June 30, 2010

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

Re: Project No. 3-14

Dear David:

On behalf of the National Association of College and University Business Officers (NACUBO), thank you for the opportunity to comment on the Board's Exposure Draft, “The Financial Reporting Entity, an amendment of GASB statements No. 14 and No. 34.” We value the considerable effort that the Board and the staff have invested in this project.

NACUBO is a nonprofit professional organization representing chief financial and administrative officers at more than 2,100 colleges and universities. In its capacity as a professional association, NACUBO issues accounting and reporting guidance for the higher education industry and educates over 2,000 higher education professionals annually on accounting and reporting issues and practices.

NACUBO’s comments on the proposal were developed by members of our Accounting Principles Council (APC). The APC consists of experienced business officers from various types of institutions who, collectively, possess a thorough knowledge of higher education accounting and reporting issues and practices. Our comments address two areas. The first concerns the application of the statement to nongovernmental component units that are included in the financial reporting entity. Our second comment involves proposed additional reporting guidance for governments engaged only in business-type activities that use a single column for financial statement presentation.

Nongovernmental component units

Paragraph 2 of the Exposure Draft asserts that “the statement applies to nongovernmental component units when they are included in a governmental financial reporting entity.” Paragraph 9 of Statement 14 states in part:

This Statement should be applied to all governmental and nongovernmental component units when they are included in a governmental financial reporting
entity. See paragraphs 12, 43, 65, and 66 for an explanation of how organizations other than primary governments should apply this Statement.

Paragraph 43 of Statement 14, which is not affected by the current project, states in part:

An organization that is a component unit of a financial reporting entity may have component units of its own. The component unit financial data that are incorporated into a reporting entity’s financial statements should include the data from all of its component units. In effect, this Statement should be applied in layers “from the bottom up.” At each layer, the definition and display provisions should be applied before the layer is included in the financial statements of the next level of the reporting government.”

The example in paragraph 43 is of layers of governmental component units. There are no nongovernmental component units in this example or elsewhere in examples in Statement 14.

Further, question 4.33.3 of the GASB Comprehensive Implementation Guide (CIG), states the following:

*There are no requirements to change the recognition, measurement, or disclosure standards applied in a nongovernmental component unit’s separate financial statements.* However, as discussed in question 4.33.2, the provisions of Statement 14 should be applied to the financial statements of a nongovernmental component unit when those statements are incorporated into a governmental financial reporting entity. *That is, a nongovernmental component unit should include component units of its own based on the criteria of Statement 14.* In addition, the financial statements of a nongovernmental component unit may need to be reformatted to comply with the classification and display requirements in Statement 34. *(Emphasis is ours.)*

We are concerned that Statement 14 as issued, the ED that would amend Statement 14 and the CIG imply that nongovernmental component units that follow FASB must use something other than FASB inclusion criteria to evaluate how their component units are included in the nongovernmental reporting entity. Altering FASB’s inclusion criteria can come precariously close to changing measurement criteria which we do not believe is GASB’s intent.

We ask for clarification of how the above guidance should be applied in the following situation:

Assume a foundation is a component unit of the public university, and the public university is a component unit of the state. The foundation reports under FASB standards and it is the general partner for a limited partnership. Assume further that the limited partnership meets the criteria for consolidation under FASB standards.
Does starting “at the bottom,” as described in paragraph 43 require that we start with the foundation’s interest in the limited partnership? If so, assuming the foundation entered into the limited partnership to generate income or profit (amended paragraph 55), does that mean that the foundation would unwind the consolidation and instead report its interest in the limited partnership as an investment?

Because the standards for inclusion of a subsidiary/component unit in a reporting entity differ between GASB and FASB, the situation we describe above has been possible since the issuance of Statement 39 (albeit now with a different presentation because of the amendment). It is possible that a foundation would have to include different entities as part of its reporting entity when it prepares statements for inclusion as a discrete component unity of the public university than it includes when it prepares its own GAAP statements.

The reexamination and restatement of the reporting entity of a nongovernmental foundation is not taking place currently in practice. If FASB component units are presented (discretely) in GASB format, only “geography” changes are made—for example, reporting permanently restricted net assets as restricted nonexpendable net assets. If only reclassification changes are made for the purpose of display, how does applying the requirements of the proposed statement apply to the nongovernmental (FASB) component unit?

We are concerned that, as currently drafted in the Exposure Draft and the CIG, the foundation as included in the university’s financial statements could be a different reporting entity than it is in its separately issued financial statements. A changed reporting entity would result in the need for two audit opinions—one for the reporting entity as defined and displayed by GASB standards and the other for the reporting entity as defined and displayed by FASB standards. We do not believe that was the Board’s intent, as all other differences between GASB and FASB standards are tolerated when a nongovernmental component unit is combined with a governmental primary government.

We suggest that paragraph 2 of the ED and paragraph 9 of amended Statement 14 be changed to remove the sentence requiring the standards to be applied by a nongovernmental entity. We further suggest that paragraph 43 be clarified so that when applying the “bottom up” approach the primary government starts with the lowest level governmental entity. Finally, CIG 4.33.2 and 4.33.3 should be modified accordingly.

**Blending component units of a business-type activity**

Over the past several years NACUBO has been made aware of the desire among certain auditors to see detailed information on blended component units. In some cases universities seeking the Certificate of Excellence in Financial Reporting from the Government Finance Officers Association were told that each major enterprise fund should be reported in a separate column on the financial statements.
NACUBO is concerned that the newly required information may lead to increased audit procedures – or even requests for separate opinions – related to component units that are often not material to the financial reporting entity. We fail to see how the combining schedule will increase the decision usefulness of the financial statements. We believe descriptive information about these component units is adequate and appropriate in the MD&A. However, if the Board disagrees and combining information must be presented in the notes, we ask that the combining schedule be clearly defined as condensed statements of net assets and activities. We think clear parameters will lead to disclosure consistency and provide clarity for external auditors and users of financial statements.

In closing, NACUBO welcomes the opportunity to comment and assist with guidance related to the proposed changes. We look forward to answering any questions about our response. Please direct your questions to Sue Menditto at 202-861-2542 or sue.menditto@nacubo.org.

Sincerely,

Susan M. Menditto
Director, Accounting Policy