April 23, 2018

Mr. David R. Bean
Director of Research and Technical Activities
Project 4-61
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

We have reviewed the Governmental Accounting Standards Board (GASB) Invitation to Comment (ITC), Revenue and Expense Recognition, and are pleased to offer our comments.

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 – this model has been in place for many years and, while it can be difficult to make the exchange/nonexchange determination for certain types of transactions, it has served us well for a significant period of time and could continue to do so. Due to the nature and purpose of a government and the diversity of their operations, we feel as though typical and more routine transactions of a government do naturally fall into exchange (charges for services – proprietary funds) or non-exchange (taxes) classifications. As discussed in the ITC, we agree that, if this model is chosen, consistency of accounting for similar transactions would be better achieved with additional guidance on the exchange / nonexchange classification including guidance on the determination of “value”. Additionally, if this model were chosen, we believe additional and significant guidance on the recognition of exchange transactions would also be necessary given that there is limited guidance within the current GASB standards. While we believe the exchange/nonexchange model would remain suitable, given that significant new guidance needs to be created on the recognition of exchange transactions, you will see in our response to ITC question 4.1 that our preference would be the selection of the alternative model which would keep the exchange / nonexchange classification, but utilize the concept of a performance obligation to create the recognition guidance for exchange transactions.
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?

Yes – we believe that a comprehensive model for revenue and expense classification and recognition using a performance obligation / no performance obligation classification system could be utilized and logically followed within the governmental financial accounting and reporting framework. This could result in some simplicity with many transactions all running through one model and would eliminate the classification problems which exist with some transactions in the current exchange / nonexchange model. While we believe the performance obligation model could result in a suitable basis for classification and recognition, we do not feel it is the best choice. We believe this model would be exchanging (no pun intended) one classification problem (exchange / nonexchange) for another, possibly more complicated, classification problem (performance obligation / no performance obligation). Under the performance / no performance obligation model you would begin with what would appear to be one decision, is there a performance obligation or is there not a performance obligation, but in actuality you have four decisions to make, each with equal importance: (1) is there a binding arrangement, (2) is another party involved, (3) are there distinct goods or services involved, and (4) is there a specific beneficiary. These four decisions would replace what is really one initial question, is the transaction an exchange or nonexchange transaction, if either the alternative method (Chapter 4 of the ITC) or the exchange / nonexchange model is utilized. Putting substantially all transactions through a decision process involving four initial questions will inevitably lead to more complications and effort, and thus more inconsistency and costs, than putting those transactions, initially, through a more familiar and one question process of determining whether they are exchange or nonexchange.

In addition, as discussed in our response to Question 2.1 above, we believe a government’s transactions fit more naturally in an exchange / nonexchange classification. Using a pure performance obligation model could result in similar transactions, in the view of many governments, (such as grant revenue) accounted for and recognized differently depending on whether there is a performance obligation or not. We believe this will be very confusing to many governments and users of the financial statements. We also understand that you intend to “carve out” imposed tax transactions and derived tax transactions from having a performance obligation – primarily using the specific beneficiary criteria in the performance obligation definition – and separate the notion of a purpose restriction from a performance obligation. We believe this “carve out” or distinction will also lead to confusion when the substance of a tax transaction (such as a motor fuel tax to be spent specifically on a certain aspect or area of a transportation network) may not differ from the substance of an intergovernmental revenue which may be restricted for the same purpose but one contains a performance obligation and the other does not – and thus the recognition may differ.

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?

As indicated in our responses above, we do believe the alternate, or hybrid, method proposed in Chapter 4 of the ITC would be a suitable basis for classifying transactions and recognizing revenue
and expense and it would be the method, of the three presented, that we believe would be the best choice.

As noted above, we believe a government’s transactions more naturally fall in exchange / nonexchange classifications. This is a concept currently familiar to financial statement preparers and users. Although there are challenges with the classification of some exchange-like transactions, we believe consistency of classification could improve with additional guidance provided as part of this project. As discussed in more detail in our response to Question 3.1, we believe the performance obligation / no performance obligation model creates more complexity and four decisions which must be made for each transaction. Given that roughly two-thirds of all revenue transactions of a typical, traditional government are nonexchange and that the majority of those transactions would most likely end up with no performance obligation (and thus follow the same GASB 33 accounting as if they were treated as nonexchange transactions from the beginning), it seems that avoiding the complexity and costs involved with analyzing each of these transactions through a performance obligation model, and the resulting four decision points, would be less complicated and more cost-effective.

We also believe this alternative method would more closely align with the Financial Accounting Standards Board (FASB) Codification Topic 606 which brings the performance obligation model only to revenue from contracts with customers. It would also more closely align with our current understanding of the FASB project underway related to contributions (including many grant revenues) which may result in these transactions all being considered nonexchange. Under the FASB guidance, these amounts would then not follow the performance obligation accounting. If the GASB chooses to follow the alternative method, this would more closely align the classification and accounting for similar transactions (such as contributions and some grants) between FASB reported not-for-profits (universities) and health care entities and the GASB reporting similar organizations.

Additionally, as noted in our response to Question 2.1 and in the ITC, there is very limited existing guidance on the accounting for exchange transactions and additional guidance is warranted. Since this guidance needs to be developed – taking this opportunity to align the accounting of GASB exchange transactions with the accounting guidance for similar transactions established by other standard setters (such as the FASB) does seem logical. These transactions, primarily charges for services, do not differ significantly from customer revenue transactions of private sector entities and thus following a similar performance obligation model as that utilized by the FASB does seem appropriate.

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

We do not have an alternative classification methodology to propose.
We appreciate the opportunity to provide input into the process you are undertaking in evaluating revenue and expense recognition. If we can be of more help in the process, please let us know.

Sincerely,

MAULDIN & JENKINS, LLC

Joel Black