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Mr. David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board (GASB)
Project No. 3-25
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Re: GASB Preliminary Views on major issues related to *Financial Reporting Model Improvements*

Dear Mr. Bean,

The Association of Local Government Auditors (ALGA) appreciates the opportunity to respond to the GASB's Preliminary Views on major issues related to *Financial Reporting Model Improvements*. ALGA represents 272 audit organizations comprising more than 2,200 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 Preliminary Views in its entirety. As requested by the GASB, we have provided comments on aspects that we agree with, as well as ones we disagree with and the reason why. Our comments are provided below.

Chapter 2 Recognition Concepts

We agree that the current financial resources measurement focus should be replaced with the short-term financial resources measurement focus for governmental funds. We also agree with recognizing inflows from short-term transactions and other events when they *occur*, and from long-term transactions and other events when the payments are *due*. This improves the user's ability to evaluate budgetary information, and to see the amount of fund balance available for spending in the subsequent period.

However, we support the alternative views regarding the definition of short-term financial resources and replacing the concept of *normally*. We support the expansion of the definition of short-term financial resources to include items expected to be due in the next year. We agree that financial assets and liabilities should be recognized when due pursuant to their stated or contractual maturities, or best estimate thereof, rather than

when *normally* due for governments. While we appreciate the preliminary views' intention to enhance comparability between governments, we agree with the alternative views that it would excessively reduce the representational faithfulness and completeness of the information, yielding potentially "illogical results." Furthermore, the replacement concept for *normally* would provide more accurate information about short-term financial resources actually available for spending in the next period.

Chapter 3 Presentation of Governmental Fund Financial Statements

We agree with the proposed presentation using the current and noncurrent activity format, as ultimately providing more useful information than the current format. We reluctantly agree with the proposed changes to the titles of the governmental fund financial statements, and related changes to the names of the elements. While it is not inherently desirable to make the elements titles so long, it does serve to distinguish them from the elements in the government-wide financial statements. We also think that the addition of the explanation at the top of the short-term financial resources balance sheet will help inexperienced users more quickly grasp the difference between the governmental funds vs. government-wide financial statements.

Chapter 4 Presentation of Proprietary Fund Financial Statements

We agree with the proposed definition of operating revenues and expenses, as being anything besides nonoperating revenues and expenses. This will ensure no revenues or expenses are omitted from consideration. We especially support the introduction of specific definition of nonoperating revenues and expenses. This will significantly improve comparability between governments, and the self-sustaining vs. subsidized approach provides valuable information easily understood by non-experts. The addition of the subtotal for operating income (loss) and noncapital subsidies is informative.

Chapter 5 Budgetary Comparison Information

We support requiring budgetary comparison information to be presented as Required Supplemental Information. This is consistent with the conceptual basis for selecting communication methods and will improve comparability between governments. We also agree with requiring both the final budget-to-actual variance and the original-budget-to-final-budget variance, as they provide insight into different aspects of budgeting.

Chapter 6 Other Issues

We support eliminating the option to present condensed major component unit financial statements in the notes, as this will improve the comparability of financial statements. We also agree that a natural classification of government-wide expenses, presented as supplementary information, would provide useful but not essential information about the breakdown of cost by program.

Thank you for the opportunity to provide feedback in the standards development process.

Respectfully submitted,

Nicole Rollins

Chair, Professional Issues Committee

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