April 26, 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

Mr. Bean:

Baker Tilly Virchow Krause, LLP ("Baker Tilly") appreciates the opportunity to respond to the GASB Invitation to Comment (ITC), Revenue and Expense Recognition.

Baker Tilly is a large accounting firm with approximately 300 partners and 2,700 team members, and is ranked in the top 15 of American CPA firms. Baker Tilly performs approximately 1,000 audits of governmental entities annually. We have drawn on this experience in preparing our response for your consideration.

Our response aligns to the questions posed for readers of the ITC, recognizes all three models as potentially suitable for classifying revenues and expenses, and identifies what we believe to be the primary benefit and challenge of each model.

**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?

Governments have been following an exchange/nonexchange model under existing generally accepted accounting standards for many years, and in our experience, have not encountered major challenges in doing so. As a result, we conclude that it could be a suitable basis for classifying transactions. However, consistent with the results of the GASB Statement No. 33 post-implementation review, we agree there are improvements that should be made in clarifying the classification and recognition of certain non-exchange transactions. We also understand there are limitations in existing authoritative guidance on exchange transactions. If this model is pursued, we recommend non-exchange transactions under GASB Statement No. 33 be fully analyzed for potential improvements and further guidance on exchange transactions be developed.
We believe the primary disadvantage of continuing the exchange/nonexchange model is increasing lack of alignment with other standard setters, both within the United States and as proposed by the International Public Sector Accounting Standards Board. Educating future preparers, auditors, and readers of government financial statements about these differences will become more challenging as the performance obligation becomes more common.

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?

In addition to alignment with other standard setters as identified previously, a benefit of a performance obligation model would be increased clarity to when specific performance obligations exist in governmental operations. We can understand the benefit of separating the revenues streams from which the government has significant discretion in how use to serve the needs of its citizens from the revenue streams from which the government must fulfill certain requirements.

The most significant challenge with this method will occur in applying it to the many nonexchange revenue streams that occur today, which comprise the majority of governmental revenues. The definition of a performance obligation will need some additional clarity in our opinion, especially as it relates to the formality of a binding arrangement. Furthermore, we recognize there will be significantly more analysis required for each intergovernmental agreement and depending on how clearly the performance obligation definition becomes, there is a potential for differing conclusions, and therefore, recognition.

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?

The alternative model alleviates the challenge identified in the immediately preceding paragraph related to the application of a performance obligation framework to the majority of current governmental nonexchange revenues. It also provides for the future expanded guidance for exchange transactions to be grounded in a model that is aligned with other standard setters.
The primary challenge with this model is added complexity with essentially applying both the exchange/nonexchange and performance obligation/non-performance obligation criteria to some transactions.

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.

We have not identified any other alternatives at this time.

We appreciate the opportunity to provide comments on this invitation to comment. Should you wish to discuss any of these comments, please contact Heather Acker, Public Sector Professional Practice Partner, at heather.acker@bakertilly.com or 608 240 2374.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

Baker Tilly Virchow Krause, LLP