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Mr. David R. Bean
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

Dear Mr. Bean:

Members of the American Institute of Certified Public Accountants (AICPA) State and Local Government Expert Panel have reviewed the Governmental Accounting Standards Board (GASB or Board) Preliminary Views (PV), *Revenue and Expense Recognition* (RER), and are pleased to offer our comments.

We appreciate the Board's time and efforts to establish a comprehensive recognition model for revenues and expenses. Further, we are very supportive of the proposed performance obligation approach to revenue and expense recognition for transactions, which are considered exchange transactions in existing guidance. The addition of guidance on exchange transactions will fill a void in GASB's current accounting framework that has left many preparers looking to other financial reporting frameworks for guidance.

However, we have a number of concerns with the proposal, including that the proposed recognition model, as written, is overly complex and will result in inconsistent conclusions amongst governments. We also believe the proposed recognition approach for expenditure-driven grants is significantly flawed. Finally, we disagree with the elimination of the current concept of exchange and nonexchange transactions and any further divergence from the recognition criteria for grants and contributions under the Financial Accounting Standards Board (FASB) financial reporting framework. In light of these concerns, we strongly recommend that GASB revise its approach and move forward with an exchange-nonexchange model that includes a performance obligation approach for exchange transactions.

We also have significant concerns about the separation of the RER project from the financial reporting model (FRM) project and the potential issuance of a final FRM standard well before deliberations are completed on the RER project. We believe it is essential to ensure solid understanding of the combined impact of both standards and minimize any potential confusion that likely would ensue from implementing one standard before the other. Because many of the concepts in both projects are so interrelated, we strongly recommend the Board either recombine the two projects or postpone issuance of a final FRM standard until deliberations on the RER project have been completed. We also strongly recommend the effective dates for the RER and FRM standards be aligned.

Our most significant comments are included in the next section of this letter. The "Other Comments" section addresses comments of less significance.

SIGNIFICANT COMMENTS

Revenue and Expense Recognition for Expenditure-Driven Grants Flawed

Expenditure-driven grants are Category A transactions under the proposed recognition model. Transactions in Category A would be recognized when (or as) a government satisfies its performance obligations. As previously stated, we are very supportive of the performance obligation approach to revenue and expense recognition for most exchange transactions. However, we have significant concerns about including expenditure-driven grants within Category A and the resulting recognition criteria.

The Board may have settled on the proposed "practical approach" to recognize revenue and expense solely based on when expenditures are incurred due to the conceptual challenges of identifying performance obligations and evaluating whether a government has satisfied performance obligations for grants. However, we believe this overly simplified approach is flawed as it fails to consider other potentially significant grant requirements. Grants are provided in various forms and can have numerous different types of requirements, as observed with grants resulting from pandemic-related legislation. For example, grants may include loss of revenue, matching, earmarking, and level of effort requirements that would not be considered under the proposed recognition model. We strongly disagree with any recognition model for grants and contributions that ignores significant "eligibility" requirements.

FASB also recognized the challenges of including grants and contributions in a performance obligation model. Therefore, the FASB issued a separate Accounting Standards Update to account for grants and contributions, which is similar to existing GASB standards, to clarify the difference between resources recognized as contributions rather than exchange transactions.

We recommend the board exclude expenditure-driven grants from Category A and instead require recognition based on when eligibility requirements are met, similar to those currently included in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, for government mandated and voluntary nonexchange transactions.

Recognition Model Overly Complex

We believe the four-step categorization methodology is overly complex and difficult to apply. As we evaluated various transactions using the model, we did not always reach the same conclusions based on steps 2, 3, and 4 in the categorization model. Based on these differences in conclusions, we are concerned the model will result in inconsistent application and recognition of similar transactions.

For example, Case 9 addresses passenger facility charges which are fees an airport adds to each passenger ticket for upkeep and maintenance of airports. The answer states that passengers do not approve the terms and conditions of the binding arrangement because the passenger's purchase of airline tickets, upon which a fee has been imposed, does not constitute mutual assent of the passenger facility charge. Thus, the case concludes that the transaction fails Step 2, *Identification of Mutual Assent Between Parties of Capacity*, and is a Category B transaction. However, another reasonable view could be that the passengers have agreed to pay a fee to travel, which includes the cost of airport use. Thus, they have approved the terms and conditions resulting in mutual assent between the parties, and the transaction would be a Category A transaction.

Additionally, the four-step model places an unnecessary burden on the preparer due to its complexity for which the related outcome does not result in a better accounting answer. We believe the current exchange-nonexchange categorization of transactions is generally well understood while recognizing improvements and clarifications in that guidance could be beneficial.

Given our previous recommendation related to expenditure-driven grants, we also believe the potential benefits of the proposed A-B categorization methodology are significantly diminished when expenditure-driven grants are removed from Category A. Therefore, we do not support eliminating the current exchange-nonexchange concepts in existing guidance or further divergence from the FASB recognition criteria for grants and contributions.

To eliminate the above challenges, we strongly recommend the Board abandon the proposed A-B categorization methodology, and instead, proceed with an exchange-nonexchange model that includes the performance obligations concepts in the RER PV for the exchange category. We would then support the Board taking on a more limited project to address current practice challenges with GASB Statement No. 33 for purposes of enhancing the existing exchange-nonexchange model. Another advantage to our recommendation is that the education and implementation of RER that retains an exchange-nonexchange model would be less burdensome since there is a general understanding by prepares and auditors of those concepts today.

Combine Financial Reporting Model and Revenue and Expense Recognition Projects

As discussed above and detailed in our FRM comment letter, we have significant concerns about the separation of the RER project from the FRM project and the potential issuance of a final standard on FRM well before deliberations are completed on the RER project. We believe many of the concepts in the projects are interrelated and that certain aspects of one project may influence the Board's views on the other project.

Additionally, field testing was performed on the FRM project, and field testing for the RER project is currently in progress. However, it is our understanding that the field testing for the RER project is being conducted based on the current financial resources measurement focus and modified accrual basis of accounting and will not lend insight into the interaction of the FRM and RER projects together. Without a field test that encompasses both due process documents together, the Board will have no way of knowing what potential issues have not yet been identified.

Finally, many hours of education, training, and analysis of transactions will be required to implement FRM, both when it is first issued and then again when governments are required to reapply these concepts in connection with the implementation of the RER standard. Aligning the implementation dates will not only reduce confusion but will aid in streamlining the overall implementation.

For all of the above reasons, we strongly recommend the Board either recombine the two projects or postpone issuance of a final FRM standard until deliberations on the RER project have been completed. Further, we recommend aligning the effective dates for the RER and FRM standards. Given there is no urgent practice issue driving an immediate need to implement the FRM standard, alignment of the two projects will ensure all issues are identified and result in efficiencies in implementation.

OTHER COMMENTS

General Aid to Governments

We are concerned with the recognition criteria for general aid to government transactions, which includes recognition based on due dates and the determination of whether the resource provider intends to provide the resources to the resource recipient. The due date is less significant than the period the resources are intended to fund. Additionally, we believe it is challenging to determine (or audit) intent, and we struggle to understand how intent is demonstrated outside of the appropriation process as it seems that an appropriation in and of itself demonstrates intent.

For similar reasons, we also disagree with the exception to the recognition criteria introduced in paragraph 48 of Chapter 4 and paragraph 32 of Chapter 5, which would require governments to continue recognizing a transaction even after the resource provider cancels the related appropriation, assuming an intention to provide those resources in a subsequent period. We believe it will be extremely problematic for preparers to determine whether another government really has an intent to pay despite a cancelled appropriation.

This proposed recognition criteria introduces significant subjectivity into the accounting for general state aid and will not result in consistent application of the standard across governments, even when presented with the same facts. For example, all schools within a state are likely subject to similar appropriations, but each school's interpretation of "intent" will result in varying accounting treatment for the same underlying transaction.

As it relates to general state aid, because the appropriation process at one level of government (i.e., the State) is not always aligned with the fiscal year of the recipient governments, we encourage the Board to provide an additional "building" scenario in Appendix C, Case 8, to illustrate the accounting when the fiscal year of the provider is different than the resource recipient.

While we recognize there are challenges with the existing recognition literature, the Board's proposed recognition criteria falls short of alleviating these challenges. We recommend the Board revisit the recognition criteria for general aid to governments, specifically related to due dates and intent.

Shared Revenue Supported Through Periodic Appropriations

Similar to our comment surrounding intent for general state aid to governments, we have concerns about the recognition criteria for shared revenue supported through periodic appropriations based on intent.

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The AICPA appreciates the opportunity to comment on the ED. This comment letter was prepared by members of the AICPA's State and Local Government Expert Panel and was reviewed by representatives of the Financial Reporting Executive Committee who did not object to its issuance. Representatives of the AICPA would be pleased to discuss these comments with you at your convenience.

Sincerely,

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Expert Panel

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