David R. Bean, CPA  
Director of Research and Technical Activities, Project No. 4-6P  
Governmental Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Dear Mr. Bean:

We appreciate the opportunity to respond to the Governmental Accounting Standards Board's preliminary views (PV) document titled Revenue and Expense Recognition. We fully support the Board's efforts to establish a comprehensive, principles-based model to recognize revenue and expense transactions. Our comments are organized by topic as follows.

**Chapter 1 – Objective and Scope**
We encourage the Board to further assess whether the categorization, recognition, and measurement principles outlined in the PV can be effectively applied to a wider range of transactions, including the categories currently excluded as identified in paragraph 3. If the excluded transaction types can be made compatible with the proposed model, the Board could establish the preferred accounting treatment and remove these carve outs. Otherwise, the Board is setting itself up for further subsequent amendments, and the resulting implications to preparers, auditors, and users.

**Chapter 2 – Foundational Principles for the Model**
We agree with the five model assumptions and given the conceptual nature of these principles, we had anticipated that these concepts would be included in a forthcoming Concepts Statement, particularly the comment in paragraph 3 that matching is not a principle in the GASB conceptual framework. Reinforcement of the applicability of interperiod equity and clarifying that the matching principle is not applicable to governmental accounting is a welcome addition.

**Chapter 3 – Categorization**
While we generally agree with the Board's preliminary views on categorization, our primary concern is the complexity of the model and some of its terminology. Understanding and applying the concepts of “rebuttable presumption of enforceability”, “economic substance”, and establishing whether rights and obligations are interdependent is difficult. Substantial training will be necessary for preparers and auditors in applying these concepts to real-world transactions. Consequently, we consider the table in paragraph 40 to be extremely helpful as it provides direct instruction as to what the categorization is for many common transaction types. We hope that this table can be expanded as the model is applied to more transaction types.
We note paragraph 5 states that a binding arrangement is intended to encompass a broad spectrum of arrangements and we hope that transactions such as leases, subscription-based information technology arrangements, and public-private partnerships will also be able to use this process.

**Chapters 4 and 5 – Revenue and Expense Recognition**
We appreciate the symmetry between these two chapters as it aids in understanding of how the model is applied. We generally agree with each of the Board’s preliminary views outlined in these chapters. We understand the Board’s intent to avoid the “exchange” and “nonexchange” terminology, and as such, we note the provisions of paragraph 56 to replace the term “government-mandate nonexchange transaction” from the existing literature. However, it was not intuitive how most fees and assessments incurred by governments would fit into the three substituted subcategories titled “contractual binding arrangement transactions,” “general aid to governments,” and “shared revenue.”

Regarding expense recognition, we are particularly interested in additional guidance on the topic of expense recognition over time or at a point in time (Chapter 5, paragraphs 17 and 18) given the material expenses incurred for infrastructure over time.

**Chapter 6 - Measurement**
We agree with the preliminary views to measure revenues and expenses based on the associated assets and liabilities and to measure assets and liabilities consistently. We also agree with the Board’s rejection of the alternative measurement approach detailed in paragraph 7 as we consider the alternative as overly complex.

**Chapter 7, Short-term Financial Resources Measurement Focus and Accrual Basis of Accounting**
Please refer to our comment letters on the proposed concepts statement titled *Recognition of Elements of Financial Statements* and the exposure draft titled *Financial Reporting Model Improvements*. In short, our primary disagreements are with the proposed short-term measurement focus based on a twelve-month period starting at an inception date as opposed to looking out from the balance sheet date for a set period and use of the term “accrual” instead of “modified accrual.”

Sincerely,

Doug Ringler
Auditor General

cc:  C. Murray, CPA, CGFM, CIA

Via e-mail to director@gasb.org