



February 26, 2021

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

Via email to: director@gasb.org

Dear Mr. Bean:

The Financial Management Standards Board (FMSB) of the Association of Government Accountants (AGA) appreciates the opportunity to provide comments to the Governmental Accounting Standards Board (GASB) on its preliminary views (PV) titled *Revenue and Expense Recognition*. We offer the following comments for your consideration.

Chapter 1 – Objective and Scope

We wholeheartedly support the Board's objective of developing a comprehensive, principles-based model establishing categorization, recognition, and measurement guidance for revenue and expense transactions. We hope the Board will examine the types of transactions that were excluded from the scope of this project to assess whether they align with the proposed model. If excluded transaction types are compatible with the proposed model, we hope the Board incorporates them in the Exposure Draft or as a concurrent project. If such transactions are not compatible with the proposed model, we hope the Board considers modifications to the model. We consider such an examination an important exercise to avoid enacting a model that would be logically inconsistent with existing guidance for other transaction types.

Chapter 2 – Foundational Principles for the Model

While we agree with the five model assumptions, we would expect, and we request, that such underpinnings for this model be incorporated into a concepts statement. We appreciate the comment in paragraph 3 that matching is not a principle in the GASB conceptual framework. Applying a matching principle in governmental accounting is such a wide-held belief that clarification of this issue is needed within the standard.

Chapter 3 – Categorization

While we generally agree with the Board's preliminary views on categorization, consistent with our views on the scope of this project, we regret that only transactions with a binding arrangement are included in this document. We note paragraph 5 states that a binding arrangement is intended to encompass a broad spectrum of arrangements and we look forward to the Board applying this concept to more transaction types such as leases, subscription-based information technology arrangements, and public-private partnerships.

The concept of a binding arrangement including a “rebuttable presumption of enforceability” and “economic substance” is difficult on the surface to understand. We anticipate substantial outreach will be necessary on the part of the GASB, the AICPA, and others to educate preparers and auditors.

In particular, the discussion of moral or constructive obligations in paragraph 9 should be clarified. If the likelihood of a noncontractual binding arrangement is remote and is not expected by the parties to occur, then we suggest the existing guidance in Statement 62 paragraph 100 regarding contingent liabilities should apply. Also, if economic substance is intended to mean that neither the rights nor obligations are substantive, we suggest using the same terms as in paragraphs 18-23. Or, if it is intended to be different in some way, perhaps more specific guidance on obligating events, similar to GASB 49 paragraph 11, is appropriate.

We appreciate the table in paragraph 40 and anticipate that such an aide will be vital for preparers and auditors.

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 the preliminary views with the following exceptions.

We are concerned with the splitting of Category B transactions into subcategories and the different recognition criteria for each of them. While subcategories may need requirements in standards to define how the general criteria should be consistently applied, they should not have different recognition terminology and criteria. Accordingly, we suggest “verifiable, measurable, and in compliance with eligibility requirements” be added as recognition criteria for all Category B transactions in addition to being legally enforceable.

We also note the absence in the PV of the attributes of “estimation” and “likelihood” as described in Statement 62, paragraphs 101-104. Incorporation of such topics would provide for a more comprehensive model that does not result in confusion or conflict with other standards.

Regarding category B derived tax revenues, we are concerned that recognizing derived revenue when the underlying transaction occurs will be impractical in many circumstances and will create the need for estimates that are neither cost-beneficial nor decision-useful. Introducing recognition criteria of “verifiable and measurable” would align recognition with criteria for pledges and provide relief for those situations where it would be impracticable. It would also address the Board’s observation in Chapter 1, paragraph 9 that recognition outcomes may be different because of the unavailability of information or reliance on estimates. We agree with that observation and should therefore be reflected in standards by adding “verifiable and measurable” as recognition criteria.

Regarding fees, we note some fees are charged for submitting an application whereas others are charged based on an approved application. Moreover, in instances where an entity engages in a regulated activity without a permit, the government may not be aware of the activity until much later – sometimes many years – and would normally be handled as a punitive fee at that point. We were not clear if the Board intends for governments to make estimates of unidentified noncompliance (analogous to an “Incurred but Not Reported” risk pool liability). If so, then this would be impractical

and inappropriate (as a contingent gain). We again suggest the general criteria of “legally enforceable” with further attributes of “measurable and verifiable” added to be more clear and helpful than the proposed criteria.

Also, we are concerned that the Board’s preliminary view that receivables for punitive fees be recognized when the violation can be established by due process of law may conflict with existing requirements for contingent liabilities and gains. From the standpoint of the violator, recognition should be at the existence of the potential violation, subject to contingent liability requirements. From the standpoint of the regulating government, the legal enforceability of the fee or fine occurs when the legal process is concluded, and the final judgment is imposed. While this results in asymmetrical recognition, it reflects the appropriate difference between existing guidance on contingent losses and contingent gains as well as the asymmetrical information held by either party to the transaction. In any case, the standard will need to be clear as to what constitutes “establishment” of a violation by due process of law. It might be more appropriate for the regulating government to only recognize revenue when the process of law is *concluded* with a final judgment that is not more likely than not to be appealed, rather than the *start* of a process when a police officer writes a ticket or a regulatory official gives notice of a fine, or the *middle* of the process when an initial judgment is rendered that is appealed.

Regarding property taxes, the proposed criteria of paragraphs 31-33 appear to require recognition of a receivable and deferred inflow at the time the government approves the property tax rate or total amount for the next fiscal period. The government would then recognize revenue at the start of the next fiscal period (“the period for which they are imposed”). But at a webinar on this topic, GASB staff clarified that although a government may pass an ordinance in November to establish the tax, the taxes would not be considered “imposed” until January when they become enforceable, at which time they would be reported in the financial statements. We agree with the GASB speaker that reporting property tax revenues for the next fiscal year should not be reported in current year financial reports, and we encourage the Board to make this clear in the proposed standard. We also suggest that the Board use the existing phrase “legally enforceable claim” when discussing this topic instead of introducing the new term “imposition date” since paragraph 31 concludes that these terms are synonymous.

Regarding pledges, the requirement that the promise be probable of collection would seem to conflict with preliminary views in Chapter 6 paragraph 12-13 on collectability. We question why collectability would be a recognition requirement since it is already appropriately addressed in general measurement requirements.

Regarding shared revenue, we request additional criteria and definitions for determining if a transaction constitutes shared revenue in contrast with a fiduciary activity. The criteria and definitions to determine which government has “imposed” the revenue could be improved. In practice, revenues may be authorized by state law, but required to be approved or implemented in some way by a local government, and may further be subject to adjudication, collection, and/or enforcement by one or more other governments. All these aspects may be defined in various levels of specificity by state law.

David R. Bean, CPA

February 26, 2021

Page 4

We also request additional clarification regarding the discussion of appropriations in paragraph 50 and 51. Additional clarification is needed because the difference in reporting is significant, amounts are often material, and there are numerous scenarios that governments frequently encounter that could possibly be considered shared revenue. In practice this has been a significant issue with GASB 84 implementation - we find that governments do not believe they are “sharing” revenue if they have no substantive ability to determine if they will distribute the revenue and are making the distribution as a legal or contractual obligation. We suggest the Board limit the definition of shared revenues to those situations where the government has authority to spend the revenue directly or otherwise make substantive decisions on how to spend the revenue in furtherance of the government’s public purpose.

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. With that in mind, we hope issues such as collectability, right of refund, discounts or allowances, variable rates or options, contingencies, offsets, allocation, and fair value estimates will have general guidance that is consistent for all types of assets and liabilities.

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 disagreement is 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.

Given this preliminary views document was titled *Revenue and Expense Recognition*, we feel compelled to reiterate our objection to the introduction of the terms “inflows of resources” and “outflows of resources.” The use of “revenue” and “expense” throughout this document made it easier to read and understand. We suggest retaining the existing terms at both the government-wide level and at the governmental fund level.

The FMSB is comprised of 24 members (listed below) 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. The views of the FMSB do not necessarily represent those of AGA and the local AGA chapters and individual members are also encouraged to comment separately. If there are any questions regarding the comments in this letter, please contact me at (517) 334-8069.

Sincerely,



Craig M. Murray, CGFM, CPA, CIA
Chair, Financial Management Standards Board

cc: Wendy Morton-Huddleston, CGFM, PMP, AGA National President

Association of Government Accountants
Financial Management Standards Board
July 2020 – June 2021

Craig Murray, Chair
Scott DeViney, Vice Chair
Crystal Allen
David Arvin
Orinda Basha
Eric Berman
Gerry Boaz
Jean Dalton
James Davis
Jim Dawson
Richard Fontenrose
Christopher Goeman
Simcha Kuritzky
Lealan Miller
Mickey Moreno
Brian Mosier
Masoud Najmabadi
Mark Reger
Anthony Scardino
Sharron Walker
Kawoanna Wiggins
Brittney Williams
Ann Ebberts, CEO, AGA
Susan Fritzlen, COO, AGA