April 27, 2018

Director of Research and Technical Activities
Project No. 4-6I
Governmental Accounting Standards Board
Director@gasb.org
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

RE: GASB Invitation to Comment: Revenue and Expense Recognition

Dear Board Members:

On behalf of The Pun Group, LLP, I am pleased to present our comments on the ITC Revenue and Expense Recognition. My name is Gary Caporicci, a senior technical Partner at The Pun Group, LLP, a certified public accounting firm specialized in state and local governments, and serve as the GASB Implementation Specialist.

The Pun Group, LLP supports the idea of the development of a comprehensive revenue and expense model for state and local governments.

I have provided my views/comments for your consideration.

MY PERSPECTIVE

As I understand the GASB’s order to review and update the financial reporting model is as follows:

- Accounting approach and financial reporting
- Revenue and expense recognition
- Note disclosures

These projects are not independent and separate from each other. Clearly, the accounting approach and financial reporting control the direction of the other two projects.

With that said, the measurement focus and basis of accounting (“MFBA”) should be established before the other two projects are considered. Accordingly, I will address the MFBA,

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Today, government agencies follow different measurement focus and basis of accounting as follows:

- Governmental Funds follow:
  - Current financial resources and
  - Modified accrual accounting
- Proprietary and Trust Funds follow:
  - Economic resources and
  - Full accrual accounting

These differences create very difficult accounting and financial reporting problems and inconsistencies.
How could these accounting difficulties be lessened or solved and these financial reporting problems and inconsistencies be corrected?

A giant step would be to solidify and match the MFBA. I strongly recommend a single MFBA of Economic Measurement Focus and Full Accrual Accounting for all funds.

What would the single MFBA accomplish for government agencies?

- All funds would follow the same MFBA. This would match private and not-for-profit organizations currently under FASB.
- This would greatly simplify accounting and financial reporting with full accrual financial statements and would allow comparative financial statements and statements of cash flows for all funds.
- This would make external financial reporting much more meaningful and easier to read and comprehend.
- And at the same time, management and the governing board members would be able to better understand their agencies external financial statements or Comprehensive Annual Financial Report (CAFR).
- Further, as to internal financial reporting management and the governing board members could manage their government agencies with a cash basis budget which is currently the predominate approach. These cash basis budgets would be included in the CAFR for major operating funds as budget and actual schedules included in the Required Supplementary Information (RSI) of the CAFR.

In summary, the benefits of the above “single MBFA approach” would be:

- A single method for accounting and financial reporting (MFBA)
- No reconciliations within the CAFR
- Comparative financial statements
- Understanding for management and governing board members
- Greater consistency in accounting and financial reporting for all government agencies
- Cash basis budgeting (or equivalent) can still be followed to manage, direct and govern the agencies operations
- Third parties including citizens, credit rating agencies, bond underwriters, auditors and others would be able to better understand the agencies financial condition and assess the financial risks

IN CONCLUSION

My comments and recommendations do not assess the specifics of the Revenue and Expense Recognition ITC, but would have a significant impact on the approach preferred or selected.

Following the two primary models in the ITC, the performance obligation model would be very difficult to account for and to audit. The exchange/new exchange model would apply an earnings based approach on GASB 33 eligibility requirements. This approach is much easier to apply then the performance obligation model. Either model is very difficult to apply and may be very inconsistently applied.

With one MFBA as set forth above, revenue would be recognized as earned and expenses would be recognized as the liability is incurred. This would provide a very consistent model for all government agencies and all funds of those government agencies.
This review and update provides GASB with a great opportunity to bring the financial reporting model up-to-date and improve its understanding, comprehension and readability for all.

Respectively submitted,

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Partner

Cc: Kenneth H. Pun, CPA, CGMA
    The Pun Group, LLP