January 19, 2018

Director of Research and Technical Activities
Project No. 36
director@gasb.org

RE: Accounting and Financial Reporting for Majority Equity Interests

Dear GASB:

The views expressed herein are written on behalf of the Professional Standards Committee of the Texas Society of CPAs. The Professional Standards Committee has been authorized by the Texas Society of CPAs' Board of Directors to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by the Texas Society of CPAs' Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs. Please find our questions and comments below on the above referenced exposure draft.

Amendments to the Requirements for Reporting a Majority Equity Interest in a Legally Separate Organization

The committee suggests that guidance and examples on how to include the majority interest of an entity with a different year end be provided upon issuance of these amendments. Additionally, the committee had several concerns regarding the impact the amendments would have on the annual financial audit of the primary governmental entity. Specific concerns are:

- The amendments would require additional audit work at the majority interest entity to meet GAAS or the primary auditor would need to accept the work performed by the auditor of the majority interest entity. Coordinating between auditors of multiple majority entities would be time consuming, therefore raising audit costs for all entities involved.
- What would the impact be on overall materiality limits of the primary entity if these majority interests are included in the financial statements? Guidance on determining materiality levels would be helpful.
- What additional disclosures would be necessary to explain the inclusion of majority owned entities not previously included in the financial statements?
- Would the inclusion of majority interests in the audited financial statements necessitate changing the opinion verbiage in order to explain the inclusion to readers of the financial statements?

Reporting a Component Unit in Which the Primary Government Acquires a 100 Percent Equity Interest

The committee had no questions or concerns about the proposed amendments in this section of the exposure draft.

Effective Date

Depending on the size of the entity and the number of majority interests, implementing these amendments by the proposed effective date would be very difficult, and therefore costly, especially for governments with multiple shared interests with other governmental entities such as a regional airport owned by multiple governmental jurisdictions. Coordinating financial reporting efforts with multiple governmental organizations is not a quick or easy process.

Additionally, revising a CAFR to include units not previously included will be very time consuming and costly. We are aware that the Board considered costs when amending the standards. However, we think there are significant costs that should be further evaluated.

Other Comments and Concerns

Committee members expressed concern over lack of informational disclosures about the minority interests. Suggestions to enhance disclosures included:

- identity of the entity and the board members;
- reason for the financial arrangement;
- who has fiduciary responsibility for investments, if applicable;
- funding sources of the minority interest; i.e., taxes and/or fees, and their purpose.

We appreciate the opportunity to provide input into the standards-setting process.

Sincerely,

Ken Sibley, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants