



Association of Local Government Auditors

OFFICERS

President
Tina Adams
Deputy City Auditor
Charlotte, NC

President Elect
Kristine Adams-Wannberg
Senior Management Auditor
Portland, OR

Secretary
Pam Weipert
Compliance Officer
Oakland County, MI

Treasurer
Larry Stafford
Audit Services Manager
Clark County, WA

Past President
David Givans
County Internal Auditor
Deschutes County, OR

BOARD MEMBERS AT LARGE

Justin Anderson
Senior Management Auditor
King County, WA

Van Lee
Deputy City Auditor
City and County of Honolulu, HI

Chris Horton
County Auditor
Arlington, VA

Matt Weller
Assistant City Auditor
City of Oklahoma City, OK

MEMBER SERVICES

449 Lewis Hargett Circle
Suite 290
Lexington, KY 40503
Phone: (859) 276-0686
Fax: (859) 278-0507
www.algaonline.org

April 26, 2018

Mr. David R. Bean
Director of Research and Technical Activities
Government Accounting Standards Board (GASB)
Project No. 4-6I
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Re: Invitation to Comment on the Governmental Accounting Standards Board on major issues related to *Revenue and Expense Recognition*

Dear Mr. Bean,

The Association of Local Government Auditors (ALGA) appreciates the opportunity to respond to GASB's invitation to comment on *Revenue and Expense Recognition*. ALGA represents more than 350 organizational members comprised of more than 2,500 individuals. 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 invitation to comment (ITC) in its entirety. Overall, we concur that a comprehensive revenue and expense recognition model will provide more principles-based guidance and more useful information. However, we believe expanding guidance related to the existing exchange/nonexchange model is the most prudent path forward. As noted in the ITC, the majority of governmental revenues are nonexchange and there is existing, long-standing guidance for such transactions. Clarifying existing definitions as needed would save time for financial statement preparers as well as build on existing knowledge. It is possible that certain governments, such as utilities, may require more specific guidance for classification. Still, moving towards the performance obligation model would require creation of new definitions and structures which would need to be learned and implemented by all state and local governments. Due to this, we believe the cost of developing and implementing a performance obligation model would outweigh the benefits. Below we address the specific questions identified in the ITC.

Question 2.1 – Do you believe the exchange/nonexchange model would provide a suitable basis for classifying transactions and recognizing revenue and expense? Why or why not?

Yes. The exchange/nonexchange model employs already generally understood and defined concepts and terminology. Under the exchange/nonexchange model, basic transactions are already relatively easy to classify and recognize. The additional criteria of the government having control over a resource that applies to the current reporting period would provide a tangible basis for classification for the more complex situations. Centralizing existing guidance for exchange transactions within the conceptual model would create additional efficiencies for financial statement preparers.

For financial statement preparers and users in governmental settings, exchange and nonexchange categories make intuitive sense. Even if equal value is difficult to pin down, most situations can be analyzed and value approximated. Additional training and/or guidance in this area could strengthen consistency among preparers and comparability among financial statements while avoiding the need for stakeholders to learn a new model.

Question 3.1 – Do you believe performance obligation/no performance obligation model would provide a suitable basis for classifying transactions and recognizing revenue and expense? Why or why not?

Yes, with reservations. On the surface the performance obligation/no performance obligation model appears to simplify the classification and recognition of revenue and expense for items with performance obligations. However, significant areas calling for professional judgement still exist including the definition of a binding arrangement, distinct goods and services, specific beneficiary, and even another party, as such a classification could potentially apply to intragovernmental transactions.

Also, determination of revenue allocation in situations where multiple performance obligations exist in a binding arrangement, particularly if contracts or purchase agreements are unclear, would require an application of professional judgment. Lastly, financial statement preparers still have the challenge of making a determination of equal value and specific beneficiaries.

Grant-funded contracts or purchase agreements with various performance obligations built in as milestones over the course of the agreements could become more cumbersome for financial statement preparers to manage. Determining recognition of revenue and expenses in these instances would require a higher degree of collaboration with program managers who may not understand the importance of timely and accurate reporting. Adding this level of complexity could increase recognition errors.

Question 4.1 Do you believe that the alternative model considered as an example in this chapter could provide a suitable basis for classifying transactions and recognizing revenue and expense? If so, what are the potential benefits and challenges of that model?

No. Although this approach would potentially solve the need for better classification of exchange revenues and expenses the challenges that apply to the performance obligation/no performance obligation classification would still exist. In addition, blending a different concept of performance obligation/no performance obligation with the “redefined” familiar terminology exchange/nonexchange may ultimately create more confusion.

Respectfully submitted,

Nicole Rollins
Chair, Professional Issues Committee

Key ALGA Contributors:
Kerry Bailey, County of San Luis Obispo, CA
Larry Stafford, Clark County, WA