April 27, 2018

David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Project No. 4-61 Revenue and Expense Recognition

Dear Mr. Bean:

Please accept the following response from the Town of Cary, North Carolina in reference to GASB’s Invitation to Comment (ITC) Project No. 4-61, Revenue and Expense Recognition.

Though we have attempted to answer the questions included in the ITC below, we believe we can synthesize our position here for clarity. Despite the challenges that are noted for the exchange/nonexchange model, specifically retaining the classification approach, issues surrounding eligibility requirements for certain nonexchange transactions, and the inconsistency of application, this model is the stronger of those proposed.

The option seems to be to solidify an exchange/nonexchange model adding in modifications to increase comparability and consistency or to completely change the model to a new way of classifying transactions with the possibility of still needing to issue modifications to increase consistency. The question is whether the current model is broken to the point that it needs to be completely revamped and our answer to that question is no. The performance obligation-based model in its infant form does not appear to simplify a government unit’s process to recognize revenue and expense but creates additional analysis for each transaction. Taken at face value, it seems that the performance obligation approach would require more scrutiny at the transactional level, which would require significant staff resources and guidance to implement.

The result of the performance obligation model may offer only marginally better consistency and may not materially improve recognition. As an example, it seems the majority of the Town of Cary’s revenue would still fall under GASB Statement No. 33 for guidance. The transactions that will be impacted by a performance obligation model live in the margins; the exceptions not the rule. With that said, using this opportunity to solidify and fine tune an exchange/nonexchange model would provide greater consistency and comparability.
Question:
2.1. – Yes, we believe that this approach would provide a suitable basis and is superior to the performance obligation model. Certainly, a level of familiarity exists in this option, which means training and implementation costs will be lower. The benefits of addressing exchange transactions in a single source document is also appealing. One of the challenges with this approach is that determination of eligibility requirements for certain non-exchange transactions is difficult, however, this challenge is listed for the performance obligation model, as well. As noted in the ITC, a refined definition of equal value would improve comparability between governments.

3.1 – No, this does not have potential to provide a suitable basis for classifying transactions and recognizing revenue and expense. It is understood that this model proposes a more well-defined systematic process to establish the necessary components of a performance obligation, which has merits. Do the benefits outweigh the costs for this new model, when it may be more feasible to enhance the exchange/non-exchange model? The lack of familiarity and potential resource strain with the performance obligation model limit its desirability. With the preliminary description given, it appears that the result would be neither simple, nor material enough to justify the completely new model.

In paragraph 24C, in the performance obligation section, the ITC notes that the model “is intended to simplify the manner of classifying transactions by focusing on the existence or absence of a performance obligation.” At first review of this model, it appears that the process to establish the existence of a performance obligation, although more defined, will add additional layers of review. This will require supplementary staff resources to document that the necessary components of a performance obligation are met. The result has the potential to be a burden on financial and staff resources of government units.

Identifying a specific beneficiary in the case of revenue transactions may prove difficult in practice as noted in paragraph 12 of the performance obligation section. Governments may not accurately identify the specific beneficiary in a consistent manner which would hinder comparability, especially in the case of grants. There will always be transactions that government units have trouble classifying correctly, regardless of the model chosen, thus it better to enhance the more familiar model.

4.1 – No comment.

4.2 – No comment.

Thank you for the opportunity to provide feedback through this invitation to comment.

Sincerely,

Seth Larson, CPA
Senior Accountant
Town of Cary

Jessica Murphy-Rhem, CPA
Accounting Supervisor
Town of Cary