

June 23, 2010

Director of Research and Technical Activities – Project No. 3-14
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

SUBJECT: RESPONSE TO EXPOSURE DRAFT – THE FINANCIAL REPORTING ENTITY

The Virginia Government Finance Officers Association (VGFOA) would like to take this opportunity to respond to your Exposure Draft (ED), “The Financial Reporting Entity, an amendment of GASB Statements No. 14 and No. 34”. The VGFOA appreciates the opportunity to work with the Governmental Accounting Standards Board (GASB) in the development of improved financial reporting standards.

The VGFOA generally agrees with many of the changes included in the exposure draft; however, we also have some concerns and requests for additional clarification on some other provisions of the proposed statement.

Blended Component Units

The VGFOA’s most significant area of concern is related to the amendment of Paragraph 53 of Statement No. 14, which deals with the criteria for “Blending Component Units”. Paragraph 52, states that there are circumstances wherein, “...despite being legally separate from the primary government, [some component units] are so intertwined with the primary government that they are, in substance, the same as the primary government.” This paragraph outlines the overarching premise for the blending method, that a component unit should be blended only when it “functions as an integral part of the primary government despite [its] separate legal status.”^a

The proposed amendment to Paragraph 53 which would require blending when a “component unit’s total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with resources of the primary government” however, presents the possibility that blending may be required, even in situations where the overarching premise outlined in Paragraph 52 may not have been met.

For example, a state-mandated restriction that prohibits all entities of a particular type from issuing debt may require that a general purpose local government issue debt on behalf of such an entity. However, this financial arrangement by itself may not necessarily create a situation wherein a component unit operates as an integral part of its respective primary government. Moreover, if the total outstanding debt of the component unit which is expected to be repaid entirely with the resources of the primary government is insignificant and/or immaterial to the financial statements of both the component unit and the primary government, it stands to reason that this situation would certainly not produce a scenario in which the component unit is really functioning as an integral part of the primary government and is not indicative of intertwined operations, as suggested in Paragraph 52.

Yet, the proposed amendment to Paragraph 53 suggests that this debt arrangement would require blending of the component unit. The VGFOA requests that the GASB rectify this perceived inconsistency in the final pronouncement.

Other Comments

The amendments to Paragraph 27 of Statement No. 14 seem to result in language that is inconsistent with other paragraphs of the proposed statement, if not altogether different. For example, Paragraph 21.a clearly stipulates that a primary government is financially accountable if it appoints a voting majority of another organization's governing body and is able to impose its will on that organization. However, Paragraph 27 seems to omit the criteria describing the imposition of will. Additionally, Paragraph 27 seems to separate the financial benefit/burden criteria from the board appointment criteria, apparently making it applicable only when there is fiscal dependency, which is inconsistent with the language in Paragraph 21.a-b. The VGFOA requests that these ambiguities be clarified in the final pronouncement.

Finally, also pertaining to the revisions to Paragraph 27 of Statement No. 14, the VGFOA requests that the insertion of the phrase "for example" just prior to the list of conditions that are indicative of a financial benefit or burden relationship be eliminated in the final pronouncement. This phrase seems to convey that what follows are not static criteria for determining whether a financial benefit or burden relationship exists, but rather, general guidelines for consideration. The VGFOA requests that a set of specific criteria be developed for the final pronouncement which clearly stipulate what does and does not constitute a financial benefit or burden relationship.

On behalf of the VGFOA, I would like to thank you in advance for considering our suggestions and look forward to working with the GASB in the future toward improving the standards for our industry. If you have any questions or comments concerning this response, please feel free to contact me either by phone at (540) 853-2821, or at ann.shawver@roanokeva.gov.

Sincerely,



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^a Stephen J. Gauthier, Governmental Accounting, Auditing, and Financial Reporting (GFOA, 2005) page 67.