April 23, 2018

Mr. David Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
Norwalk, CT

Dear Mr. Bean:

On behalf of the professionals serving governmental entity clients at CliftonLarsonAllen LLP, we appreciate the opportunity to comment on the issues discussed in the Invitation to Comment (ITC) – Revenue and Expense Recognition in the early stages of this process.

The GASB believes a comprehensive model should be developed for recognition of revenue and expenses. In theory, we support such development, as long as the result improves comparability among government organizations and more useful information can be obtained by users of those financial statements. However, we caution the Board to consider costs versus benefits as it explores options. We are generally not aware of severe problems affecting comparability, and do not favor adding the cost associated with complexity, if wide-scale changes are unnecessary.

In the ITC, it is noted this discussion is limited to the recognition of revenue and expense transactions for the economic resources measurement focus, and that recognition of transactions for a financial resources measurement focus may need to be addressed. Without understanding what other guidance the Board is considering in this respect, we generally are not supportive of significant variances between the measurement focus for economic resources and financial resources beyond what is already addressed in the accounting guidance for the modified accrual basis of accounting used in governmental funds. We have addressed many of those concerns in our response to the Board’s previously issued Invitation to Comment on the Financial Reporting Model Improvements—Governmental Funds.

**Question 2.1**

We believe the exchange/nonexchange model could provide a suitable basis for classifying transactions and recognizing revenue and expense.

Preparers and users of the financial statements are accustomed to and understand the current exchange versus nonexchange concepts in accounting. As a result, implementation challenges may be less than with other models. The current nonexchange revenue guidance is comprehensive and has been successfully applied. If a transaction does not meet the definition of nonexchange, then guidance for such exchange or exchange-like transactions would be appropriately applied.

Governments often enter into arrangements that are exchange-like where the value of the exchange is unequal. This is inherent in governmental entities in their provisions of services to citizens and due to the lack of a profit motive.
Currently, guidance for such exchange-like transactions where the value of the exchange is unequal is very limited; therefore accounting guidance for such situations could increase consistency in reporting such transactions. As noted in the ITC, we agree additional guidance regarding the assessment of value would be helpful, addressing both concepts of equal and unequal value.

We have encountered certain nonexchange transactions where concepts introduced in the recognition method for exchange transactions could be applied. Consider the following situation: County A has a tourism development program. Under that program, County A agrees to provide resources to City B to help pay for a tourism-related capital asset constructed in and by City B. The capital asset will draw visitors to City B and surrounding areas. County A will benefit from increased lodging tax it will collect in the future. Such collections by County A of future lodging tax is pledged as the source of the resources provided to City B. City B issues debt for the construction of the asset, and the payments from County A to City B will be provided over 20 years, corresponding with the repayment of such debt. Currently, this could be considered to be a nonexchange transaction where County A incurs an obligation to sacrifice a resource that is applicable to a future reporting period. Under the exchange/nonexchange method proposed, if this were considered to be an exchange transaction, the future payments would be reflected as deferred outflows of resources because the consumption of net assets would not occur until a future period. If considered to be a nonexchange transaction, the provider would record an expense.

In this situation, different treatments due to classification as exchange versus nonexchange does not follow a current expense recognition theory. It will be important to understand the rationale of the Board’s intent.

**Question 3.1**

We also believe the performance obligation/no performance obligation model could provide a suitable basis for classifying transactions and recognizing revenue and expense.

In our opinion, the performance obligation/no performance obligation model would provide the best guidance for business-type activities, where the intent is that the governmental entity charge user fees to cover the cost of services provided. In more complex situations than included in the examples, such as provision of health care services, such guidance about revenue recognition as each performance obligation is satisfied could promote more consistency among governmental entities and to *nongovernmental* entities that also provide health care services. This method provides guidance on how to allocate consideration and when to recognize revenue and expense.

However, we agree with the potential challenges indicated in the ITC. New concepts often cause disparity in understanding and application, which may cause less rather than more comparability in the financial statements. The concepts in this method may introduce unnecessary complexity in recognition of governmental activity exchange or exchange-like transactions. Additionally, under this model, some transactions previously recognized using the guidance contained in GASB Statement No. 33 would now be recognized under the performance obligation model. This may present challenges in implementation, especially in interpreting the concepts surrounding fulfillment of the performance obligation.

We ask the Board to consider scenarios where multiple revenue sources are combined when providing services. For example, many county governments administer social service programs with funding from both federal and state grants, as well as local sources. Under the current nonexchange transaction model, recognition of each of these revenue streams is based on eligibility requirements and pooled to serve the targeted population. Many times, members of this population receive benefits from multiple social service programs.
Under the performance obligation model, the complexity to determine consideration, fulfillment of multiple performance obligations to specified beneficiaries, and allocation of the consideration could be an intense administrative burden where the cost would certainly outweigh the perceived financial reporting benefit.

Within the ITC, the authors point out the concepts of a binding arrangement, specific beneficiary and distinct goods and services, as well as the allocation of consideration, may need to be developed further. While the determination of whether there is or is not a performance obligation may appear simple in theory, these concepts would need to be developed further to evaluate the cost/benefit of implementing this model.

Paragraph 22 of the ITC states that recognition under the performance obligation model needs further consideration, and emphasizes this ITC only addresses revenue and expense transactions using the economic resources measurement focus. We reiterate our request that the Board refrain from introducing widening recognition differences between the economic resources measurement focus and the financial resources measurement focus as it deliberates revenue and expense recognition and the potential changes to the governmental funds.

**Question 4.1**
We also believe the alternative method could provide a suitable basis for classifying transactions and recognizing revenue and expense. This method provides guidance on how to allocate consideration and when to recognize revenue and expense for exchange transactions. However, it is unclear how such guidance would apply to exchange-like transactions. This method also includes concerns addressed above related to the performance obligation method.

**Question 4.2**
We do not propose at this time any additional alternative methods for distinguishing revenue and expense transactions.

In closing, we urge the Board to consider costs related to complexity against potential benefits from introducing new measurement focuses in accounting for revenue and expense. We do not perceive shortfalls in the current accounting standards to be severe, and consistency improvements could be made by enhancements to current guidance. Although other standards setters are implementing principles-based revenue recognition guidance, those concepts do not all pertain to governmental entities, and while it is important to consider other proposals, it is equally important to recognize where differences should exist. Therefore, we encourage the Board to consider enhancement of current guidance for exchange and exchange-like transactions, without adding undue complexity through such guidance.

Respectfully submitted by

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CliftonLarsonAllen LLP