April 24, 2018

Via Electronic Mail

Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856

RE: Response to GASB Invitation to Comment – Revenue and Expense Recognition

The Office of the Washington State Auditor appreciates the opportunity to give input on the GASB’s proposed standards (Project No. 4-6I). In our constitutional role as the auditor of public accounts for the State of Washington, our Office performs the financial audit of the State of Washington and annually performs or reviews over 800 financial audits of the State’s agencies and all types of local governments, along with their component units.

Our Office actively participates with various associations, to which we contribute our comments on every exposure draft. However, due to the importance of this Invitation to Comment, we wish to emphasize certain comments for the Board’s consideration. Our responses to the questions asked by the Board are included below.

Our Office supports the GASB’s effort to create standards helping with consistency in reporting and making them similar to other standard setters. However, considering currently existing standards and the Board’s agenda including the major revision of the financial reporting model, we do not see sufficient benefit in moving to a performance/nonperformance model at this time.

Issues for 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?

Yes. We agree the model would benefit from expanded and improved guidance and that there is a conceptual difficulty with determining whether there was equal value exchanged to distinguish between “exchange” and “non-exchange” transactions. However, in practice, we have not experienced significant problems with governments
having difficulty determining whether a transaction is an exchange or non-exchange. For this reason, we believe the current model is suitable.

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?

This is the model that has been adopted by other standard setters, so the answer to this question can be determined by looking to the experience of those other standard setters in implementation. While an advantage of this model would be convergence with other standard setters, we are concerned about an increase in complexity for little or no benefit. As reflected in the examples, most transactions would appear to be recorded in substantially the same manner. Moreover, the model would not address the majority of government revenues, which would continue to be reported under existing guidance in GASB 33.

In order to be considered suitable, further work is needed on criteria for this model. For example, we believe that applying criteria to non-exchange transactions such as grants, fines and fees will be confusing if existing guidance in GASB 33 is left intact. Also, we are not sure why the articulation criteria is necessary.

In summary, it appears that this model would introduce new challenges, while not solving the most important existing challenges.

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?

We would not be in favor of this model. It would appear to add significant change and complexity without solving any of the challenges with either model.

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.

The Board may wish to consider all transactions to have a performance obligation. Performance obligations would then be identified and met based on whatever criteria exists for resources to become due and payable to the government or for the government to have a legally enforceable claim to the resources. For example, in the case of a contract for services, this would be providing the services. In the case of a grant, it would be meeting whatever purpose, use, time or other criteria imposed by the grant agreement. In the case of a donation with no stipulations, it would be receipt of the funds. In the case of a tax, it would be meeting whatever legal criteria for the tax to become due and payable to the government, such as having imposed a tax and existing as a government at that point in time.
Recognizing revenues and expenses based on this concept of an obligation or right (that is, “due and payable” or a “legally enforceable claim”) would be consistent with the definitions of assets and liabilities in GASB Concept Statement 4. This concept would also allow the model to be applied consistently to all of a government’s revenues, rather than only a portion.

Other Comments:

Difficulties we have encountered in practice normally arise from the complexity introduced by the reporting model and nonexchange transactions. Currently, there are 10 possible combinations for recognition with four categories of nonexchange transactions, exchange transactions, and reporting those transactions under both modified accrual and full accrual basis of accounting. Moreover, a consideration of the revenue and expense recognition of exchange transactions necessarily requires consideration of the effect on guidance for nonexchange transactions, as demonstrated in Example 3 in paragraph A9-A13 of the Invitation to Comment. Therefore, regardless of which model is ultimately selected, we encourage the Board to consider revisions and simplifications to nonexchange transaction guidance in GASB 33 as a part of this project, rather than leaving GASB 33 guidance intact as mentioned in Chapter 2, paragraph 13 and Chapter 3, paragraph 14.b of the Invitation to Comment.

Thank you for the opportunity to provide our comments. Any inquiries may be directed to me at (360) 906-0362.

Sincerely,

Sadie Armijo, CFE
Assistant Director of Local Audit