April 23, 2018

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

Dear Mr. Bean:

We are writing to you on behalf of Government Finance Officers Association of the United States and Canada (GFOA) in response to the Governmental Accounting Standards Board’s (GASB) Invitation to Comment (ITC) on Revenue and Expense Recognition. This response was prepared by GFOA’s standing Committee on Accounting, Auditing, and Financial Reporting (CAAFR), all of whose members are active government finance officers.

GFOA supports the need to provide additional guidance on the recognition of revenue and expense transactions, in order to obtain more consistent reporting of information across governments. We also recognize the need to consider the implementation of a performance obligation approach for revenue recognition similar to other accounting standard setters. After reviewing the proposed models, the overall consensus was that we did not see the benefits of moving forward with the performance/nonperformance or alternative models as presented in the ITC.

GFOA understands that the GASB’s technical agenda envisions the completion of the Financial Reporting Model project prior to finalization of the Revenue and Expense Recognition project, and that the decisions made regarding the former will affect the latter. We also believe that no matter which direction the GASB takes with regard to the Revenue and Expense Recognition project, the way revenues and expenses are presented in the financial statements has to be understandable to the end user, not just the preparers of the financial statements. We have provided responses to the questions as listed in the ITC for your consideration.

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?

GFOA believes that the current exchange/nonexchange model is working and does not feel the benefits to be gained by changing to another model outweigh the costs of the change. The majority of a government’s revenue transactions qualify as nonexchange transactions, such as taxes and grants, and as such, the recognition of these revenues is based on GASB Statement No. 33. GFOA agrees that the existing guidance on exchange and nonexchange transactions should
be clarified, particularly as it relates to the term equal value. However, we do not believe the amount of clarification would require extensive guidance.

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?

GFOA recognizes the benefits of a greater consistency with the FASB with revenue and expense recognition and has promoted that there should not be any unnecessary difference with the private sector. GFOA believes the performance obligation model may provide a suitable basis for classifying transactions and recognizing revenue and expense, however we do not feel the benefits to be gained would justify the change. Most transactions would continue to be recorded in substantially the same manner, with the exception of some government-mandated and voluntary nonexchange transactions. It is notable that in all of the examples detailed in Appendix A to the ITC the revenue or expense recognition appears to be the same, regardless of whether the proposed exchange/nonexchange model or performance obligation/no performance obligation model is used. Examples of transactions that would be recognized differently based on which model is used would be more helpful and provide a more compelling case. If the GASB chooses to move forward with the performance obligation/no performance obligation model, we suggest the inclusion of such examples.

Paragraph 5 in the performance obligation/no performance obligation model chapter defines “equivalent terms” in a binding arrangement as “the amount of consideration received or provided in the transaction that corresponds to the amount of goods or services provided or received”. This is confusing and seems to contradict paragraph 24c of the same model, which states that the assessment of “equal value” is not a part of the classification process for the performance obligation model. Value should not influence where to classify a transaction.

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?

GFOA believes that the alternative model allows for greater consistency with the FASB while still providing for the unique character of some (nonexchange) transactions within the public sector. It also retains the current terminology and logic of the exchange/nonexchange model while replacing the recognition approach with a performance obligation approach for the transactions that are most similar to the private sector, which already uses that approach. GFOA recognizes that this may be a significant change in the recognition of expenses within the public sector, which will require additional guidance during the implementation, including examples of transactions that would be recognized differently under this model. While our preference remains the current exchange/nonexchange model, we find the alternative model preferable to the performance obligation/no performance obligation model.
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 transactions? If so, please describe that alternative and explain why you believe it would be suitable.

GFOA does not have another alternative to present.

Thank you for the opportunity to comment on this important topic. If you have any questions regarding our position, please contact GFOA’s Director of Technical Services, Michele Mark Levine at 312.917.6101; fax: 312.977.4806; or email: mlevine@gfoa.org.

Sincerely yours,

Melinda Gildart, Chair
Committee on Accounting, Auditing, and Financial Reporting

Melanie Keeton, Vice-chair
Committee on Accounting, Auditing, and Financial Reporting