Washington State Auditor’s Office

October 28, 2016

Via Electronic Mail

Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Response to GASB Exposure Draft – Certain Debt Extinguishments

The Washington State Auditor's Office appreciates the opportunity to give input on the GASB’s proposed standards (Project No. 19-25E). In our constitutional role as the auditor of public accounts for the State of Washington, our Office performs the financial audit of the State of Washington and annually performs or reviews over 900 financial audits of the State’s agencies and all types of local governments, along with their component units.

Comments on the Proposed Statement

We are in support of the proposed change to accounting standards and the reasons for the proposal as discussed in the basis for conclusions section.

In particular, we are in support of recognition of the gain or loss in the current period, as described in paragraph 5. We understand from paragraph B14 that the Board intends for the reporting of the gain or loss to be different for instances where debt is defeased using only existing resources (recognized in current period) and when debt is defeased with refunding debt or a combination of existing resources and refunding debt (recognized over the life of the refunding debt). However, we suggest that recognition of the gain or loss also be in the current period for defeasance using refunding debt or a combination of sources.

Continuing the GASB 7 requirement to recognize gain or loss over the life of the refunding debt, whether used by itself or in combination with existing resources, is inconsistent with FASB guidance and creates a significant reporting burden, since the reporting government now has to track a deferral for many years. Our experience is that governments commonly make mistakes with these deferrals, which indicates that convergence and a uniform method of accounting for extinguishments would result in more consistent statements.
Additional Comments on Debt Extinguishments

We request the Board replace GASB 7 and 23 in their entirety with a new standard rather than amend certain paragraphs. Guidance in these GASBs consist of only 10 paragraphs in total, so there is limited value in an amendment. Until the Board moves to a codification, such as the FASB ASC, it is helpful for implementation and research when a topic is addressed by one current GASB rather than having to look at multiple Statements that have been amended multiple times.

We also request that the Board consider further amendments to improve reporting in this area, as follows:

- Consider eliminating the GASB 7 requirement to calculate and disclose economic gain on refunding. Our experience is that this complex calculation is often done incorrectly and has little value in assisting with the financial statement user’s evaluation of efficiency and effectiveness (GASB Concept Statement 1, par 42), since governments may refund debt for a variety of reasons other than economic gain.

  If this requirement is in place to help demonstrate compliance with laws (GASB Concept Statement 1, par 39), then this disclosure should be limited to only situations where governments have a legal requirement and, in such cases, the disclosure should describe both the requirement and calculation. In Washington, we have no such legal requirement; therefore, such a disclosure would not have universal value for all governments.

- Consider specifying that classification of current refundings are the same as advance refundings on governmental fund statements. Currently, GASB 7 is silent on classification of a current refundings in governmental fund statements, leading the Government Finance Officers Association (GFOA) to conclude in its 2012 Governmental Accounting, Auditing and Financial Reporting (GAAFR) (page 473) that reporting is different for current refunding than for advance refunding. In advance refunding, the debt is legally or in-substance defeased, so we do not see a basis for classifying the transactions differently than for a current refunding.

- Consider clarification that cross-over refundings should be treated the same as other advance refundings because they are, in substance, the same. However, GFOA has concluded in their 2012 GAAFR (pages 472-473) that cross-over refundings would not qualify for in-substance defeasance under current GASB guidance, since resources in escrow are not devoted exclusively to debt service on the refunded debt, but will also be used to make payments on refunding debt service until the call date.
Thank you for the opportunity to provide our comments. Any inquiries may be directed to me at (360) 902-0375.

Sincerely,

Barbara J. Hinton
Deputy Director of Quality Assurance