

October 6, 2015

David R. Bean, CPA
Director of Research and Technical Activities
GASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: June 22, 2015 Exposure Draft of a Proposed Statement of the Governmental Accounting Standards Board, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14* [Project No. 3-28E]

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 appreciated the opportunity to discuss its comments on the ED with the GASB Chair and staff at the GASB/TIC Liaison Meeting on September 24, 2015. TIC is now providing the following written comments for your consideration.

GENERAL COMMENTS

TIC is supportive of the conclusions reached in the ED. Governments and practitioners often struggle with the decision between discrete presentation and blending, and this guidance will be helpful. However, TIC recommends the clarification of certain paragraphs before the proposal is finalized to ensure that the standard will be applied as the Board intended.

SPECIFIC COMMENTS

Scope and Applicability of This Statement

Paragraph 3 indicates that this proposed Statement will amend Statement No. 14, *The Financial Reporting Entity*, paragraph 53, as well as *Implementation Guide No. 2015-1* (the

Implementation Guide), Question 4.30.1. TIC noted that the phrasing used in paragraph 3 to cite Statement No. 14 was not consistent with similar cites found elsewhere in this ED and in the Implementation Guide. The Implementation Guide question in 4.30.1 addresses an issue that relates to amended paragraph 53, not the original paragraph. The introduction to Appendix C, “Flowchart for Evaluating and Presenting Component Units,” on page 8 of the ED, states that the paragraph references in the flowchart are to Statement 14, as amended. TIC therefore recommends that the first sentence of paragraph 3 be revised as follows:

This Statement amends Statement No. 14, *The Financial Reporting Entity*, paragraph 53, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. [Proposed text is underlined for emphasis.]

Clarifying Guidance for Limited Liability Companies

Paragraph B7 of the ED states that the Board intends to provide clarifying guidance for component units organized as limited liability companies (LLCs) in a future Implementation Guide. However, TIC noted that the LLC guidance was not included in the recently issued exposure draft entitled *Implementation Guide No. 20XX-X, Implementation Guidance Update—20XX*. As a result of this omission, TIC believes too much time will pass before the additional guidance becomes available.

TIC is concerned that, without timely guidance, many questions will arise after the standard is issued as to how these entities are to be presented within the government-wide financial statements. Paragraph B7 implies that many of these entities would be blended but also hints, without being more specific, that some LLCs may be treated differently.

TIC requests that the Board reconsider its decision to scope out LLCs from this ED (even if that step would mean re-exposure of the document). If the Board decides not to do so, paragraph B7 should be expanded to discuss alternative presentations that could apply depending on the circumstances. If the Board does not want governments to analogize from this proposed standard to other entities, such as LLCs, the Basis for Conclusions of the final standard should explain this more clearly, including the reasons for not doing so. This additional information could provide governments with the appropriate information needed to exercise professional judgment absent specific guidance.

Definition of Sole Corporate Member

The term “sole corporate member” is not defined in either the ED or elsewhere in the GASB codification. TIC believes a definition is necessary to help governments and practitioners understand when a component unit should be blended in accordance with the proposed standard.

For example, assume a small town establishes a not-for-profit foundation that contributes funds to the town. If no stated corporate member is included in the bylaws of the

foundation but the bylaws state that the assets of the foundation would revert to the primary government in the event of dissolution, questions may arise as to whether the primary government becomes the same as a sole corporate member by default. Another point of confusion could occur with a not-for-profit foundation that has a board of trustees comprised of elected officials in lieu of “members.” Assume the foundation has a dissolution clause stating that the assets of the foundation would revert to one of the board members. It could be inferred that the board member in question would be equivalent to a sole corporate member.

If the Board decides not to define the term within the standard, then a reference to the *Model Nonprofit Corporation Act* (American Bar Association, Third Edition, 2009) should be included. However, this is not preferred, since TIC believes the standard should stand on its own and not require accessing additional resources. For small governments and practitioners, the need to refer to other materials may require the use of additional, limited internal resources, which can result in increased costs and other burdens.

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,

A handwritten signature in black ink that reads "Scot Phillips". The signature is written in a cursive, slightly slanted style.

Scot Phillips, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees