April 26, 2018

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

Submitted via email to director@gasb.org

Dear Mr. Bean:

Thank you for the opportunity to provide these comments regarding the Invitation to Comment of the Governmental Accounting Standards Board (GASB, the Board), Revenue and Expense Recognition (ITC, the ITC). The Board is to be commended for taking this step toward developing a comprehensive revenue and expense model for state and local governments. I appreciate this opportunity to respond and my comments reflect my views as a former government finance officer and a current academician responsible for teaching undergraduate and graduate level courses in governmental accounting and auditing.

General Comments – Chapter 1 Introduction

A reason cited in the ITC for issuing the ITC is other accounting standards setters are considering/implementing revenue recognition guidance using a performance obligation model (paragraph 3 (c)). Personally, I find this a bit contradictory as it is inconsistent with the Board’s recent exposure document classifying construction period interest as an outflow of resources. If adopted as proposed, this guidance will result in state and local governments reporting the total cost of capital assets differently from the private sector. There are numerous areas where the Board has adopted accounting standards which are inconsistent with private sector accounting standards (asset retirement obligations, pension liabilities, pollution remediation obligations, component units, to name a few). Because governments are fundamentally different from private sector entities, it stands to reason accounting and financial reporting would need to be different. Therefore, pursuing performance obligation revenue recognition models because the private sector does is not a reason supporting the issuance of the ITC.

As noted in the ITC, a comprehensive revenue and expense model is expected to result in more robust guidance for a wide range of transactions and, as such, will improve comparability (paragraph 3 (d)). However, paragraph 2 refers to a principles-based model which will not, by definition, improve comparability. A rules-based approach, by definition, is likely to result in increased comparability. Several articles have been in the news recently discussing the different effects the Financial Accounting Standards Board’s (FASB) new principles-based revenue recognition standard (Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606)) is having on private sector entities. Not only does this principles-based approach result in a lack of comparability among entities, the financial statement notes are also reported as not being comparable from one entity to the next. I personally support principles based accounting standards but not because they improve comparability.

Paragraph 14 of the ITC discusses the benefit and cost considerations and notes the potential benefits are noted throughout the ITC. At this point, there is likely evidence of the costs the private sector has incurred in implementing ASU 2014-09. Anecdotally, this ASU has been one of the most difficult for the private sector to implement. I would remind the Board, private sector entities typically have the financial and human resources to devote to implementing and reporting accounting standards. Governments, on the other hand, traditionally have not invested in human resources in support functions such as financial reporting because limited financial resources are allocated to front line services. Therefore, governments
may incur significant initial and ongoing costs if significant changes are made to current revenue recognition standards.

**Chapter 2 – The Exchange/Nonexchange Model**

**Question 2.1**

I believe the exchange/nonexchange model would provide a suitable basis for classifying transactions and recognizing revenue and expense primarily because it is closest to current practice and because it is a principles based approach. Additionally, I agree recognizing exchange revenue and expense should be recognized when the exchange is complete – the earnings recognition approach. Determining when an exchange is complete is a long accepted trigger for revenue recognition. It is easy to determine and easy to understand.

I also strongly believe governments should recognize revenue from exchange transactions differently from nonexchange transactions. Overlaying nonexchange transactions with private sector exchange-type recognition concepts ignores an overarching characteristic of governments which is they exist to provide public goods and services. As such, governments are empowered to finance these goods and services with financial resources provided by involuntary resource providers.

While the concept of “equal value” underlies the classification of a transaction as an exchange or nonexchange transaction, I would suggest the Board consider the FASB’s proposed approach which uses “commensurate value”. This term is more in line with a principles-based approach to revenue and expense recognition. Additionally, use of the term commensurate value may reduce the subjectivity associated with value.

**Chapter 3 – The Performance Obligation/No Performance Obligation Model**

**Question 3.1**

I do not believe the performance obligation/no performance obligation model would provide a suitable basis for classifying transactions and recognizing revenue and expense. The definition of performance obligations adds complexity to revenue recognition which does not exist under current standards. Implementation of ASU 2014-09 has proven problematic for many private sector entities. These entities have had several years to prepare for implementation and have devoted significant financial resources to such efforts. Governments have limited financial resources and it does not seem to be in the public interest to divert them from front line services simply to implement the requirements of an accounting standard. As noted in the ITC, the majority of government revenues are from nonexchange transactions; therefore, I question the need to significantly change the current revenue recognition model.

One reason for issuing the ITC is other accounting standards setters are considering/implementing a performance obligation approach. However, the performance obligation recognition criteria proposed in the ITC are inconsistent with ASU 2014-09. If the Board wishes to minimize the differences in revenue recognition between governments and the private sector by using a performance obligation model, I would recommend the recognition criteria be consistent with ASU 2014-09. Implementation of ASU 2014-09 has been difficult for many private sector entities and users of their financial statements are also trying to understand the requirements. If the Board adopted different recognition criteria than what is required in ASU 2014-09, this could create confusion among financial statements users.

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1 Proposed Accounting Standards Update, Not-for-Profit Entities (topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.*
Chapter 4 – Alternate Model

Question 4.1

I do not believe the alternate model in the ITC would provide a suitable basis for classifying transactions and recognizing revenue and expense. As stated in my response to Question 3.1, I do not support the use of a performance obligation approach whether it be for classifying transactions or recognizing revenue.

Question 4.2

I believe consideration of an exchange/nonexchange model and performance obligation/no performance obligation model is adequate for the purposes of developing a revenue and expense recognition model. No other alternatives need be considered.

As always, thank you for the opportunity to respond to this due process document. Should you have any questions regarding the above, please contact me at (407) 869-9254 or lkmdennis@gmail.com.

Sincerely,

s/Lynda M. Dennis

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