April 23, 2018

Mr. David Bean, Director of Research and Technical Activities
Project No. 4-6I
Governmental Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

RE: GASB Invitation to Comment – Revenue and Expense Recognition

Dear Mr. Bean:

Thank you for the opportunity to respond to GASB’s Invitation to Comment (ITC) - Revenue and Expense Recognition. In general, we are in favor of a comprehensive revenue and expense model, and we appreciate a single document for guidance. Our preference is the exchange/nonexchange model. Please find our responses to the GASB’s questions below.

Chapter 2—Exchange/Nonexchange Model
The exchange/nonexchange model would classify revenue and expense transactions based on whether a transaction is considered exchange or nonexchange. If the transaction is an exchange, revenue or expense would be recognized based on an earnings recognition approach. If the transaction is a nonexchange, revenue or expense would be recognized based on the provisions of Statement 33, as amended.

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 is a good foundation for a comprehensive revenue and expense recognition model. This model would require modifications to guidance that currently exists in GASB standards, rather than creating an entirely new model. It is familiar and should have a shorter learning curve for users.

Expanded guidance and improved definitions for the concepts of “equal value given/received” and “earnings recognition approach” should eliminate or lessen the classification difficulties and inconsistencies with exchange recognition.

Clarifications and additional guidance for GASB Statement 33 would enhance understanding and ensure appropriate application. The concepts of GASB Statement 33 can be difficult to understand and are included in all of the models presented in the ITC; therefore, improvements to this standard are essential to the project.
It is unfortunate that the ITC, at this time, does not include proposals for the governmental fund activity, as it is the unique part of governmental accounting and its recognition is of greater concern. This project would be less theoretical in nature if the Reporting Model project was complete or if this project included the guidance for governmental fund activity.

This model could succeed with modification, expansion, and appropriate implementation guidance.

Chapter 3—Performance Obligation/No Performance Obligation Model
The performance obligation/no performance obligation model would classify revenue and expense transactions on the basis of whether a binding agreement contains one or more performance obligations. If the transaction contains a performance obligation, revenue or expense would be recognized following the performance obligation recognition approach. If the transaction does not contain a performance obligation, revenue or expense would be based on the provisions of Statement 33, as amended.

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

Our first choice would be to invest efforts into fixing the issues with the existing exchange/nonexchange model before creating an entirely new path. The performance obligation model is theoretical and introduces new, untested concepts. Would this be an improvement, or just a change with its own set of issues? Given the significance of the proposed changes, it would be necessary to see a more developed model and specific examples.

It is positive that the performance obligation model’s criterion to determine transaction classification includes more guidance than the current exchange/nonexchange evaluation of equal value given/received. It also has potential to simplify decision making for revenue and expense recognition if it translates into the governmental accounting environment.

As stated above, it would be beneficial if the ITC had discussion and examples for governmental fund activity to assist with the understanding of the intended impact of the proposed performance obligation model. In addition, clarifications and guidance for GASB Statement 33 would enhance understanding and ensure appropriate application and improvements to this standard are essential to the project.

While other accounting standard setters are considering or have moved forward with revenue recognition using the performance obligation approach, they are addressing for-profit business revenue from customer contracts. When appropriate, the same or similar standards for both FASB and GASB could provide potentially useful and comparable financial information. However, governmental accounting may not be able to follow the same path, as it is different from the for-profit environment and transactions. As recently as September 2017, GASB updated its Whitepaper “Why Governmental Accounting and Financial Reporting Is – And Should Be – Different” which includes multiple reasons on
why “Governments are fundamentally different from business enterprises. As a result, separate accounting and financial reporting standards for governments are essential to meeting the needs of the users of governmental financial reports...” It also states, “The prevalence of public services and goods in government, combined with viewing the benefits and costs of those services and goods for a societal perspective, results in a somewhat different approach to measurement in governmental financial reports”.

Chapter 4—Alternative Models
Other alternative revenue and expense recognition models could be suitable for governments.

4.1. Do you believe that the alternative model presented as an example in Chapter 4 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?

Similar to the performance obligation model, this would not be our preferred path. We like that it maintains existing exchange/nonexchange model classification while adjusting the revenue and expense recognition from the earnings recognition to performance obligation. It would be necessary to develop more details to evaluate this model and GASB 33 should be modified for improvements as stated above.

4.2. The models distinguish transactions on the basis of (a) exchange or nonexchange or (b) a performance obligation or no performance obligation. Do you believe there is another alternative for distinguishing revenue and expense transactions? If so, please describe that alternative and explain why you believe it would be suitable.

It is possible, but we are not aware of another alternative.

If you have any questions or need additional information regarding this response, please do not hesitate to contact Lisa Dooly at (515) 281-4098.

Sincerely,

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