Letter of Comment No. 18 File Reference: 3-23E Date Received: 11/18/11



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November 18, 2011

David R. Bean, Director of Research and Technical Activities Governmental Accounting Standards Board Project No. 3-23 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

Re: Reporting Items Previously Recognized as Assets and Liabilities, Project No. 3-23

Dear Mr. Bean:

The following is the response of the Government Accounting and Auditing Committee of the Washington Society of Certified Public Accountants (WSCPA). The views expressed are the views of the Committee and not necessarily the views of the individual members or the WSCPA as a whole. We are pleased to have the opportunity to respond to the Governmental Accounting Standards Board's (GASB) Exposure Draft (ED) Reporting Items Previously Recognized as Assets and Liabilities.

We support the mission of GASB, to establish and improve standards of state and local governmental accounting and financial reporting.

Overview of Our Response:

We believe that the GASB is inappropriately deviating from the "Matching Principle" a cornerstone foundation of all accounting theory in many respects in this ED, and should retain current practice which would also more closely align with FASB standards.

We strongly object to paragraph 31, as we know there are other aspects of deferral accounting that the GASB has not addressed and financial statement preparers and auditors should be able to use the term "deferred" for more than what is specifically proscribed by this ED (e.g. deferrals that may not fit into the parameters of GASB 51 Intangible Assets).

The Government Accounting and Auditing Committee of the WSCPA has presented serious concerns about past concepts statements, specifically Concepts

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Statement 4 and the recent Preliminary Views document (PV) Concepts Related to Recognition of Elements of Financial Statements and Measurement Approaches, Project No. 3-20.

We specifically did not understand the purpose of the revisions to currently used and accepted definitions that work well. We also did not understand how changing definitions would clarify and "improve financial reporting" as stated in the Summary Section of the ED. As we deliberated our response to this ED, a core question was discussed and that question is: What problem is GASB trying to solve? The GASB states the typical "consistency in financial reporting" as its justification, but the GASB needs to provide better justification to our committee members, before we would agree with this statement. We were also concerned that this ED proposes different definitions for elements of governmental financial reporting than the definitions for similar elements of non-governmental financial reports. While we do not revisit our prior objections to Concepts Statement 4 and the PV "Concepts Related to Recognition of Elements of Financial Statements and Measurement Approaches" in this response, some of our concerns continue to exist in this ED. As such, some of our responses are affected by our prior conceptual concerns.

Since enterprise fund activities are like "private sector business", using different and odd definitions in this ED will only make enterprise fund financial statements more difficult to compare to private sector business financial statements, while in substance such activities are very similar and comparable. This would be particularly problematic for large electric utilities, for whom the peer group is publicly-held investor owned entities.

We do not believe that limitations as to the use of the term *deferred* is appropriate. Although we understand and could potentially support the concept of redefining deferreds to indicate a deferred inflow or a deferred outflow, we believe that GASB cannot accurately predict or define every single situation that would meet this concept, as the current ED appears to attempt to do.

Responses to Specific ED Concepts:

Deferred charges, such as bond issuance costs, are a resource outflow, portions Tel (425) 644-4800 of which are applicable to future periods, but may not meet the definition of an Fax (425) 562-8853 "element" (asset). However, the matching concept requires that these costs be deferred and recognized as an effective yield adjustment (amortization) over the 902 140th Ave NE life of the bonds. Furthermore, if bond issuance costs must be expensed as incurred, we believe this may motivate municipal issuers to request their Bellevue, WA underwriters to combine or 'bury' the issue costs into the bond discount. This 98005-3480 will result in a decrease in transparency in financial reporting.

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We have similar concerns for the treatment of loan fee related changes. Once again, we prefer the time-tested concept of matching to inform our comments on this proposed ED. To the extent that loan fee revenues are matched to loan fee costs, both should be reported in current operations as revenue and expenses. However, when either loan fee revenue or loan fee costs exceed the related item, the difference should be deferred as a deferred item (or preferably an asset or liability) and amortized over the life of the related asset or liability. In summary, we believe this exposure draft ignores the relationship between costs incurred to acquire assets and costs to fund that acquisition, when those costs are not equal and all relate to reporting future operating results (effective yield on assets).

While we were glad to see that there was a section recognizing that there are deferrals related to Regulated Operations, the ED focuses primarily on deferred inflows. A far more common use of regulatory accounting for municipal utilities is the deferral of expenses; i.e., deferred outflows. We encourage GASB to use realistic and meaningful examples such as the occurrence of expenses currently with the intent to recover through rates at a later date.

This ED does not appear to grant any latitude for judgment regarding unusual or complex transactions. Unfortunately, not every transaction fits neatly into the paradigm of GASB 51 *Intangible Assets* or the laundry list of items allowed in this ED to be deferred.

Thank you for the opportunity to respond. We are concerned that this ED, as drafted, changes a conceptual framework that currently works very well and replaces it with something that contradicts basic accounting tenets while removing the ability of accounting professionals to apply sound judgment to unusual and complex transactions. If you have any questions or need additional information regarding this response, please contact Steve Miller at (206) 281-0281 or Laurie Tish at (206) 302-6466.

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Sincerely,

SENT VIA E-MAIL to director@gasb.org

Nestor Newman, Chair Government Accounting and Auditing Committee Washington Society of Certified Public Accountants