October 14, 2016

David R. Bean, Director of Research and Technical Activities
Governmental Accounting Standards Board
Project No. 19-25E
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Exposure Draft-Certain Debt Extinguishment Issues, Project No. 19-25E

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) Certain Debt Extinguishment Issues.

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 generally support this ED to improve consistency in accounting and financial reporting for transactions in which only existing resources, resources other than the proceeds of refunding debt, are placed in a trust for the sole purpose of extinguishing debt. However, we are concerned about the incomplete definition of “existing resources” and how this statement would affect, or not affect, prior period restatements when a proration of gain or loss between new debt proceeds and existing resources have been made in prior financial statements.

Specific ED Comments:

Revenue bonds typically require a debt service reserve fund that is considered as unspent proceeds for the purposes of classifying debt in the calculation of net position components. In an advanced refunding, these debt service reserve funds on the “old” bonds may be required to be used as an addition to the escrow account to defease the “new” bonds. In
other refunding transactions, the debt service reserve funds on the “old” bonds might be freed up, with a portion of the “new” bonds used as the new debt service reserves. In a current refunding, new debt may be sufficient to pay off the old debt and create new debt service reserve funds, which would not create any gain or loss, deferred or currently recognized.

We believe that this ED should specifically address whether debt service reserve funds on the “old” bonds should be treated as “existing resources”. This is important because some entities might include the existing debt service reserve funds in their calculation of the reacquisition price impacting the deferred gain or loss and other entities may use the debt service reserve funds as “existing resources” to prorate the gain or loss between current and future periods.

For those entities that treated the debt service reserve funds on the “old” bonds as “existing resources” and allocated a portion of the gain or loss to current versus deferred, how will those entities apply this statement? We specifically reference Paragraph B14 in the Basis for Conclusions. Will these entities need to restate prior periods for their treatment of debt service reserve funds or will the standard be applied prospectively?

Thank you for the opportunity to respond. If you have any questions or need additional information regarding this response, please contact Lisa Lam at (206) 787-4334.

Sincerely,

SENT VIA E-MAIL to director@gasb.org

Mary Ann Hardy, Chair
Government Accounting and Auditing Committee
Washington Society of Certified Public Accountants