Florida Institute of Certified Public Accountants

3800 Esplanade Way, Suite 210
Tallahassee, FL 32311
Phone: 850-224-2727
Fax: 850-222-8190
www.ficpa.org

February 26, 2021

Director of Research and Technical Activities
Project Number 4-6P
Governmental Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk CT 06856-5116

Submitted via email to director@gasb.org

To Whom it May Concern:

The State and Local Governmental Committee (the Committee) of the Florida Institute of Certified Public Accountants (FICPA) respectfully submits its comments on the Preliminary Views of the Governmental Accounting Standards Board (GASB, the Board), *Revenue and Expense Recognition* (the PV). The Committee is a technical committee of the FICPA and has reviewed and discussed the Preliminary Views.

While the Committee is not convinced the current revenue and expense recognition models are "broken", overall, the Committee members generally support the majority of the proposals in the PV. A number of Committee members are auditors with clients in the private sector and they appreciate the similarities between the PV and the Financial Accounting Standards Board (FASB) revenue recognition standards in Topic 606, *Revenue from Contracts with Customers*, as amended. The Committee supports the asset and liability classification as the driver for revenue and expense recognition as outlined in the PV.

However, the Committee does not believe the changes in the PV will significantly enhance the understandability, reliability, relevance, consistency, and comparability of state and local government financial reporting. Additionally, the Committee does not believe the benefits of the proposed changes will exceed the costs of initial and ongoing implementation of a final standard primarily because there is little difference in how many transactions will be reported.

The Committee's responses to the various sections of the PV are discussed below.

Chapter 1 - Objective and Scope

The Committee is concerned a future project relating to the items excluded from this project in paragraph 3 (as well as intangible assets discussed in paragraph B7) may be inconsistent with the PV. This was of special concern to the Committee with respect to donations of nonfinancial assets such as easements and rights of way.

Chapter 2 – Foundational Principles for the Model

Generally, the Committee finds the flowcharts on page 14 and page 16 and the step-by-step process in paragraphs 22 – 25 for revenue recognition and paragraphs 28 – 31for expense recognition very helpful in understanding the proposals of the PV. The Committee does not believe the proposed recognition methodology will result in materially different amounts than those determined under current concepts and standards. In addition, the Committee is concerned the proposed methodology will require financial statement preparers to spend more time classifying and recording revenue and expense transactions than is required currently.

Another concern of the Committee is how the proposed methodology will be affecting small and medium size governments and their local level stakeholders.

The Committee does not believe the proposed methodology will result in improved financial reporting but does understand such opposition is likely to make little difference to the final outcome of this project. Therefore, the Committee supports the Category A and Category B approach and the use of a performance obligation approach.

Chapter 3 - Categorization

Members of the Committee represent Certified Public Accountants working in or auditing state and local governments or other related stakeholders. As such, the Committee was unable to determine what type of transaction would not represent a binding arrangement. For increased understandability, the Committee recommends the Board consider providing examples of transactions that would not represent binding arrangements in a future exposure document. In addition, the Committee believes the term "legislation" in paragraph 5 is vague because legislation can take many forms such as laws, regulations, rules, resolutions, and others. The Committee believes the Board should define or provide examples of legislation in a future exposure document.

Paragraph 9 discusses moral and constructive obligations, but the Committee believes additional clarification and examples would enhance understandability. Application of substantive identifiable rights and obligations is likely to lead to a lack of comparability among governments and diversity in practice within a government and between governments. The Committee believes the example in paragraph 20 is somewhat simplistic and recommends a more complex and universal type of example.

The Committee is strongly opposed to the Board's proposals relating to accounting for grants because it will create diversity in practice. Based on the Committee's extensive experience in state and local governments, all federal and state grants are purpose-restricted grants. The method by which the government receives payment under a grant does not negate the overarching purpose restrictions associated with how grant funds are spent. The Committee believes the conclusion in paragraph 30 for Case 13 in Appendix C is "backwards logic" and inconsistent with the current grant environment because Case 13 is a donation rather than a grant. The Committee recommends the Board consider defining grants separately from contributions for classification purposes.

As proposed in the PV, Category A transactions record liabilities/receivables while Category B grants report deferred inflows/outflows of resources, respectively. The Committee believes this accounting is particularly confusing with respect to grants and therefore recommends the Board consider consistent reporting for grants.

Chapter 4 – Revenue Recognition

As stated above, the Committee does not agree with the proposals relating to grants (paragraph 19, 37, 40) because all grants are purpose restricted and the proposed categorization and recognition will likely create diversity in practice.

The Committee is concerned that accounting for property tax revenue (paragraph 31 – 33) provides irrelevant information in the financial statements because imposition of property taxes creates a receivable which is offset with a deferred inflow of resources. Based on the Committee's experience with credit and other government analysts, there is a concern analysts could reach incorrect conclusions because the deferred inflow of resources would not be considered in the analysis. The Committee respectfully disagrees with the Board's conclusion that the date a governing body takes action creates a legally enforceable claim.

Additionally, the Committee believes this will create diversity in practice as state law may dictate when a government has a legally enforceable claim and, in some states, taxes are imposed months before the start of the related fiscal year. Another concern of the
Committee is the proposal may result in funds other than the general fund who assess property taxes (for example debt service funds) meeting the criteria to be reported as a major fund.

With respect to paragraph 55 and the Board's expectation that there will not be significant changes in the amount or timing of Category A revenue transactions "if" existing guidance has been appropriately applied in the past. In the experience of the Committee, recording property tax revenues imposed at the end of the fiscal year for the subsequent budget year does not consistently occur across governments. The Committee believes this diversity in practice would continue to exist under the proposal in the PV.

Chapter 5 – Expense Recognition

Other than the proposals relating to grants, the Committee generally agrees with the Board's preliminary views.

Chapter 6 – Measurement

The Committee agrees with the proposals in this chapter even though it believes measurement will create diversity in practice as well as a lack of comparability among governments.

Chapter 7 – Short-Term Financial Resources Measurement Focus and Accrual Basis of Accounting ***Application***

Other than the proposals relating to grants, the Committee generally agrees with the Board's preliminary views.

Appendix C

While the Committee finds the example transactions in the appendix helpful, they believe they are simplistic situations or not relevant to the majority of local governments. The Committee appreciates the use of entries in the cases but believes "journal entries" depicting nominal accounts rather than the effect on the "trial balance" would be most helpful to preparers of government financial statements.

In addition, the Committee does not agree with the conclusions and entries relating to grants. The facts presented in Case 1 in the second paragraph are not realistic. A construction contractor would not wait three months to submit an invoice and typically the contractor notes the percentage complete on the request for payment. The Committee believes Case 1 is very confusing and recommends making the case more straight forward.

Some of the cases, in the opinion of the Committee, are of limited applicability such as Case 2 (healthcare) and Case 4 (state lottery). If only 18 cases can be included, the Committee recommends focusing the limited number of cases on more universal transactions. For example, the Committee believes a case relating to building permits would be helpful and relevant to most local governments.

In case 7, the Committee believes the $160 is not a liability because the facts in the first paragraph state the deposit is nonrefundable. Similar to the previous comment relating to using "journal entries" for nominal accounts, the last entry on page 95 would also show the reversal of the $160 liability (see previous comment) as revenue. Using the trial balance approach, this aspect of the transaction is lost.

Case 11 (Professional License) ignores the fact that most governments (state and local) have a subsidiary system for these types of transactions which may or may not interface with the general ledger at the time of billing.

Revenue would not be recognized from these transactions until the billed licensee actually renews their license. Perhaps the case could be expanded for this type of situation.

Case 14 (Special Assessment) also ignore the fact a government might use a subsidiary system to account for and bill special assessments. In the experience of the Committee members, special assessments are approved before construction and assessed upon completion of the construction. Again, the Committee believes this case could be improved by considering these alternative situations.

We appreciate this opportunity to comment on this Preliminary Views and ask that you please consider our suggestions during your deliberations.

Please contact me or FICPA's Director of Governmental Affairs Justin Thames at justin@ficpa.org.

Sincerely,

Catherine Ahrend

Catherine (Corinne) Ahrend, CPA
Chair – FICPA State and Local Government Committee