



## National Association of State Auditors, Comptrollers and Treasurers

August 27, 2009

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

Dear Mr. Bean:

On behalf of the National Association of State Auditors, Comptrollers and Treasurers, we appreciate the opportunity to respond to the Governmental Accounting Standards Board's Exposure Draft (ED), *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

We have reviewed the ED and generally agree with its provisions. Below are our responses to the two issues the GASB specifically requested feedback on, as well as some general comments we believe the Board should consider as it finalizes this document.

#### Issue 1:

As discussed in paragraph 6, if the confirmed Plan of Adjustment indicates that only future interest payments are reduced, the government would report lower interest costs in future periods. If the Plan of Adjustment indicates that the pre-petition principal or accrued interest payable amount is reduced, the government normally would report a gain. The alternative view, discussed in paragraphs 55 and 56, is that future payments would be reported at their discounted present value using the original interest rate.

*How should these payment reductions that result from a Chapter 9 bankruptcy be measured and reported? Please state why you support this position.*

The majority of our responding members agree with the methodology proposed in paragraph 6. We believe accounts payable, notes, and debt obligations reported in the financial statements should reflect the contractual obligation as confirmed by the court in the Plan of Adjustment as that is more consistent with the current method that governments use to record debt in the financial statements.

#### Issue 2:

As discussed in paragraph 7, if a confirmed Plan of Adjustment reduces debt service payments but does not indicate whether it reduces (a) the pre-petition principal or accrued interest payable amount or (b) future interest payments, the carrying amount of the liabilities would be measured based on the discounted present value of the new payments using the original interest rate. The alternative view, presented in paragraphs 51–54, is that the reduction would be presumed to reduce the interest rate and that the carrying amount would be reduced only if the interest rate would fall below zero percent.

*How should these payment reductions that result from a Chapter 9 bankruptcy be measured and reported? Please state why you support this position.*

We agree with the alternative view presented in paragraphs 51 through 54. Unless the bankruptcy court specifically reduces the carrying amount of the debt, it should not be adjusted because the government is still legally obligated to pay the carrying amount. The entity should be liable for the principal of the debt unless specifically relieved under the confirmed Plan of Adjustment.

**General comments:**

- Paragraph 2 - We believe that it may be helpful to define the phrase “discharge of bankruptcy,” as applied to a government.
- Paragraph 22 – For consistency with paragraph 30, we recommend that the following phrase be added to the end of the first sentence of the paragraph “...and the government is bound to the new debt and payment terms in the plan.”
- Paragraph 7 – In the second paragraph of the Summary (page IV), when the new payment plan for accounts payable, notes, and debt obligations does not indicate whether it reduces principal payments or future interest payments that have not been accrued, the Board indicates that a gain would be reported at the time of reduction. However, paragraph 7 in the proposed statement does not discuss reporting a gain or loss. If the Board includes this method of reporting in the final statement, we recommend that guidance be included on reporting the gain or loss, consistent with the proposed statement language for reporting a gain or loss included in paragraph 8 for capital leases and in paragraph 9a for pensions and other postemployment obligations.
- Paragraph 15c – This paragraph requires the government to disclose the significance of the conditions and events on the service levels and operations of the government. We believe using the phrase *service levels* could confuse readers as to the type of information the Board is requiring the government to disclose. We recommend the Board modify this paragraph to either eliminate the reference to service levels or clarify the nature of information it intends governments to disclose.

We appreciate the opportunity to provide our comments. Should you have any questions or need additional information regarding our response, please contact Kim O’Ryan of NASC at (859) 276-1147 or me at (304) 558-2251.

Sincerely,



Glen B. Gainer, III  
NASACT President