



May 7, 2018

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

Project: 4-6I

Dear Mr. Bean:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Government Accounting Standards Board (GASB) on its January 23, 2018 invitation to comment entitled *Revenue and Expense Recognition*. The FMSB is comprised of 23 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

We have included our comments addressing the specific questions contained in the invitation to comment document as well as some summary comments.

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?

Yes. While we support the goal of creating a comprehensive revenue and expense model, we do not expect that any model will have a universal application for all potential transactions. As noted in paragraph 9, several categories of transactions are already excluded from this project because they require specialized guidance. This is not unexpected given the diverse actions governments undertake. We consider the exchange / nonexchange model appealing as it builds upon existing concepts that have been around for decades. Developing implementation guidance using existing terms may be easier for users to comprehend, compared to learning new terms and definitions as presented in paragraph 3 of chapter 3.

If the exchange / nonexchange model is selected this would give the Board an opportunity to improve GASB 33. An example would be to simplify the number of scenarios currently required to consider for exchange and nonexchange transactions. The differences between the economic substances of the types of nonexchange transactions does not result in material deviations between the final journal entries recorded due to those differences. Therefore, we believe this is an opportunity to simplify.

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?

Chapter 3 sets forth a sufficient basis for using a performance obligation model to recognize revenue and expense that we believe takes advantage of convergence with other standard setters and their work to date. However, as a whole, we are not persuaded that the introduction of new terminology and definitions in the government accounting environment is the most effective or efficient way. The reliance on the nonexchange guidance under GASB 33 versus the no performance obligation portion of the model seems to unnecessarily introduce a new term (no performance obligation) to apply existing guidance. Paragraph 3 of Chapter 3 introduces four new terms to learn and apply. The succeeding paragraphs explain the terms yet paragraph 25 acknowledges additional application and implementation guidance will be necessary in applying the terms. For example, the term specific beneficiary "...would need to be sufficiently precise to identify them separately from the government's citizenry in general." This may be particularly difficult because some governmental programs exist to serve the citizenry in general. Also, paragraph 15 notes the guiding principle of the performance obligation recognition approach is that governments recognize revenue in a transaction when there is a "transfer of goods or services" and recognize expenses when there is a "receipt of goods or services." This sounds very much like an "exchange" such that the exchange concept is still the core concept in the performance obligation approach. Therefore, it seems more appropriate to continue to develop the existing exchange / nonexchange model than to add potential complexity to the revenue and expense recognition model by applying performance obligation concepts.

We ask the Board to consider the following other items:

1. In order to apply the performance obligation model there are a large number of exceptions which would add complexity in applying the model as well as force someone to refer to several standards to apply revenue and expense recognition. A reduction of the various standards and/or exceptions should be considered.
2. It seems application of the performance obligation model can bring complexity to contributions but especially to grants that many not be necessary. These revenue areas as well as others need to be fully vetted when considering the performance obligation model.
3. The performance obligation model may be conceptually pure in recognizing certain ongoing services that are billed to Citizens such as utilities and fees. For example, if a garbage fee is present, a performance obligation would entail if the trash was picked up from the Citizen (commonly known as pay-as-you-throw). The trash barrel barcode is scanned while loaded onto the truck and a performance obligation is satisfied. A companion expense could be also charged for the cost of that pickup. However, though the model is conceptually pure, often these revenues and expenses are satisfied within a short time. Is it worth developing complex accounting provisions for a very short-term (within 30 days) receivable or payable?

One of our members appreciated the effort of the Board in considering a model that would provide an overarching application, while converging with FASB. However, they believe that FASB ASC 606 concepts and requirements should be adopted for exchange transactions and not apply ASC 606 to nonexchange transactions.

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?

Yes. Since this model builds upon the exchange / nonexchange terminology, overall, we consider this a more appealing approach than the outright performance obligation/no performance obligation model. If the four terms introduced in paragraph 3 of Chapter 3 are adopted within an exchange / nonexchange model, we can see them used in the areas of contracts, including leases, because these terms seem best suited for contractual arrangements. However, our concern that this would add considerable changes and complexity without any suggested simplifications.

4.2. The models distinguish transactions on 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.

Except for a few items noted above we have no alternative model to recommend.

We appreciate the opportunity to comment on this document and will be pleased to discuss this letter with you at your convenience. If there are any questions regarding the comments in this letter, please contact me at (208)383-4756 or Lmiller@eidebailly.com.

Sincerely,



Lealan Miller, CGFM, CPA

Chair- AGA Financial Management Standards Board
cc: James "Jim" R. Arnette, Jr. CGFM, CISA, AGA National President

Association of Government Accountants

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