October 28, 2016

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

Project: 19-25E

Dear Mr. Bean:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Government Accounting Standards Board (GASB) on its August 22, 2016 exposure draft entitled Certain Debt Extinguishment Issues. The FMSB is comprised of 23 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed Statements and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB agrees with the scope and applicability of the proposed Statement. We also support the proposed disclosures and believe they provide the information necessary for readers of the financial statements. We do have a few comments for consideration and suggested recommended changes to the exposure draft.

We recommend that footnotes 2 and 3 be included in Paragraph 5 of the proposed Statement. While this expands the paragraph significantly we believe having the information in the paragraph brings credibility to the definition of the reacquisition price and the net carrying amount of the debt.

We appreciate the boards continuing process of providing guidance from a principles perspective. However we encourage the Board to provide guidance as to whether the item should be reported on the statement of activities as a special item and not as an extraordinary item. This ensures comparability amongst the governmental entities.

We understand the Board position regarding prepaid insurance, including, but not limited to, the treatment of prepaid insurance as part of the basis of the defeased debt. However we have had feedback from our preparers within the group recommending the prepaid insurance be expensed at the time of extinguishment since the amounts can be immaterial and the cost of tracking and amortizing the prepaid insurance does not create a significant benefit in reflecting economic substance of the transaction.

We encourage the Board to consider issuing one Statement that would replace GASB 7 and 23 as well as this proposed Statement so there is only one addressing the debt defeasance issues. While the codification is available to summarize these issues it is difficult to perform research on the Statements when referring to two or more Statements, when the codification is only updated annually.

The FMSB is also concerned with some of the note disclosure provisions to the proposed Statement. The first sentence in paragraph 8, may be difficult for some preparers to comply with. With a lack of consistent GAAP on the issue proposed to be solved by the Statement, many governments that have cash defeased debt...
debt may have simply removed the debt from their books upon placing the funds in escrow. We understand that cash defeasance is by far the exception and not the rule. But given that cash defeasance is the exception, perhaps the Board should reconsider that aspect, in conjunction with paragraph 13’s requirement for a restatement. We propose the note disclosure required in the first sentence in paragraph 8 be implemented prospectively. Furthermore, some of the members of the FMSB did not deem the provisions in paragraph 8 to be essential for debt defeased in previous periods.

Finally, in paragraph 9, some of our members would very much like to see a mirrored standard to FASB ASC Section 405-20 and ASC-470-40. In particular, ASC-470-40-2 prohibits amortizing amounts to future periods and requires immediate recognition of gains and losses. If the underlying debt is legally defeased by cash, we see no point in recognizing a deferred outflow of resource or a deferred inflow of resources for an item which will have no future benefit or burden if there is no right of substitution.

We appreciate the opportunity to comment on this document and will be pleased to discuss this letter with you at your convenience. If there are any questions regarding the comments in this letter, please contact me at (208)383-4756 or Lmiller@eidebailly.com

Sincerely,

Lealan Miller, CGFM, CPA
Chair- AGA Financial Management Standards Board

cc: Doug Glenn, CPA
AGA National President
Association of Government Accountants
Financial Management Standards Board

July 2016 – June 2017

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