more useful.

4.33.2. Q—Does Statement 14 apply to nongovernmental component units when they are included in a governmental reporting entity? (Q&A14-105)

A—Yes. Paragraph 9 of Statement 14 states that “this Statement should be applied to all governmental and nongovernmental component units when they are included in a governmental financial reporting entity”.

For example, for the purposes of preparing the financial statements for the governmental reporting entity, a nongovernment component unit of the governmental reporting entity would need to apply Statement 14, as amended, and Statement 39 to its potential component units to determine whether or not they meet the criteria to be included as component units.

We believe there is confusion if Statement 14 applies to nongovernmental organizations, especially foundations. Our state participates in the Government Finance Officers Association’s (GFOA) Certificate of Achievement for Excellence in Financial Reporting program and we received a comment due to their interpretation that GASB 39 applied to our component unit as it was a nongovernmental foundation. They did not consider the financial accountability criteria in GASB 14 and erroneously believed we should have applied GASB39 for reporting the component unit. This comment would have disqualified us from receiving our Certificate if it had not been resolved. It required many hours of staff time and a clarification from GASB to convince GFOA’s reviewer that GASB 39 was not applicable to our component unit.

Finally, we have a general comment on the GASB financial reporting entity statements. Evaluating potential component units require applying the appropriate criteria. It would be very helpful if all reporting entity guidance was contained in one statement. GASB statements 14, 34, 39 and 61 all impact the financial reporting entity; however, no one document includes the final restated standards. Instead, preparers have a group of modification paragraphs in Statement 61 which must be merged with Statement 14 before determining if Statement 39 is applicable. It is difficult to read and follow. Again, the financial reporting entity is a topic that could easily be consolidated into one comprehensive document.

If you have questions or need additional information regarding this response, please contact Lisa Dooly at (515) 281-4098.

Sincerely,

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