Iowa Lakes Electric Cooperative

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Letter of Comment No: 95
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Mr. Robert Herz, Chairman
Financial Accounting Standards Board (FASB)
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

VIA FedEx

Dear Chairman Herz:

RE: FASB Statement No. 150

Iowa Lakes Electric Cooperative (ILEC) is a "small electric cooperative utility" and is recognized as a not-for-profit Cooperative as defined by the Internal Revenue Code 501(c)12.

As an electric Cooperative, we are owned by the customers we serve, and utilize our customer/owners excess margins (i.e. profits) as operating capital, classified as deferred patronage dividends, which is the member equity used to continue the operations of the Cooperative.

The proposed FASB 150 would require the reclassification of member equity as a liability on the financial balance sheets of the Cooperative if that member equity is subject to mandatory redemption.

While the accounting profession as well as the financial public are striving for "transparency" and clearer financial statement presentation, FASB 150 is clearly regulatory overkill and electric cooperatives such as ILEC should not be burdened with this type of required liability treatment.

Of immediate and particular concern in FASB 150 are the requirements concerning classification of mandatory redemptions of equity capital to decedent estates as a liability. ILEC strongly believes that all allocated margins of electric cooperatives – especially nonpublic cooperatives, should continue in accordance with the past accounting practice universally applied by all United States cooperatives and be reported as equity.

Iowa's electric distribution cooperatives, as an act of benevolence to their customer-owners, have historically granted early redemptions of a customer-owner's equity capital investment in the cooperative at the time of the customer-owner's death. These early redemptions are provided to decedent estates primarily because a customer-owners' investment in a cooperative is illiquid and cannot be sold or transferred. In settling the estate, an executor or administrator is benefited by have the cooperative equity investment converted to cash, so that the estate can be settled or closed in a timely manner.

According to most electric cooperative bylaws, early redemptions to decedent estates, as a legal matter, is not technically "mandatory" – but rather is granted at the sole discretion of the cooperative's board of directors, with most cooperative board of directors routinely and without exception approving these early redemptions as a customer/owner accommodation.

Since all natural persons will die at some point this would require that all of the cooperative's equity – except for equity derived from the cooperative's corporate customer/owners or by state mandated statutory reserves – be reclassified as debt. With low levels of equity, most of these cooperatives as utilities would find themselves – pursuant to their security instruments and/or loan agreements unable to access additional debt and at the worst, in technical default of loan covenants.

ILEC strongly believes that the application of this provision would inhibit the transparency of an electric cooperative's financial statements. In the first place, while the cooperative's board of directors may have in the past, routinely and without exception, granted early redemptions to decedent estates, for most cooperatives, there is no requirement to do so in the future. Indeed, for most cooperatives, to make any redemption of equity (i.e. to decedent estates), the board of directors must determine that the cooperative – considering its liquidity, equity position and other key financial ratios – is financially capable to do so. Hence, reclassifying an electric cooperative's allocated excess margins to natural persons would overstate the cooperative's liabilities.

In addition, application of this provision would detract from the comparability of cooperative financial statements from those of the public investor-owned corporations. (For public investor-owned corporations, of course, there is usually no need for the corporation to repurchase its stock at an owner' death because the stock can simply be sold in the public markets.) Indeed for most cooperatives, the liability treatment being prescribed seems an improper application of form over substance. As mentioned above, allocated margins are in substance the cooperative's primary and only source of equity.

To reclassify such equity allocated to natural persons as a liability solely because the cooperative's board of directors have previously granted early redemptions to decedent estates in the past would inaccurately present the financial position of cooperatives as compared to that of public investor-owned corporations.

If the Standards Board does not act to exclude nonpublic companies, like electric cooperatives, from the scope of FASB 150, most electric cooperatives will likely cease their practice of providing early redemptions to decedent estates. The required liability treatment would simply be too detrimental to cooperatives' reported financial position. This unfortunate change in cooperative policy would, of course, make the task of estate administrators and executors lengthier and more difficult as well as create a significant public relations issue with the Cooperative's former customer/owner's family and estate beneficiaries.

We, respectfully urge the Standards Board to exclude small electric cooperative utilities, like ILEC, from the scope of FASB 150.

We appreciate your prompt attention to this important issue for all Iowa cooperatives.

Sincerely,

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Executive Vice President/General Manager

Sincerely,

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Sincerely,

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