

April 30, 2018

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

Dear Mr. Bean,

The Partners of Cherry Bekaert LLP wish to thank the Government Accounting Standards Board (the "GASB") for its commitment to the highest level of quality accounting standards. We, at Cherry Bekaert LLP, are equally committed to maintaining the highest level of accounting standards and thank the GASB for the opportunity to comment on the Invitation to Comment – Revenue and Expense Recognition (Project No. 4-6I) (the "Invitation to Comment").

Please find below our responses to the Invitation to Comment Questions.

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?

We do believe the exchange/nonexchange model as written in Project No. 4-6I would provide a suitable basis for classifying transactions and recognizing revenue and expense. Due to the service focus of governmental entities, the continued distinction of transactions as exchange vs nonexchange and the continued use of these familiar terms is valuable to both governmental entities and their financial statement users. However, further guidance and interpretation of the concept of "essentially equal values" needs to be added to meet the GASB's objective of improved clarity and consistency of information by governments.

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 do not believe the performance obligation/no performance obligation model would provide a suitable basis for classifying transactions and recognizing revenue and expense. While we recognize the benefits of a more prescriptive revenue and expense model as well as the fact that the end result for most revenue and expense transactions would be the same under both models, the revenue recognition for grants which is one of the more ambiguous classification areas, would differ under these two models. In Appendix A, Example 3 – Grant, under the exchange/nonexchange model, the grant would be classified as a nonexchange transaction because the state agency in the example is receiving value without giving equal value in exchange. In the same example, under the performance obligation/no performance obligation model, the grant would be classified as containing a performance obligation because the obligation by the state agency results in a binding arrangement between the state and the federal agency. We do not believe that the end result under the performance obligation/no performance obligation model properly reflects the spirit of most grant transactions.

We are also concerned that the revenue recognition for grants under the performance obligation/no performance obligation model differs from the Financial Accounting Standards Board's proposed guidance for grants in proposed Accounting Standards Update, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions ("FASB's Proposed ASU"). As noted in the FASB's Proposed ASU,

the decision tree for determining the proper classification for the transfers of assets begins with assessing whether each party to the transaction receives commensurate value. We believe that the guidance in FASB's Proposed ASU is more similar to the proposed exchange/nonexchange model than the performance obligation/no performance obligation model, and we are concerned that the performance obligation/no performance obligation model would result in differences in revenue recognition of grants in private and public entities.

Finally, the implementation of the performance obligation approach for commercial and private not-for-profit entities has been fraught with difficulties and these difficulties would likely apply to governmental entities as well. Specifically, the difficulty in identifying performance obligations as noted in paragraph 25.a. of the GASB's Invitation to Comment may outweigh the benefits noted in paragraph 24. In addition, the definition of a binding arrangement as a "legally enforceable mutual understanding between two or more parties" as stated in paragraph 3.a. may be too high of a bar for most governmental entities to assess without the consultation of an attorney resulting in additional and potentially burdensome costs to the entity.

4.1. Do you believe that the alternative model presented as an example in Chapter 4 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 do not believe that the alternative model presented as an example in Chapter 4 provides a suitable basis for classifying transactions and recognizing revenue and expense. Although financial users are more familiar with the concepts of "exchange transaction" and "nonexchange transaction" than they are with the concepts of "performance obligation" and "no performance obligation", the proposed terminology change in the alternative model does not overcome the challenges with the performance obligation/no performance obligation model we noted in our response to question 3.1.

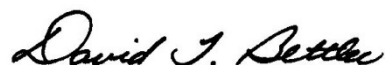
4.2. The models distinguish transactions on the basis of (a) exchange or nonexchange or (b) a performance obligation or no performance obligation. Do you believe there is another alternative for distinguishing revenue and expense transactions? If so, please describe that alternative and explain why you believe it would be suitable.

We do not believe there is another alternative for distinguishing revenue and expense transactions.

We appreciate the GASB's consideration of these comments as it moves forward. We would be pleased to discuss our letter with you at your convenience. If you have any further questions, please contact David Bettler, Technical Director – Audit & Assurance Services, at (404) 733-3212.

Sincerely,

CHERRY BEKAERT LLP



David T. Bettler, CPA
Partner
Technical Director – Audit & Assurance Services