



## GOVERNMENT FINANCE OFFICERS ASSOCIATION OF TEXAS

April 23, 2018

Director of Technical and Research Activities  
Governmental Accounting Standards Board  
RE: Project No. 4-6I  
Via email to [director@gasb.org](mailto:director@gasb.org)

The Financial Reporting and Regulatory Response Committee of the Government Finance Officers Association of Texas (“GFOAT”) would like to take this opportunity to respond to GASB’s Invitation to Comment on “*Revenue and Expense Recognition*.” The GFOAT is an affiliate of the Texas Municipal League, which represents over 1,100 Texas cities and towns. The GFOAT’s over 1,000 members represent all levels of state and local government in Texas. Additionally, GFOAT membership represents associates from the audit profession, the investment community, the underwriting community, and a variety of other private-sector finance professionals.

### Questions Posed in the Invitation to Comment:

#### ***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?***

GFOAT was mixed in its consideration of this question, with supporters on both sides of the argument. Support of the exchange/nonexchange model relied on the familiarity of the practice, along with the fact that the majority of government revenues are generated from taxes, intergovernmental transactions and utility charges. As such, the majority of revenues should be straight-forward in their treatment, questioning the need to make a broad change for the sake of revenues or expenses that would be immaterial to most governments.

Criticism of the exchange/nonexchange model acknowledged that value is in the eye of the beholder, and two parties to a transaction can have differing opinions of whether the value given or received was equal. Also, concern was expressed since other standard setting bodies have adopted performance obligation based approaches, creating disconnects between what preparers and auditors are taught in school and actual practice upon moving to a governmental role. Finally, it was noted that there is minimal guidance for exchange transactions in the GASB literature, indicating the need for extensive work if the model is retained.

#### ***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?***

Since the proposed model would involve a major change, there was lengthy discussion of this question. Overall, GFOAT felt that this approach was more consistent with the work of other standard setting bodies, and would provide the ability to provide more concrete guidance in application.

However, GFOAT was concerned that the definitions of binding arrangement and specific beneficiary could lead to confusion, and would need to be better defined. For example, there may be circumstances where fee based revenues are generated without the arrangement being legally enforceable. Tickets for concerts and sporting events may not be refundable upon inclement weather (“rain or shine”) or only be credited against future events if the event is not held. GFOAT believes that there is room for much differentiation in practice around these terms.

Also, GFOAT believes that the idea of when the obligation has been satisfied can provide room for differing interpretation, much like current practice. For example, an air quality grant involves replacing an existing aged vehicle with a newer one. As part of the grant, the recipient government agrees to purchase a new vehicle and destroy the old one. Once the grant has been made, there are minimum mileage requirements for the new vehicle for six years upon placing it into service. The question of when all grant eligibility requirements have been met could be replaced with the question of when the actual performance obligation has been met.

After debating these concerns, GFOAT does believe that the performance obligation model is a better model, acknowledging that strong guidance will be needed in order to achieve the goal of avoiding more gray areas in the new model.

***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?***

GFOAT did not believe that the alternative model would provide additional value to either the current or proposed models. It would retain elements of the old, requiring additional guidance and clarification, as well as introduce new concepts, requiring more guidance and clarification. As such, we believe that it could create additional confusion. Although it might result in a better model, GFOAT does not believe that the journey to get there would be the shortest of the most efficient path.

***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 that there is another alternative for distinguishing revenue and expense transactions? If so, please describe that alternative and explain why you believe that it would be suitable.***

The GFOAT’s discussion did not identify any additional alternative models.

#### **Additional Comments:**

GFOAT provides the following additional comments that arose from the committee’s discussions.

GFOAT expresses the concern that in both models, the alternative once the question of exchange or performance obligation has been decided is the existing non-exchange guidance of Statements 33/36. GFOAT believes that these standards need to be enhanced and clarified, regardless of the resolution of the questions posed in the Invitation to Comment.

GFOAT noted that better examples would have been helpful as part of the Appendix. In all three examples, revenues/expenses were recognized at the same point in time under both models. The reasoning for recognition may have been different, but there was no discrepancy as to when recognition occurred. Examples where there was a difference in recognition timing would be beneficial in further explaining the need for the new model.

Finally, GFOAT expresses concern that the reporting focus for governmental funds is still under consideration. Since the reporting focus and recognition concepts are clearly interrelated, GFOAT believes that determining whether there will be changes to the reporting focus will help drive a more informed discussion of recognition concepts.

GFOAT thanks you for the opportunity to provide feedback and is available to provide clarification to these comments at the public hearing to take place in St. Louis on May 6, 2018.

Respectfully:  
(submitted via email)

Keith Dagen  
FRRR Committee Chair  
[keith.dagen@cor.gov](mailto:keith.dagen@cor.gov)