November 25, 2014

David R. Bean, Director of Research and Technical Activities
Governmental Accounting Standards Board
Project No. 26 5E
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Exposure Draft- Implementation Guide No. 20XX-1, Project No. 33-2ED

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 individual members of the Committee and not the Committee, as a whole and are not necessarily the views of the individual members of WSCPA 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) Implementation Guide No. 20XX-1.

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

Overview of Our Response:

While we appreciate that the GASB allowed for a long response time to this ED, we found it too voluminous. As a practical matter we split up our review among individual committee members and collated their individual comments.

Responses are included as follows:
Chapter 2-Cash Flow Reporting
Chapter 4-The Financial Reporting Entity
Chapter 7-Basic Financial Statements and Management's Discussion and Analysis
Chapter 8-Postemployment Benefits Other than Pensions
Chapter 10-Derivative Instruments
Chapter Z-Other Implementation Guidance
The following chapters were not subject to our review, and therefore, we have not included any response:

Chapter 1-Disclosures Related to Deposits with Financial Institutions, Investments
Chapter 3-Risk Financing and Related Insurance Issues
Chapter 5-Pensions Employer and Plan Accounting and Reporting
Chapter 6-Accounting and Financial Reporting for Certain Investments and External Investment Pools
Chapter 9-Statistical Section

Specific ED Comments:

Chapter 2-Cash Flow Reporting
This chapter was reviewed and no comments were necessary.

Chapter 4-The Financial Reporting Entity
4.33 Nongovernmental Component Units provides guidance for presentation only but does not provide for recognition and measurement, specifically GASB’s No. 63 and 65. For example, in a reporting entity’s financial statements, how would a government report a discretely presented nongovernmental entity following FASB standards for recognition and presentation of bond issuance costs? The bond issuance costs would be presented as a deferred asset in the FASB statements but would be required to be expensed under GASB 65. That item would not be appropriate to report as a deferred outflow or as a deferred cost (asset), but this guidance does not address that issue.

Chapter 7-Basic Financial Statements and Management's Discussion and Analysis
This chapter was reviewed and no comments were necessary.

Chapter 8-Postemployment Benefits Other than Pensions
This chapter was reviewed and no comments were necessary.

Chapter 10-Derivative Instruments
10.13 - Recognition and Measurement of Derivative Instrument - The wording to question 10.13.1 as well as the answer are confusing and should be clarified. The real question is whether the hedge accounting for effective hedge instrument is optional or required in accordance with the standard. Replacing the word “should” with “must” or “required” may be more appropriate and eliminate confusing nature of the question and answer as currently worded.
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The question 10.13.7, as currently stated, only partially addresses the real question that many regulated entities are trying to answer – “WHY should the utility test the potential hedging derivative instruments for effectiveness, if they have ability to apply GASB 62 reporting?”. The question should be further expanded to address the reasoning for this requirement as applied to regulatory entities. We suggest that answer be expanded to address the fact that the derivative instrument should be tested for effectiveness before the entity makes a decision to invoke GASB 62 regulatory accounting.

**Chapter Z-Other Implementation Guidance**  
The answer to question Z.33.25 should be reconsidered and changed, especially for special purpose governments engaged in only business-type activities. We believe the answer gives more weight to the form of the transactions over the substance of the transactions and we believe the answer should provide more weight to the substance of the transactions over the form of the transactions. As the answer specifically relates to Build America Bonds (BABs), we believe that the interest expense should be reported net of the BABs interest subsidy. Whether the government decides to issue traditional tax exempt debt or BABs that are taxable with the difference as a subsidy should not make any difference in the accounting or reporting for the debt or the “true” interest cost of the financing, yet the answer requires such a differentiation when no economic difference exists. The net interest cost to the entity is the same whether traditional tax exempt financing or BABs is obtained. To take the answer to question Z.33.25 to its illogical conclusion for traditional tax exempt debt, the inherent “subsidy” in the Internal Revenue Code should be inferred and treated as “grant” revenue and this would be a severe departure from existing GAAP. In addition, the GASB should consider debt covenants in existing financing agreements, where operating revenues versus interest costs determined in conformity with GAAP are required. Such covenants may not allow for consideration of this “extra” grant revenue to be included in the calculation for the debt service coverage requirement. Current GAAP requires that aggregated balances be disclosed in the notes to the financial statements in their material disaggregated balances. We believe that current GAAP would allow for reporting interest costs net with disclosure in the notes to the financial statements. Since, for stand-alone enterprise entities the interest costs and the BABs subsidy would both be reported in the “Non-operating income (expense)” portion of the statements of revenues, expenses and changes in net position, the interest expense could be reported net, and if need be, a disclosure of the components of interest costs could be provided in the notes to the financial statements. For the sound reasons provided above, we believe the GASB should change its answer to question Z.33.25 to allow for net interest reporting.
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Summary of Specific ED Comments:  

We agree with this ED and believe it improves accounting and financial reporting for state and local governments, except for the comments provided above. We believe this ED can be improved by the specific comments provided above.  

Thank you for the opportunity to respond. If you have any questions or need additional information regarding this response, please contact Olga Darlington at (425) 551-5712.  

Sincerely,  

SENT VIA E-MAIL to director@gasb.org  

Olga Darlington, CPA  
Chair, Government Accounting and Auditing Committee  
Washington Society of Certified Public Accountants