February 26, 2021

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

Dear Mr. Bean:

We are pleased to comment on the Governmental Accounting Standards Board’s (GASB or Board) Preliminary Views, Revenue and Expense Recognition (PV).

We are supportive of the GASB’s continued efforts to improve financial reporting for governmental entities. We agree that existing guidance for exchange revenue and expense transactions is limited and existing guidance for nonexchange revenue and expense transactions could be improved through clarification. Therefore, we support the development of a comprehensive revenue and expense model with the goal of enhancing guidance surrounding various types of transactions and making financial information more consistent and useful for users of governmental financial reports in making decisions and assessing accountability.

**Overall Comments**

We found the alignment of the public comment periods of the PV and the Financial Reporting Model Improvements and Recognition of Elements of Financial Statements Exposure Drafts (EDs) to be imperative to fully assess the suitability of the model proposed in the PV. In addition, we believe it is integral to understand how the model impacts every component of a government’s financial statements, including financial statements presented applying the short-term financial resources measurement focus and accrual basis of accounting. We encourage the Board to continue deliberating the interplay between the views presented in the PV and the concepts proposed in the EDs, and we believe that preparers and auditors would benefit from the simultaneous implementation of the standards that result.

Furthermore, we support the Board’s plan to further assess guidance related to the topic of naming rights, as noted in paragraph B7. As noted in the PV, determining whether the rights and obligations in a binding arrangement are substantive requires professional judgment. Specifically, we believe that the rights and obligations in naming rights agreements will be particularly difficult to assess under the model presented in the PV.

**Chapter 2—Foundational Principles for the Model**

We are supportive of the preliminary view that applicability to a reporting period is driven by the satisfaction of a performance obligation in a Category A transaction. We believe this viewpoint would create results that are similar to the current common thought of when expenses are incurred and revenues are earned but would appropriately shift the focus from the inflow or outflow to the receivable or
payable. We believe evaluating revenue and expense transactions in terms of the related balance sheet element is appropriate under the proposed hierarchy of recognition. [Paragraph 33]

Chapter 3—Categorization

We are supportive of the preliminary view that Category A transactions are composed of acquisitions coupled with sacrifices that are interdependent. The four-step approach is helpful in the development of the model, but we recommend consideration of whether it would be more understandable if presented as a single criterion. Please see our comments below related to Steps 1 and 2. Steps 3 and 4 could be combined as they both relate to the identification of rights and obligations that are substantive and interdependent. [Paragraph 3]

We are supportive of the preliminary view that transactions in the scope of the project should be evidenced by a binding arrangement; we understand that a binding arrangement encompasses a broad spectrum of arrangements. In a final standard, we would expect to find this criterion within the scope paragraphs instead of as the first criterion of categorization. [Paragraph 5]

We understand the preliminary view that Category A transactions should be evidenced by mutual assent between parties of capacity, however, we have noted that it is a source of significant confusion for many. First, the assessment of mutual assent requires an accurate identification of what constitutes the terms and conditions of the binding arrangement, which may be challenging. Second, mutual assent is often confused for voluntariness; this is a distinction with which many may struggle, particularly as it relates to necessities provided in a monopolized environment (for example, we see a distinction without a difference between property taxes and water and sewer charges). We encourage the Board to consider whether Step 2 is a necessary step of the categorization model or whether those transactions that fail Step 2 would ultimately fail Steps 3 or 4, thus rendering Step 2 unnecessary. [Paragraph 13]

As noted in the PV, a challenge in existing guidance is the differentiation between expenditure-driven grants and purpose-restricted grants. We consider this to be an important area for improvement because the misclassification of certain grants could have a significant effect on revenue recognition. In the PV, the distinction between expenditure-driven grants and purpose-restricted grants is drawn in Step 4 of the categorization methodology. We are concerned that assessing the interdependence of the rights and obligations of the parties does not draw a clear distinction between expenditure-driven grants and purpose-restricted grants. Specifically, it is challenging to identify expenditure-driven grants as having interdependent rights and obligations (i.e. performance obligations, as they are defined in this PV). Grants include an array of grantee obligations—to incur allowable costs, to meet specified goals or performance metrics, to provide local matching funds, to meet specified earmarking percentages, or to provide certain information to the grantor, for example. As noted in the PV, recognizing Category A grants as each dollar of allowable costs is incurred in compliance with the relevant grant requirements is a practical approach. However, we suspect that if interdependent rights and obligations existed, a practical approach would not be necessary. In summary, we do not agree that expenditure-driven grants should be included in Category A and encourage the Board to continue to examine the distinction between expenditure-driven grants and purpose-restricted grants and whether their respective recognition concepts should be differentiated. [General Comment]

We are supportive of the preliminary view that categorization may be assessed on a portfolio basis, and we believe that reasonably expects is the appropriate threshold. [Paragraph 34]
Chapter 4—Revenue Recognition

We are supportive of the preliminary view that receivables from Category A revenue transactions should be recognized when (or as) a government satisfies its performance obligation and agree the satisfaction of a performance obligation is what gives rise to a legally enforceable claim (an asset). [Paragraph 7]

We are supportive of the preliminary view that the satisfaction of a performance obligation in a reporting period establishes an inflow of resources to that reporting period. We also are supportive of the conclusion of that preliminary view, which is: that deferred inflows of resources should not be recognized in Category A transactions in the scope of this project. We understand that conclusion does not affect guidance outside the scope of this project, but it is not clear what effect that conclusion may have on existing guidance or on decisions to be made by the Board in future projects. [Paragraph 10]

We are supportive of the preliminary view that receivables should be recognized for property taxes at the imposition date. This clarification of the existing guidance aligns with the terminology we see in practice, particularly when the lien date precedes the imposition date. [Paragraph 31]

In relation to shared revenue and general aid to governments transactions that are based on appropriations, criterion b indicates that the resource provider has determined that it intends to provide the resources to the resource recipient. Because it is the resource recipient that would assess that criterion, we suggest the Board consider whether the criterion should be written from the resource recipient’s perspective, such as: the resource recipient has not been informed that the resource provider does not intend to provide the resources. [Paragraphs 47, 48, 50 & 51]

Chapter 5—Expense Recognition

We are supportive of the preliminary view that advances in expense transactions result in the recognition of a prepaid asset. In concept, we agree that the refundability of the advance is irrelevant. For practical reasons, we suggest the Board provide clarity regarding at what point in time an outflow would arise in the case of a non-refundable advance for which the counterparty never satisfies its performance obligation. [Paragraph 5]

Chapter 6—Measurement

As noted in the PV, the measurement proposals are limited to a foundational principle and two application topics. We would appreciate the opportunity to review and provide feedback related to further preliminary views related to measurement that are developed by the Board. [General Comment]

We support the preliminary view that revenues and expenses should be measured based on the most liquid item in a transaction. Such measurement is easily understandable, objective, and relevant. [Paragraph 3]

Acknowledging that the preliminary views represent a dramatic change in the way governments categorize and recognize certain revenue and expense transactions, we stress the importance of the Board’s full consideration of the implementation effort that would be required for each of the preliminary views presented, especially for smaller governments with limited financial reporting resources.

In summary, we reiterate our support of the Board’s initiatives to improve financial reporting for governmental entities. Thank you again for the opportunity to provide our comments and feedback. Additionally, we would like to take this opportunity to thank you, David Bean, for your invaluable contribution to governmental accounting and reporting and your years of service.
Please contact Tony Boras at (630) 706-2053 or tony.boras@crowe.com or Kevin Smith at (214) 777-5208 or kevin.w.smith@crowe.com should you have any questions.

Cordially,

Crowe LLP

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    Scott Lehman