April 26, 2018

Mr. David Bean  
Director of Research and Technical Activities  
Project No. 4-61  
Governmental Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Dear Mr. Bean,

Please accept the following response from our appointed Accounting Standards Review Committee as official comment from the Oregon Governmental Finance Officers Association (OGFOA).

We are responding to the Government Accounting Standards Board’s (GASB) request for written comments to Invitation to Comment, Project No. 4-61: Revenue and Expense Recognition.

Attached are our answers to the questions you requested responses to.

We appreciate the opportunity to provide valuable input on this invitation to comment.

Questions can be directed to the following members of OGFOA’s Accounting Standards Review Committee:

1. Ron Vaught, CPA, CGMA, City of Portland – Ronald.vaught@portlandoregon.gov, 503-823-2790  
2. Ron Harker, OGFOA Board Member, City of Roseburg – Rharker@cityofroseburg.org, 541-492-6710

Sincerely,

Lisa Young  
President  
Oregon Government Finance Officer Association  
jlyoung@bendbroadband.com - (541) 410-8170
QUESTIONS FOR READERS OF THIS INVITATION TO COMMENT

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?

The committee struggled to understand why people are having trouble determining whether a transaction is exchange or nonexchange. In our experience the distinction is usually clear.

In our experience the vast majority of transactions fall clearly into one of these categories. It would be nice to have some additional clarifying guidance; but we aren’t convinced that “significant additional application guidance” as is suggested in Chapter 2, paragraph 19.c. is needed in order to achieve consistency.

Governments record billions of transactions each year, but the vast majority of those transactions are related to routine transactions like payroll which are easily classified under existing guidance.

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?

We couldn’t come up with any compelling reason that governments should go to the additional costs involved (e.g., reading through every existing contract and applying new guidance) with switching to this new model. The auditors in the group also expressed concern about the additional costs that they would incur and need to pass on to governments.

Although this document is only directed towards the economic resource measurement it is hard to imagine having one model for classifying and recognizing revenue for accrual statements and another for modified accrual. As such, this change is obviously going to
impact both bases of accounting. That led some of the committee members to start wondering what impact this would have on budgeting.

Another concern was that we have already seen a lot of governments in Oregon abandon GAAP and start issuing cash basis statements. We can’t help but wonder if this would drive even more governments away from GAAP. The more layers of complexity and change that are added to GAAP, the more difficult it becomes for smaller governments to comply.

Finally, if you do decide to move forward with this approach please provide more examples, as we are having difficulty understanding the need.

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?

We didn’t find this model attractive either.

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.

As stated above we feel governments should continue using the current model with some additional guidance more clearly defining what constitutes an "exchange".