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Director of Research and Technical Activities
Governmental Accounting Standards Board
Norwalk, Ct

Project 4-6P Revenue and Expense Recognition

I usually know when the GASB will be coming out with some new pronouncement: whenever the FASB has issued its pronouncement [in this case, “Revenue From Contracts With Customers”] first. I attribute this phenomenon to the absence of social distancing, a la COVID-19, that apparently occurs in Norwalk Connecticut.

--Does that effect ever occur in reverse?--

I find this PV a solution in search of a problem and am not certain which constituency, if any, needs an academically correct position that would require modifying systems that have proven to be workable and understandable models for decades. Nonetheless, I have no major objection to most of its assertions. My main comments are more procedural:

The PV assumes that the related short term model of Project 3-20 will be issued as-is. If, as the alternative views member and possibly constituents across the country succeed in persuading the Board to modify that document, would not the GASB have to also re-visit provisions of this Project, for example, Chapter 2 ¶34?

Also, although I have never seen, unless I have missed it, any pronouncement with the GASB ever asserting that the costs might exceed the benefits, nonetheless, in viewing just the 616 school districts, 300+ cities, 300+ charter schools, and 88 counties in Ohio that would have to implement 4-6P’s provisions, I can see a large cost required of mainly less-sophisticated such entities having to out-source the analysis and documentation required of possibly hundreds of revenue and expense items to comply with its provisions. The Ohio Auditor of State is good at such analysis and guidance in general for these entities in Ohio that are required to report in accordance with GAAP, but, there would still be a need for such analysis and documentation at the local level for what are already overburdened fiscal offices of such governments in Ohio, and, I suspect, across the country.

My technical comments follow:

♦ Chapter 1 ¶20: I agree that “value” is subjective in determining equal, not-equal, and sort-of-equal in the current model. Nonetheless, somehow the constituents have managed to reach equilibrium for most
such issues in the current model.

♦ Chapter 3 ¶36: is there to be a replacement for the 2 excluded methods? Does this affect recognizing long term revenues \ expenses related to building projects?

♦ Chapter 4, ¶48: how does GASB propose to ascertain the resource provider’s intent? That would be next to impossible, unless GASB has some suggested way of figuring out the minds of politicians who vote on these types of arrangements.

♦ Chapter 5 , ¶18: How would a governmental entity ascertain partial-performance of a service such as legal or auditing? That seems theoretically sound but practically improbable. Especially in the absence of a hard cutoff bill from the service provider.

♦ Chapter 5, ¶ 31.b. : how does GASB propose to ascertain the resource provider’s intent? Seems impractical.

♦ Chapter 5, ¶36: define “significant”; also, significant to whom?

♦ Chapter 7, ¶ 1: there is an alternative view on the recognition concepts ED, and there may be support for those views among the constituents. It seems a bit premature to base conclusions in 4-6P on something that has not yet been agreed to.

♦ Chapter 7, Case 1: under “state”, there is a footnote that indicates the county communicates to the state the county’s reimbursable costs at the specific point in time. That may be theoretically sound, but, practically improbable. Especially since most of the building projects involve private contractors.

♦ Case 3: in 40+ years of accounting, I have never seen a balance sheet that offsets a receivable with a payable. The loan should not result in a payable until the cash is transmitted. Before that, it’s more of a line-of-credit. If the recipient does not draw down on it, it does not owe it.

♦ Case 12: I’m having a hard time grasping how the provisions of 4-6P affect the property tax recognition issues, at least for Ohio. The Case here is rather simplistic. We have voted levies and a base rate levy for every government that wants to partake of it that have various effective dates, including continuing such levies in perpetuity, with a common a lien date of January 1, tax rates established by an independent county board later in that year, and collection, by statute, starting in December of that year and continuing in to June of the following year. Local counties also can establish later payment dates. The taxes that are collected in that second calendar year are applicable to be used legally in that second calendar year, so, school districts, which are on a June 30 fiscal year, are the only entities in Ohio that may legally expend funds paid into the counties on the schools’ behalf on or before June 30; cities and counties may not legally expend such collections even if they are made before their January 1 fiscal year start dates. Under those circumstances, it is unclear how revenue would be recognized by the GAAP entities in Ohio. It has been reasonably clear in Ohio how to report those revenues given the current model, but even that model required extensive legal and accounting analysis, primarily by the Ohio Auditor of State.

♦ Along with the previous comment: GASB is proposing to eliminate the “60 day” rule? Oh bless you.

♦ Case 15: how would the receiving government know what the state has collected before the state tells them several months later, and maybe not in any form that the exact amounts at the receiver’s fiscal year end would be ascertainable?
Case 16: could not the government estimate from experience how many fines will not be disputed (collected) without going through all of this analysis of each individual fine event?

Sincerely,

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