December 31, 2014

Mr. David Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
Project No. 33-2ED
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Implementation Guide No. 20XX-1 of 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 Implementation Guide. Our organization represents more than 300 audit organizations and about 2,000 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 exposure draft in its entirety. Our comments to the areas the GASB wanted responses on, as well as some general comments, are as follows:

Guidance that is proposed to be removed that you believe clarifies, explains, or elaborates on standards contained in GASB pronouncements or addresses issues related to specific types of governmental entities affected by pronouncements and should, therefore, be retained in the Implementation Guide

We did not identify any guidance that is proposed to be removed that should be retained in the Implementation Guide.

Guidance that is included in the proposed Implementation Guide that you believe does not clarify, explain, or elaborate on standards contained in GASB pronouncements or does not address issues related to specific types of governmental entities affected by pronouncements and should, therefore, be excluded from the Implementation Guide

- Chapter 4, The Financial Reporting Entity – To help improve the readability of the answers, consider removing the direct quotes taken from the standards, and instead reference the specific standard and provide additional explanation to help elaborate on a specific question. For example, 4.20.4 instills this writing style, while answers for 4.21.4 and 4.22.9 for the most part restate Statement 14, which might not be useful if a user needs further clarification than what is provided in the Statement.
• 5.63.3, Types of Defined Benefit Pension Plans, and 5.120.3, Types of Defined Benefit Pension Plans and Employers – Consider eliminating the last sentence of the answer, “Therefore, the plan in this question is considered to be used to provide benefits to the employees of only one employer and is classified as a single-employer plan for financial reporting purposes.” This sentence does not provide any additional clarification.

• 5.64.1, Other Postemployment Benefit Plans – Consider eliminating the last two sentences of the answer, “In such cases, the requirement for separate reporting of the two plans addresses the potential distortion that could occur in the reported contributions to and plan net position of each of the plans as a result of commingled reporting. (For example, this could occur when a single stream of employer contributions is provided for both pension benefits and post-employment healthcare benefits.) In this way, separate reporting of the two plans helps financial statement readers assess information applicable to each plan.” These sentences provide information beyond the question and the separate reporting is addressed in question 5.64.2.

• 5.68.1, Statement of Fiduciary Net Position – Consider eliminating the last two sentences of the answer, “Statement 67 does not include requirements for the recognition of deferred outflows of resources or deferred inflows of resources by defined benefit pension plans because the approach used in that Statement is to establish requirements for transactions for which the accounting or financial reporting is specific to pension plans. No pension-plan specific transactions or other events were identified during the development of Statement 67 for which reporting deferred outflows of resources or deferred inflows of resources would be required.” These two sentences complicate the answer.

• 7.4.1 to 7.4.6, Assessing Materiality in Preparing Financial Statements – To help improve readability and focus the discussion points, the questions and answers should be shortened or in some cases eliminated. The points could be better conveyed by discussion of the major fund focus and direct discussion of the considerations to assess materiality. Furthermore, the discussion seems unnecessary since the concept is inherent in all types of financial reporting within professional standards.

• 7.5.1, Management’s Discussion and Analysis – Consider eliminating the last sentence of the answer, “In addition, to place the letter of transmittal between MD&A (which is RSI) and audited basic financial statements might imply a higher level of auditor involvement with the letter of transmittal than is actually the case.” This sentence does not provide any additional clarification.

• 7.19.3 and 7.19.4, Asset management systems – The questions and answers do not elaborate on standards contained in the GASB pronouncement. They appear to be suggestive of operational practices.

• 7.23.5, Net Investment in Capital Assets – To help eliminate guidance that can be problematic in practice, consider rewording the following answer to be more direct, “Governments are not expected to categorize all uses of bond proceeds to determine how much of the debt actually relates to assets that have been capitalized. Unless a significant portion of the debt proceeds is spent for noncapitalizable purposes, the entire amount could be considered “capital-related.” Many governments issue debt for capital maintenance programs, developer incentives, and other noncapitalized items; as such, many governments need to consider and track how their bond proceeds are spent. Therefore, the answer could be reworded to include, “If a significant portion of
the debt proceeds are spent for noncapitalizable purposes, it would be appropriate to track the use of the bond proceeds to appropriately identify debt used to purchase the capitalized assets.”

- **7.25.2, Unrestricted Net Position** – The question and answer could be eliminated; it does not provide guidance beyond the original standard.

- **9.12.5, Revenue Capacity Information** – To further clarify that the answer is not referring to the contribution required supplementary information schedules, the answer could be improved if it explicitly stated that the example schedule is not the same as that required for single-employer and agent multiple-employer defined pension benefit plans within the scope of Statement 67.

- **Z.33.15 and Z.33.16, Statement No. 33** – To further clarify the questions and answers, it should be taken into consideration that the factors noted are often unknown to many preparers of the financial statements. Clarity could be provided by simplifying the questions and answers to reflect that a funding agency provided the local government an award and if the eligibility requirement is met then a receivable should be recorded, and if the funding is expected to be received within the period of availability, revenue should be recognized. Then explain that considerations can be given to legislative and other funding mechanisms to determine the likelihood of meeting the period of availability criteria.

- **Z.33.24 Statement No. 33** – To help further elaborate on standards contained in the GASB pronouncement, consider expanding the question and answer to include income tax refunds. Since the recording of income tax revenue is not recorded net of estimated refunds and a liability is recorded to quantify income tax refunds, which is opposite of the property tax rebate program discussed at Z.33.24.

- **Z.48.4, Statement No. 48** – The facts presented in the question and answer need clarification to expand on how the carrying value was determined to be zero. Furthermore, the answer refers the reader to question 7.74.4 and Statement No. 48 paragraph 15. Statement No. 48 paragraph 15 discusses reporting no carrying value for an intra-entity sale of future revenues but does not expand on the transfer of capital assets. The current language of the question and answer assumes that the reader already knows that the carrying value should be zero. Including additional clarification as to how that conclusion was reached without referring to the standard or other guidance would benefit the user.

**Guidance that is included in the proposed Implementation Guide that you believe is in conflict with or contradicts other GASB pronouncements**

We did not identify any guidance that is included in the proposed Implementation Guide that we believe is in conflict with or contradicts other GASB pronouncements.

**Whether you believe that the proposed modifications to the questions and answers are appropriate**

Overall, moving the detailed examples to an appendix helped readability through shortening the answers and providing users with a consolidated location to go for further research.

**General Comments**

- **5.62.3 and 5.119.3, Classifying Pensions as Defined Benefit or Defined Contribution** – To help improve readability of the answer, consider replacing “plan” with “plan’s administrative board” in the second
to last sentence of the answer to read, “Further, the amount of the benefit payments depends upon
the interest rate established by the plan’s administrative board, rather than on actual earnings on
the investment of assets in the account.”

- 5.116.9, Scope and Applicability of Statement 68 – In the question, the word “plant” is used in first
  sentence but should be “plan.”

- 5.107.3, Projection of Benefit Payments – The last two sentences of the answer duplicate the ones
  above and can be removed.

- Chapter 6, Certain Investments and External Investment Pools – If the proposed statement of the
  Government Accounting Standards Board’s Fair Value Measurement and Application is finalized prior
to finalizing the Implementation Guide No. 20XX-1, consider modifying the questions and answers to
be consistent with the Fair Value Measurement and Application Statement. For example, the
following are a few sections that could be modified to improve consistency:
  o 6.11.1 – Consider changing the term “willing parties” to “market participants.”
  o 6.12.5 – Consider clarifying the question by making the following bolded changes: “How should a
government determine the fair value of an investment when quoted market prices for an
identical investment in an active market are not available (level 1 input)?” Furthermore, have
the answer better address the hierarchy of inputs and the use of other valuation techniques.
  o 6.12.11 – Consider changing the term “reporting date” to “measurement date.”
  o Appendix 6-1 – Consider modifying the definitions, for example “fair value” and “investments,”
to mirror the Fair Value Measurement and Application statement.

- 10-1 (Glossary) – Consider changing the definition for London Interbank Offered Rate (LIBOR) within
the implementation guide and Statement No. 53 to reflect the change in administration from the
British Bankers’ Association to the Intercontinental Exchange, Inc. Benchmark Administration in
2014.

Respectfully submitted,

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Chair, Professional Issues Committee

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