



February 26, 2021

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 Auditors, Comptrollers and Treasurers, we appreciate the opportunity to respond to the Governmental Accounting Standards Board's Preliminary Views (PV), *Revenue and Expense Recognition*.

We believe the categorization process described in the PV is rather complex and would be difficult and very costly to implement, specifically through increased audit costs and necessary modifications to accounting systems, processes and policies. It is particularly challenging in the contracts and grants area, as many governments have a large number of contracts and grants that would have to be evaluated. We believe the cost involved in this categorization process will outweigh the benefit. We also request that the Board look for further opportunities to simplify the guidance to remove unnecessary complexity.

We believe it would be prudent to complete the revenue and expense recognition project and incorporate any modifications into the reporting model and financial statement guidance. The current GASB Technical Plan indicates that the revenue and expense recognition guidance will be issued during the first quarter of 2025. Since the largest governments will be implementing the *Financial Reporting Model Improvements and Recognition of Elements of Financial Statements* effective for fiscal year 2025, the timing is not optimal. We believe it would be more efficient from a preparer perspective to have the final *Revenue and Expense Recognition* guidance available at least one year prior to implementing the *Financial Reporting Model Improvements and Recognition of Elements of Financial Statements* guidance. Accordingly, we request a delayed implementation date for the *Financial Reporting Model Improvements and Recognition of Elements of Financial Statements* to coincide with the *Revenue and Expense Recognition* implementation date.

If GASB moves forward with this guidance, we have the following specific comments that we believe the Board should consider.

Chapter 2

Item 2c: We believe the Board should consider rewording "For accounting and financial reporting purposes, the government is an economic entity *and not an agent of the citizenry.*" In the current political environment this language could be misconstrued. We believe the following suggested wording would make the same point: "For accounting and financial reporting purposes, the government is an independent economic entity."

Chapter 3

Paragraph 9: We believe the discussion of "moral or constructive obligations" is vague. We request that the Board include more specific guidance on obligating events.



Paragraph 28: We request that the Board provide further clarification regarding the differences between expenditure-driven grants and purpose-restricted grants. It is not clear if all reimbursement-based grants are considered expenditure-driven grants and thus classified as Category A transactions. We request that the Board clarify how the method of funding (reimbursement or advance) relates to the classification of both expenditure-driven and purpose-restricted grants.

Paragraphs 29-31: We request that these paragraphs contain more information to describe what specific circumstances changed. For example, it is unclear from the expenditure-driven grant example outlined in paragraph 29, what facts and circumstances changed in paragraph 30, causing the difference to a purpose-restricted grant and therefore failing to meet step 4 of interdependence. We believe it would be helpful to provide more detail on the performance requirements of the grant agreement in the expenditure-driven grant versus purpose-driven grant. We also ask that the Board consider an additional flow chart that provides a graphic view of the facts in the grant agreement that changes the distinction from expenditure-driven to a purpose-restricted grant.

Chapter 4

Paragraph 19: It would be helpful if the Board would provide more examples to demonstrate what it means by the difference between expenditure-driven grants, and grants where resources are restricted to a specific purpose.

Paragraph 36: We request that the Board include more detail regarding when a legally enforceable claim arises, such as when an individual pays a fine or license fee, or when the individual is found liable, thus reinforcing the definition of a legally enforceable claim.

Appendix C

Case 12: We believe it would be helpful to reiterate in the example that revenue should be recognized in the period for which the taxes are imposed. Also, the flow charts used in the GASB's educational webinars that outline the Category B revenue recognition example for property taxes would be very helpful to include as part of the case discussion.

General Comments

- The cases are very helpful, including descriptions of various facts and circumstances that change the accounting treatment in the various examples. We encourage the Board to keep the case studies in the exposure draft and the proposed statement, adding further examples as applicable.
- In multiple paragraphs throughout this document, the Board includes cross references to other chapters/paragraphs and the various case examples. This is extremely helpful to understand and reinforce the concepts. We encourage the Board to continue this practice in future documents.
- Portfolio considerations are discussed throughout the document. We believe the idea of portfolio considerations should be better developed to allow for consistent application of this concept.



- We encourage the Board to reconsider if additional clarity is provided to users of the financial statements by introducing the terms *inflows of resources* and *outflows of resources*. We believe this introduces unnecessary complexity to the guidance and the change will likely confuse the average reader of the financial statements as revenues and expenses are common terms most everyone is familiar with and can easily conceptualize.

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 or me at (916) 445-0255.

Sincerely,

Elaine M. Howle

Elaine M. Howle
President, NASACT
State Auditor, California