NASACT
National Association of State Auditors, Comptrollers and Treasurers

NATIONAL ASSOCIATION OF STATE TREASURERS

April 23, 2018

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

Dear Mr. Bean:

On behalf of the National Association of State Treasurers (NAST) and the National Association of State Auditors, Comptrollers and Treasurers (NASACT), we appreciate the opportunity to respond to the Governmental Accounting Standards Board's Invitation to Comment (ITC), *Revenue and Expense Recognition*.

Our feedback to GASB's specific questions follow:

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, our members overwhelmingly prefer this model. This is a similar approach to what is currently practiced; therefore, there is less room for misinterpretation when applying this standard since it builds on existing standards. Therefore, it would likely result in a more feasible and consistent implementation across entities.

A major benefit of retaining the current model is that preparers and auditors are familiar with the exchange/nonexchange terminology and have established processes and procedures for preparing and auditing financial statements using this model.

We do agree that it would be effective to provide additional guidance for classifying and recognizing exchange and nonexchange transactions. This could include adding additional clarification on what is considered "equal value," and clarifying at what point in time revenue should be considered "earned and reportable" for financial reporting purposes, as well as clarifying nonexchange transactions guidance where inconsistencies have been noted.

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?

A small number of members prefer this approach and note that the new criteria may be easier to understand. However, a significant majority of our members did not believe the performance obligation/no performance obligation model is suitable, or believe that there seems to be no benefit to changing from the current exchange/nonexchange model that could not also be obtained by modifying the current exchange/nonexchange model. Additionally, many believe the cost of learning and implementing a new model would outweigh any of its possible benefits over providing guidance for the current model.

For example, Paragraph 3 of chapter 3 introduces four new terms to learn and apply. The succeeding paragraphs explain the terms, yet the ITC acknowledges that additional application and implementation guidance will be necessary in applying the terms. For example, the term "specific beneficiary" is discussed in paragraph 12 which states "the characteristics of the individual or group would need to be sufficiently precise to identify them separately from the government's citizenry in general." This may be particularly difficult since some governmental programs exist to serve the citizenry in general.

Additionally, paragraph 15 states that "the guiding principle of the performance obligation recognition approach is that governments would recognize revenue in a transaction when there is a transfer of goods or services to a specific beneficiary for consideration that the government expects to receive." We believe the phrase "expects to receive" is subjective and could result in certain transactions being difficult to audit.

We believe, the time and effort for government agencies, especially ones with limited fiscal staff, to examine every contract (including grants) to determine if: 1) there is a binding agreement, 2) there is another party, 3) there is a distinct set of goods and services, and 4) there is a specific beneficiary, will outweigh any benefits this model provides in reporting.

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?

No. We believe that the exchange/non-exchange model very closely follows what is already in place, and we do not agree that it would be an effective use of time and effort to re-invent the wheel with an alternative model.

A potential challenge of this model is that it mixes exchange and nonexchange terms with the addition of performance obligation terms and concepts and that may confuse financial statement users. If a concept is to be used, we believe it should utilize the existing concepts with which the model was created.

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 have another alternative for distinguishing revenue and expense transactions.

<u>*General Comments*</u>

The examples provided in Appendix A do not demonstrate any differences in revenue or expense recognition between the different models. We suggest providing examples in future preliminary documents that demonstrate how revenue or expense recognition could differ between the exchange/nonexchange and performance obligation/no performance obligation models.

While other accounting standard setters are considering or have moved forward with revenue recognition using the performance obligation approach, they are addressing for-profit business revenue from customer contracts. When appropriate, the same or similar standards for both FASB and GASB could provide potentially useful and comparable financial information. However, governmental accounting may not be able to follow the same path, as it is different from the for-profit environment and transactions. In September 2017, GASB updated its Whitepaper "Why Governmental Accounting and Financial Reporting Is – And Should Be – Different," which includes multiple reasons on why "Governments are fundamentally different from business enterprises. As a result, separate accounting and financial reporting standards for governments are essential to meeting the needs of the users of governmental financial reports..." It also states: "The prevalence of public services and goods in government, combined with viewing the benefits and costs of those services and goods for a societal perspective, results in a somewhat different approach to measurement in governmental financial reports".

Additionally, with so many other changes being proposed by GASB currently or slated for the near future, having some continuity by maintaining the exchange/nonexchange classifications and recognition approaches would allow more focus and resources to be provided to implement the more significant and time consuming changes to the accounting and financial reporting coming down the pipeline, such as leases and changes to the financial reporting model.

We appreciate the opportunity to provide our comments. Should you have any questions or need additional information regarding our response, please contact Kim O'Ryan of NASACT at (859) 276-1147.

Sincerely,

Beth Pearce

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State Treasurer, Vermont

Roger Norman
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