April 27, 2018

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

Re: Project 4-61 Invitation to Comment—Revenue and Expense Recognition

Dear Mr. Bean:

Deloitte & Touche LLP is pleased to respond to the Governmental Accounting Standards Board’s (GASB) Invitation to Comment (ITC) on Revenue and Expense Recognition. We commend the GASB for its efforts to enhance guidance for revenue and expense transactions through a comprehensive based model. We appreciate the GASB’s efforts to obtain stakeholder feedback in the consideration of models to be developed and we have provided our thoughts below. We believe the proposed Alternative Model (Chapter 4) provides the best option for revenue and expense recognition of the three models presented in the ITC. The Alternative Model retains the current guidance on non-exchange transactions and adoption of performance obligation/no performance obligation model for exchange transactions.

GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, and the related implementation guidance for non-exchange transactions, is well developed and generally consistently applied in practice. With incremental clarification, this model will continue to be very effective and easily understood by financial statement preparers, users. The lack of current guidance for exchange transactions provides the opportunity to adopt a principles-based performance obligation model for exchange transactions, making the recognition of these transactions, which are largely business-type activities in nature, comparable to their private sector counterparts.

Our responses to the questions posed in the ITC are in the appendix to this letter. If you have any questions concerning our responses, please contact Mike Fritz at +1 614 229 4806.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl
Appendix

Responses to Questions in the ITC

This Invitation to Comment was issued to obtain stakeholder feedback on the development of a comprehensive revenue and expense model for state and local governments.

We have provided below our detailed responses to the questions posed in the ITC.

**Exchange/Nonexchange Model**

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?

While we agree that financial statement preparers and practitioners have had difficulty distinguishing between exchange and nonexchange transactions as some transactions have characteristics of both, we believe that it is important to have unique recognition criteria for each. We believe this model offers the best and most appropriate treatment for nonexchange transactions such as taxes and grants. For nonexchange transactions, sometimes it is difficult to determine the value received or given and, therefore, it would be difficult to apply the same recognition criteria for a nonexchange transaction as you would an exchange transaction.

The GASB has well-developed guidance in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (GASB 33) for nonexchange transactions that should be retained. These transactions are unique and complicated and require very specific consideration. Significant time, effort, and research has been invested by both the GASB and financial statement preparers to understand and implement the guidance of GASB 33 as amended. However, we also note that any comprehensive model should address implementation issues that financial statement preparers and practitioners continue to face with GASB 33.

The exchange/nonexchange model proposes an earnings recognition approach for exchange transactions. While similar to (but not exactly the same as) existing guidance for revenue, the guidance would be different than the existing recognition model for expenses. The proposed model also deviates from the revenue recognition approach of other standard setters. Such deviations from current guidance and from other standard setters could result in confusion by users of financial statements.

**Performance Obligation/No performance Obligation Model**

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 appreciate that this model provides a principle-based revenue recognition approach and is more in line with revenue recognition guidance provided by other standard setters. However, this approach poses a challenge as to how revenues and expenses are recognized related to grants. Grant revenues and expenses are significant to
governments and, as noted in the ITC, classification and recognition will not be consistent applied for these accounts. The Performance Obligation Model which proposes to begin with the determination of whether a performance obligation exists, does not offer this consistent treatment, as grants may be recognized under either the performance obligation model or GASB 33, depending on whether the performance obligation criteria are met. We do not believe this inconsistent application provides a suitable model for this reason.

**Revenue and Expense Model—Alternative Model**

4.1 Do you believe that the alternative model considered as an example in this chapter 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 believe the alternative model considered in Chapter 4 provides a suitable basis for a comprehensive model for revenue and expense classification and recognition.

The alternative model, as proposed in Chapter 4, begins with the determination as to whether the transaction is an exchange or nonexchange. If a transaction is determined to be a nonexchange, recognition follows the guidance provided in GASB 33. If the transaction is determined to be an exchange transaction, recognition is based on a performance obligation model.

As noted above, we believe the alternative model offers the best and most appropriate treatment for nonexchange transactions. The GASB has well-developed guidance in GASB 33 for nonexchange transactions that should be retained. These transactions are unique and complicated and require very specific consideration. Significant time, effort, and research has been invested by both the GASB and financial statement preparers to understand and implement the guidance of GASB 33 as amended. This guidance is generally consistently applied and requires only minor clarifications to address certain practice issues. The alternative model, which proposes to begin with the determination of whether a transaction is exchange or nonexchange, would retain the guidance of GASB 33 for nonexchange transactions, providing consistency in the classification and treatment of general government revenues, specifically grants, which, as noted above, are significant for state and local governments.

This model (the alternative model) combines the benefits of both the exchange/nonexchange and performance obligation/no performance obligation models noted above and addresses most of the challenges noted by the GASB. Although nonexchange transactions will continue to be recognized under GASB 33 with the alternative model, these transactions are typically general government revenues and expenses. The revenues and expenses of Business Type Activities (BTA) will, in general, be recognized using the performance obligation model, as an exchange transaction will be present. This will enhance comparability between BTAs and their private sector counterparts. We believe convergence with the FASB will bring improved and more consistent reporting. We are in favor of the principles-based performance obligation model for the recognition of revenue and expense exchange transactions.
The GASB should consider the following when developing the comprehensive model for revenue and expense recognition:

1. Revenue recognition should be a separate standard from expense recognition. Types of transactions, earnings, and recognition processes are different for these business cycles and separate standards should be considered. While implementation and adoption timelines could be the same, it would not be preferable- and could be overwhelming- to financial statement preparers to have a single statement that includes an overhaul to both classification and recognition of revenues and expenses.

2. In the alternative model, it is presumed that if a transaction is an exchange transaction, it contains a performance obligation and that nonexchange transactions do not contain performance obligations. Exchange-like transactions are not addressed. As noted in Chapter 2, further guidance is required as to the classification around exchange-like transactions, such as airport passenger facility charges and other use agreement charges.

3. Further clarification around certain expenses would also be required. Although the ITC indicates certain topics are excluded from the scope of the ITC, more specific guidance is required as to the specific balances excluded. For example, the ITC indicates that topics related to Statements issued after GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, (which would include pensions and OPEB), as well as certain balances related to capital assets and liabilities that require specialized guidance, such as capital asset impairments, asset retirement obligations, and pollution remediation, are excluded, but it is unclear as to whether balances such as debt, depreciation, and regulatory assets and related balances are excluded from the scope of this project.

4. We noted that the definition of performance obligation is slightly different than that used by the FASB in ASU 606-10, *Revenue from Contracts with Customers*. We suggest the GASB consider whether it is prudent to align GASB guidance to its private sector counterpart when developing the comprehensive model.

5. Finally, we recommend that as a part of the research for the next step Preliminary Views document, the GASB stress tests a number of types of government transactions - both common and less frequent in nature - and to evaluate how each transaction would be classified and recognized.

4.2 The models distinguish transactions in the basis of (a) an exchange or a 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.

Although certain clarifications and enhancements are needed to the alternative model proposed in Chapter 4, we do not believe another alternative model is necessary.