November 30, 2015

Mr. David R. Bean
Director of Research and Technical Activities
Government Accounting Standards Board (GASB)
Project No. 24-16ED
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Implementation Guide No. 20XX-X, Implementation Guidance Update 20XX by the Governmental Accounting Standards Board

Dear Mr. Bean,

The Association of Local Government Auditors (ALGA) appreciates the opportunity to respond to GASB’s exposure draft of the proposed Implementation Guide No. 20XX-X, Implementation Guidance Update 20XX. ALGA represents more than 340 audit organizations and over 2,200 members. This topic is of interest to our members, and we encourage individual audit organizations and members to comment independently should they choose to do so.

We have reviewed the proposed Implementation Guide in its entirety. We concur for the most part that the Implementation Guide provides guidance that clarifies, explains, or elaborates on GASB Statements and Interpretations. We offer the following comment for consideration to help further clarify questions and answers provided at 7.22.9 and 7.23.6.

Question 7.23.6 (5.14) includes two questions, one of which is not answered, but the reader is referred to question 7.22.9 to find the answer. We feel that combining the answers of the two questions in one location will help the readability of the guidance provided. We also suggest rearranging the questions and answers to further clarify the guidance provided. The following is the suggested wording for combining and rearranging the questions and answers found at 7.22.9 and 7.23.6:

Q – A government accrues and reports a long-term liability for accretion of interest on deep-discount (capital appreciation) debt that was issued for the construction of general governmental capital assets. If debt is issued to refund existing capital-related debt, is the new debt also considered capital-related? Which component of net position should be reduced by the liability?

A – Yes. If the new issue is refunding capital appreciation debt, only the portion of the new debt that refunds the original principal of the old debt
should be considered capital-related. Even though the direct connection between the capital assets and the debt issued to finance the construction or acquisition has been eliminated, the replacement debt assumes the capital characteristics of the original issue.

Accrued interest on any capital-related debt, including deep-discount debt, generally should not be included in the computation of the net investment in capital assets component of net position. The amount of the "borrowing attributable to the acquisition, construction, or improvement" of a capital asset is the proceeds, rather than the total amount, including interest, that will be paid at maturity. Generally, the accrued interest liability would be included in unrestricted net position. However, if the government has established a "sinking" fund to accumulate cash to pay off the debt at maturity, the accrued interest would be included in (reduce) the same component of net position as the sinking fund resources.

Respectfully submitted,

Larry Stafford
Chair, Professional Issues Committee

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