GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

MEMORANDUM

Issue 4, Paper 1
March 2016 Board Meetings

To:	Board Members and David Bean
From:	Amy Shreck, Kathryn Blok, and Yomara Eiranova-Oquendo
cc:	GASB Staff and Meeting Observers
Date:	March 14, 2016
Re:	Research Memorandum: Revenue Recognition from Exchange and Exchange-Like Transactions
Att:	Survey Instruments

INTRODUCTION AND BACKGROUND

The primary objective of this pre-agenda research activity is to evaluate the effectiveness of existing standards related to revenue from exchange and exchange-like transactions. The research considered the following:

- Whether the existing guidance regarding revenue recognition for exchange transactions is sufficient to minimize diversity in practice
- What constitutes exchange-like transactions and how they should be accounted for
- Whether there is an opportunity to harmonize revenue recognition standards with the recently issued FASB *Accounting Standards Codification*® (ASC) Topic 606, *Revenue from Contracts with Customers*.

Pre-agenda research began in September 2015. As part of the research, the staff:

- Reviewed the relevant GASB literature and the literature of other standards-setting bodies
- Reviewed data related to revenue in the 2012 Census of Governments
- Conducted surveys of preparers, auditors, and users of governmental financial statements.

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This paper presents the research results. The first section summarizes the literature review. The second section presents the key research questions that the research was intended to answer. The third section provides an overview of the approach to the research and the methodologies employed, as well as the limitations of the research design. The remainder of the paper presents the findings of the research and the staff's analysis.

I. LITERATURE REVIEW

This section of the paper presents excerpts from the literature review for revenue recognition for exchange transactions, including the GASB literature. This section also discusses the differences between exchange, exchange-like, and nonexchange transactions.

A major focus of the literature review was *FASB Accounting Standards Codification*® Topic 606, Revenue from Contracts with Customers, as well as the revised guidance issued by the FASB to date and future revisions currently being deliberated by the FASB. An educational memorandum was presented to the Board at its February 2016 meeting that provided an overview of Topic 606 and related implementation issues. A brief summary of Topic 606 is provided in this paper. As Topic 606 was the result of a convergence project with the International Accounting Standards Board (IASB), International Financial Reporting Standard (IFRS) 15, *Revenue from Contracts with Customers*, is not described in detail in this paper.

The International Public Sector Accounting Standards Board (IPSASB) currently is considering revisions to its revenue recognition guidance through its projects on revenue and expense, which also was described in the February 2016 educational memorandum. The section on the IPSASB in this paper briefly summarizes that description.

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This section concludes with excerpts from the relevant literature of the Federal Accounting Standards Advisory Board (FASAB).

GASB Literature

Revenue Recognition for Exchange Transactions

Currently, GASB literature includes limited guidance for revenue recognition from exchange transactions. Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and ACIPA Pronouncements*, states:

> 23. Revenue from exchange transactions generally should be recognized when an exchange, in the ordinary course of operations, is effected unless the circumstances are such that the collection of the exchange price is not reasonably assured. Accordingly, revenues from exchange transactions should generally be accounted for at the time a transaction is completed, with appropriate provision for uncollectible accounts. In the absence of the circumstances[8] referred to above or other specific guidance, such as in paragraphs 282–349, the installment method is not acceptable.

[8] There are exceptional cases in which receivables are collectible over an extended period of time and, because of the terms of the transactions or other conditions, there is no reasonable basis for estimating the degree of collectibility. When such circumstances exist, and as long as they exist, either the installment method or the cost recovery method of accounting may be used. (Under the cost recovery method, equal amounts of revenue and expense are recognized as collections are made until all costs have been recovered, postponing any recognition of income until that time.)

Paragraph 555 of the Basis for Conclusions of Statement 62 explains that the Board decided to incorporate this provision in Statement 62 because it "provides clarification that governments may, when appropriate, use methods for recognizing revenue from exchange transactions that are in exception to the general principle." This clarification was considered important because the *general principle* referred to in paragraph 555 of Statement 62 was established in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Paragraph 16 of Statement 34, as amended, states:

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> ...Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions should be recognized when the exchange takes place.[11] Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions should be recognized in accordance with the requirements of Statement 33....

[11] In this Statement, the terms *transaction* and *transactions* refer *only* to external events in which something of value (benefit) passes between two or more parties. **The difference between exchange and exchange-like transactions is a matter of degree. In contrast to a "pure" exchange transaction, an exchange-like transaction is one in which the values exchanged, though related, may not be quite equal or in which the direct benefits may not be exclusively for the parties to the transaction.** Nevertheless, the exchange characteristics of the transaction are strong enough to justify treating the transaction as an exchange for accounting recognition. (**emphasis** added)

Additional industry-specific guidance for revenue recognition is provided by Statement 62, including sales with the right to return, long-term construction contracts, sales of real estate, broadcast agreements, and cable television agreements.

Paragraph 115 of Statement 34 describes disclosure requirements, including the following for revenue recognition:

> f. A description of the types of transactions included in program revenues (see paragraph 48) and the policy for allocating indirect expenses to functions in the statement of activities. (See paragraph 41-46.)
> g. The government's policy for defining operating and nonoperating revenues of proprietary funds.

The Appendix of National Council on Governmental Accounting (NCGA) Interpretation 6, *Notes to the Financial Statements Disclosure,* provides a presentation outline for the sequence of the notes to the financial statements. Suggested disclosures related to revenues include unusual or significant accounting policies for material revenues.

Exchange, Exchange-like, and Nonexchange Transactions

Another topic addressed in the GASB literature is the difference between exchange, exchange-like, and nonexchange transactions. Statement No. 33, *Accounting and*

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Financial Reporting for Nonexchange Transactions, established the notion that the difference is a matter of degree. Paragraph 1 (Introduction section of the Statement), discusses the difference:

> 1. State and local governments engage in two kinds of transactions: (a) exchange and exchange-like transactions, in which each party receives and gives up essentially equal values, and (b) nonexchange transactions, in which a government gives (or receives) value without directly receiving (or giving) equal value in exchange.[1]

> [1] In this Statement, the terms *transaction* and *transactions* refer *only* to external events in which something of value (benefit) passes between two or more parties. **The difference between exchange and exchange-like transactions is a matter of degree. In contrast to a "pure" exchange transaction, an exchange-like transaction is one in which the values exchanged, though related, may not be quite equal or in which the direct benefits may not be exclusively for the parties to the transaction.** Nevertheless, the exchange characteristics of the transaction are strong enough to justify treating the transaction as an exchange for accounting recognition. (**emphasis** added)

Paragraphs 50 and 51 of the Basis for Conclusions of Statement 33 include the Board's rationale for including certain transactions within the scope of Statement 33. This discussion illustrates the challenges of differentiating transactions in the spectrum of exchange, exchange-like, and nonexchange transactions.

> 50. To assist in the development of general standards for nonexchange transactions, the Board examined the principal characteristics of different kinds of nonexchange transactions and grouped them into the classes established in paragraph 7, based on shared characteristics. During this process, the Board concluded that certain transactions, referred to in this Statement as *exchange-like transactions,* are more similar to exchange transactions than to nonexchange transactions, even though many governments and others call them nonexchange transactions. (The significance of exchanges to accrual-basis accounting recognition is discussed briefly in paragraph 56.) That is, **in an exchange-like transaction, there is an identifiable exchange between the reporting government and another party, but the values exchanged may not be quite equal or the direct benefits of the exchange may not be exclusively for the parties to the exchange.** Examples include certain fees for regulatory or professional licenses and

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permits, passenger facility charges, certain tap fees, certain developer contributions, certain grants and donations, and other transactions that, regardless of the label applied to them, are based on an exchange of similar but not equal values. The Board believes that **exchange-like transactions should be accounted for in the same way as "pure" exchange transactions**—that is, based on occurrence of an exchange between the reporting government and another party or parties—and this Statement does not apply.
(**emphasis** added)

51. The decision to account for certain (technically nonexchange) transactions as exchange transactions reduced the range of nonexchange transactions for which the Board would need to establish accrual-basis recognition criteria *other than* the existence of an exchange. The Board further extended the concept of an exchange to another group of nonexchange transactions, referred to in this Statement as *derived tax revenues*. Unlike exchange-like transactions, the Board considers derived tax revenues to be nonexchange transactions because *there is no exchange* between the provider—the customer in a retail sales transaction, for example—and the recipient government. Rather, the exchange occurs between a merchant and a customer, and the government imposes a tax on (derives revenue from) that exchange. The Board believes that the occurrence of the exchange is the appropriate point for recognition of a derived tax revenue from the sale, because without an exchange, no revenue would flow to the government. (For practical reasons, the amount of derived tax revenues to be recognized by the recipient government is likely to be based on estimates of amounts due on sales transactions close to the end of the year, as well as on actual receipts for the year.) Similar concepts support classifying revenues resulting from personal and corporate income taxes, gross receipts taxes, hotel occupancy taxes, and other impositions on earnings or consumption as derived tax revenues to the imposing government.

FASB and IASB Literature and Implementation Issues

As previously noted, FASB Topic 606 was issued in May 2014 as a joint project between the FASB and the IASB. These revenue standards were a major overhaul of previous FASB revenue recognition literature, which comprised broad revenue recognition concepts and numerous revenue requirements for particular industries or transactions. This approach often resulted in inconsistencies in practice. The joint FASB and IASB

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project resulted in the issuance of FASB ASU 2014-9 and IFRS 15. FASB ASU 2014-9 was codified into Topic 606, which resulted in a comprehensive revenue recognition model. This section provides a brief overview of Topic 606. Again, as previously noted, additional information on Topic 606 can be found in the February 2016 educational memo.

Core Principle

Paragraph 606-10-05-3 of Topic 606 states that the "core principle of this Topic is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services." Topic 606 also provides the following series of five steps to comply with the core principle:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Other Presentation Matters, Notes to the Financial Statements, and Implementation Guidance

Paragraph 606-10-45-1 addresses the general presentation of elements that would result from applying the provisions of Topic 606 as follows: "When either party to a contract has performed, an entity shall present the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment. An entity shall present any unconditional rights to consideration separately as a receivable."

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Paragraph 606-10-50-1 includes general requirements for notes to the financial statements as follows:

> The objective of the disclosure requirements in this Topic is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:
>
> a. Its contracts with customers (see paragraphs 606-10-50-4 through 50-16)
> b. The significant judgments, and changes in the judgments, made in applying the guidance in this Topic to those contracts (see paragraphs 606-10-50-17 through 50-21)
> c. Any assets recognized from the costs to obtain or fulfill a contract with a customer in accordance with paragraph 340-40-25-1 or 340-40-25-5 (see paragraphs 340-40-50-1 through 50-6).

Contracts with Customers

Paragraphs 606-10-50-4 through 50-16 require disclosing information regarding an entity's contracts with customers. The disclosures include information regarding the amount of revenues from contracts with customers separately from other sources of revenues, impairment losses on receivables or contract assets arising from contracts of customers separately from impairment loses from other contracts, disaggregation of revenue, contract balances, performance obligations, and transaction prices allocated to the remaining performance obligations.

Significant Judgments

Paragraphs 606-10-50-17 through 50-21 require disclosure of "the judgments, and changes in judgments, made in applying the guidance in this Topic that significantly affect the determination of the amount and timing of revenue from contracts with customers." Entities must specifically disclose judgments and changes in judgments

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used to determine the timing of satisfaction of performance obligations, the transaction price, and the amounts allocated to performance obligations.

Paragraphs 606-10-50-18 and 19 require the following related to the determination of timing of satisfaction of performance obligations:

> For performance obligations that an entity satisfies over time, an entity shall disclose both of the following:
>
> a. The methods used to recognize revenue (for example, a description of the output methods or input methods used and how those methods are applied)
> b. An explanation of why the methods used provide a faithful depiction of the transfer of goods or services.
>
> For performance obligations satisfied at a point in time, an entity shall disclose the significant judgments made in evaluating when a customer obtains control of promised goods or services.

Paragraph 606-10-50-20 requires an entity to disclose information about the methods, inputs, and assumptions used for the following:

> a. Determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money, and measuring noncash consideration
> b. Assessing whether an estimate of variable consideration is constrained
> c. Allocating the transaction price, including estimating standalone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract (if applicable)
> d. Measuring obligations for returns, refunds, and other similar obligations.

Topic 606 also includes an extensive implementation guidance section with illustrations of the output and input methods, sales with the right to return, warranties, customer's unexercised rights, repurchase agreements, and other matters.

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Implementation Issues

Shortly after the issuance of the ASU in 2014, a task force was formed called the Joint Transition Resource Group for Revenue Recognition (TRG). The TRG works with the FASB and stakeholders to inform the FASB of upcoming implementation issues and to educate stakeholders on the new standards. Since the formation of the TRG, four implementation issues have been identified and have subsequently been added to the FASB's technical agenda. The four projects are:

- Effective Date
- Identifying Performance Obligations and Licenses
- Principal versus Agent (reporting gross versus net)
- Narrow Scope Improvements and Practical Expedients.

IPSASB Literature and Projects

In March 2015, the IPSASB approved a project brief to update the IPSASB's requirements and guidance on exchange revenue and nonexchange revenue. The project could lead to one or more new pronouncements that could replace International Public Sector Accounting Standard (IPSAS) 9, *Revenue from Exchange Transactions,* IPSAS 11, *Construction Contracts,* and IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. While the revenues project is not intended to be a convergence project with the IASB, one reason for pursuing the project is the IASB's recent issuance of IFRS 15. IFRS 15 will replace existing IASB literature, specifically International Accounting Standard (IAS) 11, *Construction Contracts,* and IAS 18, *Revenues.* Because IPSAS 9 and IPSAS 11 are based on standards in IASB literature that are to be replaced, to maintain convergence the provisions of IFRS 15 are to be reconsidered by the IPSASB. Whereas IFRS 15 replaces two IASB Standards, FASB Topic 606 replaces a significant number of industry-specific standards.

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IPSAS 9 was issued in July 2001 and provides guidance for revenue from exchange transactions. Transactions identified in the scope of IPSAS 9 involve the rendering of services or sale of goods, as well as exchange transactions involving use by others of entity assets yielding interest, royalties, and dividends or similar distributions. IPSAS 11 also was issued in July 2001 and provides guidance for recognition of costs and revenues associated with construction contracts. Additional discussion of IPSAS 9 and IPSAS 11 was presented in the February 2016 educational memo.

As described above, the IPSASB is currently undertaking a project to consider revision to its current guidance for revenue. The IPSASB also has approved a project brief on nonexchange expenses. Current IPSASB guidance for recognizing provisions and liabilities related to nonexchange transactions is provided in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. IPSAS 19 was the result of a convergence project and was not developed with nonexchange transactions in mind. The nonexchange expenses project aims to develop standards that establish recognition and measurement requirements applicable to nonexchange transactions, except social benefits.

As the revenues and nonexchange expenses projects progressed, the IPSASB agreed that, due to overlapping issues within the projects, a joint consultation paper should be drafted. The consultation paper is expected to be approved for issuance by the end of 2016. Further information on these projects was presented in the February 2016 educational memorandum.

FASAB Literature

Statement of Federal Financial Accounting Standard (SFFAS) 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, provides guidance to federal entities on the classification, recognition, and measurement of revenue and other financing sources from exchange transactions and nonexchange transactions.

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Revenue Recognition for Exchange Transactions

Paragraph 34 of SFFAS 7 provides guidance for the recognition of revenue from exchange transactions: "Revenue from exchange transactions should be recognized when goods or services are provided to the public or another Government entity at a price."

Paragraph 36 of SFFAS 7 provides guidance for specific types of exchange transactions. The following table summarizes the recognition guidance provided for each specific type of exchange transaction:

Table 1

Guidance on Recognition of Revenue in SFFAS 7

Type of Exchange Transaction	Recognition
Services provided to the public or another Government entity	When the services are performed
Specific goods made to order or specific services produced to order under a contract	In proportion to estimated total cost when goods and services are acquired to fulfill the contract
Goods kept in inventory to be available to customers when ordered	When the goods are delivered to the customer
Services rendered continuously over time or right to use an asset extends continuously over time	In proportion to passage of time or the use of the asset
Asset other than inventory is sold	Gain is recognized when the asset is delivered to the purchaser

Paragraph 37 requires the recognition of a liability for any advance fees or payments received, such as "unearned revenue." Once costs are incurred for providing the goods or services, then revenue should be recognized, regardless of whether the fee or payment is refundable.

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Paragraphs 38–41 provide guidance for the measurement of revenue from exchange transactions. Revenue from exchange transactions should be measured at the actual price that is received or receivable. An estimate representing the lack of full realization due to credit losses should be recognized as bad debt expense. If the realization of the full amount of revenue is not probable due to reasons other than credit losses, such as returns, allowances, or price redeterminations, the revenue recognized should be reduced by the reasonably estimable amounts. The provisions should be shown separately as revenue adjustments.

Exchange, Exchange-Like, and Nonexchange Transactions

Paragraph 33 of SFFAS 7 describes exchange transactions and exchange revenue as follows: "...exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return. That is, exchange revenue arises when a Government entity provides something of value to the public or another Government entity at a price." SFFAS 7 also notes that another term for exchange revenue is "earned revenue." SFFAS 7 Appendix B, Guidance for the Classification of Transactions, provides authoritative guidance that directs agencies to classify specific transactions as exchange or nonexchange, focusing on all major transactions that finance the government's cost of operations and a significant number of lesser transactions. Appendix B also states that although some classifications are unequivocal, other classifications result from the balancing of different considerations.

Appendix B organizes and divides transactions into several groups. First, transactions are divided between those that are with the public and those that are *intragovernmental.* Second, transactions are classified as nonexchange, exchange transactions that produce revenue, exchange transactions that produce gains or losses, or other financing sources. Exchange transactions that are likely to be unusual or nonrecurring are classified as exchange transactions that produce gains or losses;

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however, if such transactions are usual and recurring for an entity, that entity should classify them as producing exchange revenue or expense instead of gains or losses.

SFFAS 7 Appendix B provides the classification and rationale for classification for the types of transactions listed. For example, taxes, fines, and fees generally are considered to be nonexchange transactions. In the discussion of user fees for the harbor maintenance trust fund, Appendix B describes the fees as a tax that is called a user fee by law. The *fee* is an ad valorem tax and is similar in nature to other excise taxes. In this example, although the transaction is called a user fee, the nature of the transaction is nonexchange in nature. Similar rationales for the classification of a transaction as exchange or nonexchange is included for each type of transaction described in Appendix B.

II. RESEARCH QUESTIONS

The aim of this pre-agenda research activity was to collect information to help the Board assess whether there is a need to reconsider the existing accounting and financial reporting guidance for revenue from exchange and exchange-like transactions. The research set out to answer the following general questions:

- What issues have arisen in practice with regard to recognition of exchange and exchange-like revenues by state and local governments?
- What transactions constitute exchange-like revenue? Specifically, can criteria be developed as a means of differentiating exchange-like transactions from nonexchange transactions for revenue recognition purposes?
- What types of revenue transactions having single-elements do governments generally engage in for exchange and exchange-like arrangements, and how do governments account for them?

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- What types of revenue transactions having multiple-elements do governments generally engage in for exchange and exchange-like arrangements, and how do governments account for them?
- Do governments generally engage in exchange and exchange-like transactions such as those specifically addressed in FASB Topic 606, such as unexercised rights, customer options, variable consideration, stand-ready obligations, and discounts?
- How prevalent are sales with a right of return in the governmental environment? Should paragraphs 26–27 of Statement 62 be applicable to all governments?
- What specific user needs exist regarding revenue recognition for exchange and exchange-like revenue?

III. METHODOLOGY AND LIMITATIONS

The staff began pre-agenda research in September 2015 and completed the research in March 2016. As mentioned earlier, the research effort included a literature review; archival research examining the 2012 Census of Governments; and surveys of preparers, auditors, and users.

The archival research and the literature review informed the development of the surveys of preparers, auditors, and users. The surveys were administered in February 2016.

Archival Research

The staff examined the annual reports of a county, municipality, tribal government, school district, housing authority, utility, and public university. The annual reports were randomly selected by staff from the population of governments listed in the 2012 Census of Governments. Initial review of these annual reports revealed that very little information regarding exchange and exchange-like revenues was provided in any of the reports. Revenue on the face of the financial statements was not classified as exchange or exchange-like in any of the reports. Notes to the financial statements related to

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revenues primarily were found in the summary of significant accounting policies, in a description of when revenue was recognized and the types of revenues included as operating revenues.

As the annual reports reviewed did not provide useful information for the research questions, further review of additional annual reports was not conducted. Instead, staff used the 2012 Census of Governments data to summarize information regarding the prevalence of revenues from exchange and exchange-like transactions.

Surveys

The staff developed surveys to obtain a better understanding of the prevalence of issues faced by preparers and auditors and the needs of users related to revenues from exchange transactions. Surveys were used because they have the potential to reach a broad group of stakeholders. However, a limitation of surveys is that they do not allow for immediate follow-up questions to clarify the responses obtained from participants. To compensate for this limitation, the questions in the surveys were designed to include follow-up questions for respondents. In several instances, the staff asked respondents for further clarification by email or telephone.

Preparer Survey

The staff designed a survey of preparers of government financial statements. The survey was intended to identify the proportion of revenue from exchange transactions, any issues preparers faced when accounting for and reporting revenue from exchange transactions, the methods by which revenue from exchange transactions is recognized, and the prevalence of transactions with certain features of exchange transactions.

The survey instrument was developed based on the procedures set forth in the GASB Research and Technical Activities (RTA) Manual. The survey instrument was developed under the supervision of the research manager and approved by the director of research and technical activities. As part of the development of this survey, the survey

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instrument was sent to GASAC members representing preparer organizations for review. Feedback from the GASAC members was incorporated into the survey instrument prior to administration.

The survey was administered through an online survey tool and invitations to participate were distributed by email. Invitations were sent to 1,361 individuals identified as preparers in the GASB stakeholder database on February 1, 2016. In addition, representatives of several GASB stakeholder groups were asked to distribute the survey invitation to their membership. They were provided with a survey announcement containing a link to the survey on February 1, 2016. Staff does not know how many organizations actually distributed the invitation, nor the number of invitations that were distributed to members of these organizations.

The groups that were asked to distribute the invitation to participate include:

- American Public Power Association
- Association of Government Accountants
- Association of School Business Officials International
- Government Finance Officers Association
- Healthcare Financial Management Association
- International City/County Management Association
- National Association of College and University Business Officers
- National Association of Counties
- National Association of State Auditors, Comptrollers and Treasurers
- National Association of State Treasurers
- National League of Cities
- Native American Finance Officers Association
- U.S. Conference of Mayors.

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The initial deadline to complete the survey was February 19, 2016. On February 16, a reminder email was sent to the GASB stakeholder database and the representatives of the GASAC organizations were asked to distribute it. A second follow-up email was sent to the GASAC organizations and the GASB database on February 22 that announced the extension of the survey deadline to February 26, 2016. The staff does not know how many of the organizations distributed the two follow-up announcements.

Also on February 16, staff emailed all participants who had started but not completed the survey, asking that they complete the survey.

Fifty-three complete surveys responses were received. At most, the final response rate was 3.89 percent (53 ÷ 1,361). However, the actual response rate likely was much lower because the number of persons invited through the GASAC organizations is unknown.

Auditor Survey

The staff also designed a survey of auditors of government financial statements. The survey was intended to identify any issues auditors' clients face regarding accounting for and reporting revenue from exchange transactions, the methods by which revenue from exchange transactions is recognized, and the prevalence of transactions with certain features of exchange transactions.

The survey instrument was developed based on the procedures set forth in the GASB RTA Manual. The survey instrument was developed under the supervision of the research manager and approved by the director of research and technical activities. As part of the development of this survey, the survey instrument was sent to GASAC members who are auditors or represent auditor organizations for review. Feedback from the GASAC members was incorporated into the survey instrument prior to administration.

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The survey was administered through an online survey tool and invitations to participate were distributed by email. Invitations were sent to 645 individuals identified as auditors in the GASB stakeholder database on February 1, 2016. In addition, representatives of the American Institute of Certified Public Accountants, the Association of Government Accountants, and the Association of Local Government Auditors were asked to distribute the survey invitation to their membership. Staff does not know how many organizations actually distributed the invitation, nor the actual number of invitations that were distributed to members of these organizations.

Representatives of the three stakeholder organizations identified above were provided with a survey announcement containing a link to the survey on February 1, 2016, and were asked to distribute it to their members. The initial deadline to complete the survey was February 19, 2016. On February 16, a reminder email was sent to the GASB database and the representatives of the GASAC organizations were asked to distribute it. A second follow-up email was sent to the GASAC organizations and the GASB database on February 22 that announced the extension of the survey deadline to February 26, 2016. The staff does not know how many of the organizations distributed the two follow-up announcements.

Also on February 16, staff emailed all participants who had started but not completed the survey, asking that they complete the survey.

Twenty-two completed survey responses were received. At most, the final response rate was 3.41 percent (22 ÷ 645). However, the actual response rate likely was lower because the number of persons invited through the GASAC organizations is unknown.

User Survey

The staff designed a survey of users of government financial information. The survey was intended to obtain an understanding of what information about revenue from

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exchange transactions users believe is important to the decisions they make and the analyses they perform.

The survey instrument was developed based on the procedures set forth in the GASB RTA Manual. The survey instrument was developed under the supervision of the research manager and approved by the director of research and technical activities. As part of the development of this survey, the survey instrument was sent to GASAC members representing user organizations for review. Feedback from the GASAC members was incorporated into the survey instrument prior to administration.

The survey was administered through an online survey tool and invitations to participate were distributed by email. Invitations were sent to 1,029 individuals identified as users in the GASB stakeholder database on January 28, 2016. In addition, representatives of several GASB stakeholder groups were asked to distribute the survey invitation to their membership. Staff does not know how many organizations actually distributed the invitation, nor the actual number of invitations that were distributed to members of these organizations.

The groups that were invited to participate include:

- American Accounting Association
- Association for Budgeting and Financial Management
- Governmental Research Association
- Investment Company Institute
- National Association of Bond Lawyers
- National Conference of State Legislatures
- National Federation of Municipal Analysts
- Securities Industry and Financial Markets Association.

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Representatives of the GASB stakeholder organizations identified above were provided with a survey announcement containing a link to the survey on January 28, 2016, and were asked to distribute it to their members. The initial deadline to complete the survey was February 19, 2016. On February 16, a reminder email was sent to the GASB database and the representatives of the GASAC organizations were asked to distribute it. A second follow-up email was sent to the GASAC organizations and the GASB database on February 22 that announced the extension of the survey deadline to February 26, 2016. The staff does not know how many of the organizations distributed the two follow-up announcements.

Also on February 16, staff emailed all participants who had started but not completed the survey, asking that they complete the survey.

Forty-one completed survey responses were received. At most, the final response rate was 3.98 percent (41 ÷ 1,029). However, the actual response rate likely was lower because the number of persons invited through the GASAC organizations is unknown.

Limitations to Methodologies

Surveys were distributed to individuals identified in the GASB's stakeholder database and by representatives of the GASB stakeholder organizations to their respective memberships. Although the surveys were distributed broadly, the results cannot be generalized to the broader population with any degree of certainty for at least four reasons. First, the preparers, auditors, and users in the GASB database are themselves a nonrandom sample of the populations of preparers, auditors, and users. Second, the members of the participating GASAC organizations, although broadly representative of the preparer, auditor, and user communities, are nevertheless a nonrandom sample of major portions of those communities. Third, the response rate to the each survey was low, with no guarantee that the respondents were representative of the broader sample or the population. Fourth, a significant number of respondents failed to complete each survey, potentially introducing bias into the results because the respondents

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completing the survey may be different in a relevant way from those that failed to complete the survey.

IV. RESULTS AND ANALYSIS

Archival Research

Staff used the 2012 Census of Governments to evaluate the types of revenues reported by state and local governments. The following revenue classifications are used in the 2012 Census of Governments:

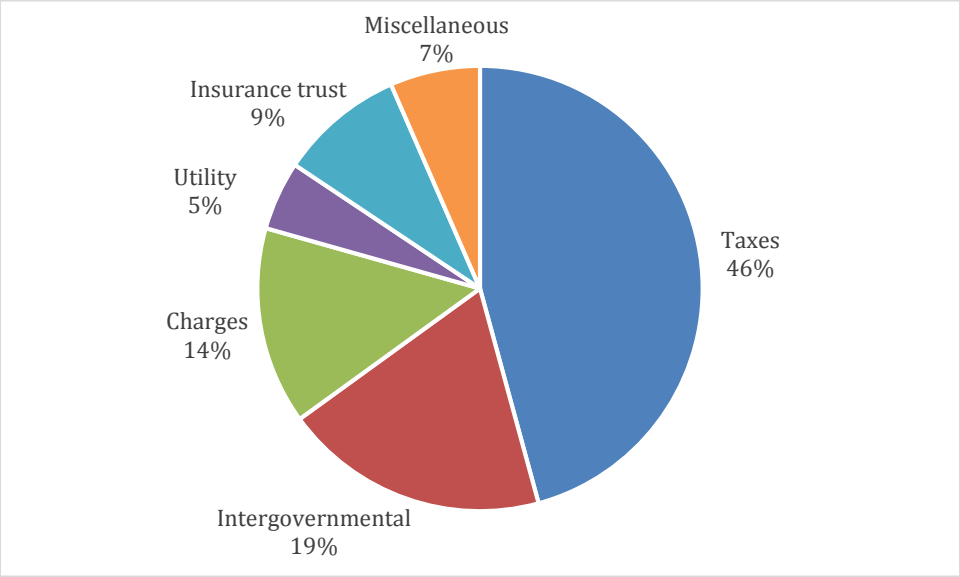
- Taxes—taxes from sales, property, and income.
- Intergovernmental—revenues received from other governments that are shared, grants, reimbursements, or the like.
- Charges—charges for providing current services or for the sale of products in connection with general government activities. These activities include airports, natural resources, sewerage, education, hospitals and sales of liquor by government liquor store operations.
- Utility—revenues received from the sale of utility goods and services to the public and other governments. A utility is a government owned and operated electricity supply, gas supply, water supply, or transit system. All other government owned and operated sales of goods or services generally are included in charges.
- Insurance Trust—revenues earned on trusts for employee compensation (unemployed compensation, retirement compensation, and the like).
- Miscellaneous—revenues that do not fall within any other category (such as interest earnings and the sale of property) or are unallocated amounts relating to two or more functions.

Figure 1 shows the percentage of revenue for all state and local governments in the 2012 Census of Governments using the classifications described above:

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Figure 1

State & Local Government Revenue Sources



As shown in Figure 1, 46 percent of government revenue is generated through taxes, whereas 19 percent is from intergovernmental sources. Although some intergovernmental revenues may be exchange or exchange-like, much of that category is likely to be classified as nonexchange. Combining those two categories, approximately 65 percent of state and local government revenues are likely generated from nonexchange transactions. Utility charges and general charges are likely from exchange transactions; they constitute a combined 19 percent of total revenues. The remaining two categories of insurance trust and miscellaneous revenues may include both exchange and nonexchange revenues.

Figure 2 and Figure 3 provide separate analysis of state governments and local governments, respectively.

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Figure 2

State Government Revenue Sources

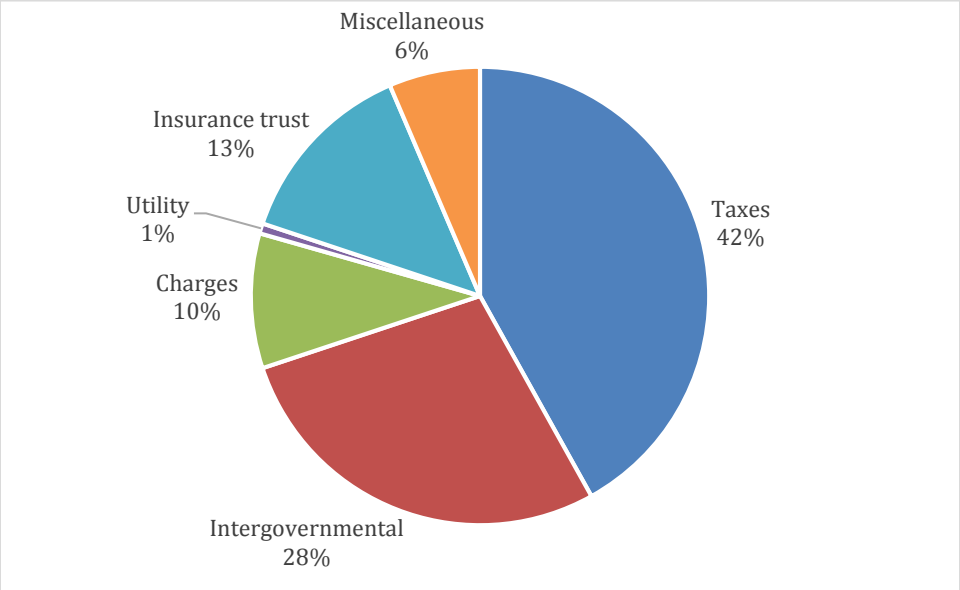
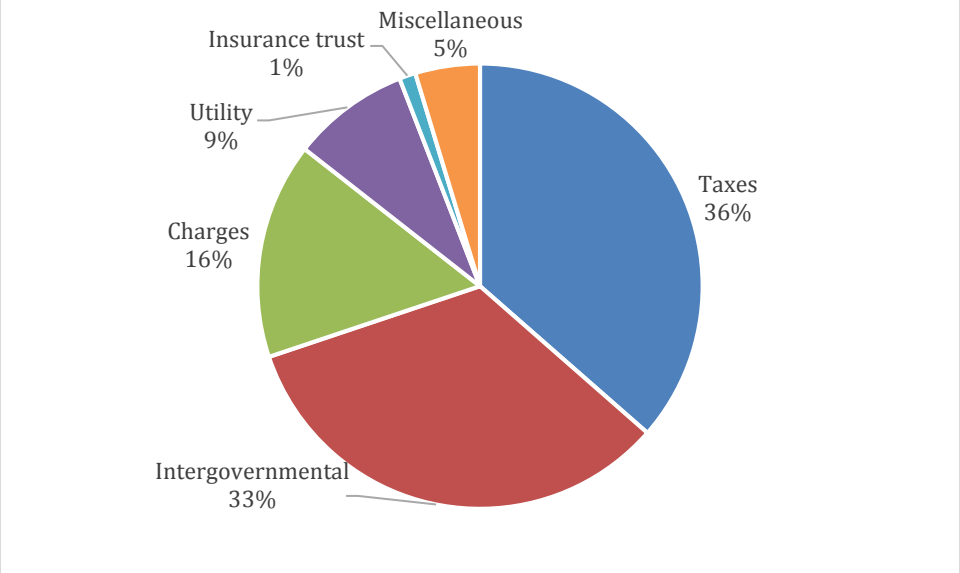


Figure 3

Local Government Revenue Sources



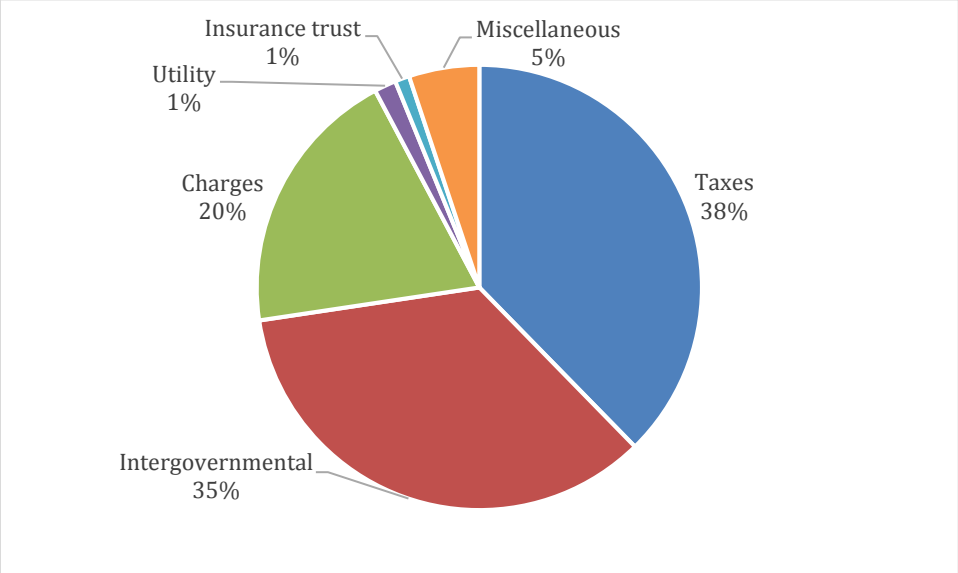
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Figures 2 and 3 demonstrate that there are slight differences between state governments and local governments, such as the higher percentages of revenues from utility and general charges for local governments (combined 25 percent compared to 11 percent for states). State and local governments are consistent in that the majority of revenues are generated through taxes and intergovernmental revenues (combined 70 percent for states and 69 percent for local governments).

Further analysis also was completed by type of local government. Figure 4 shows the revenue by source for county governments and Figure 5 depicts revenue by source for localities.

Figure 4

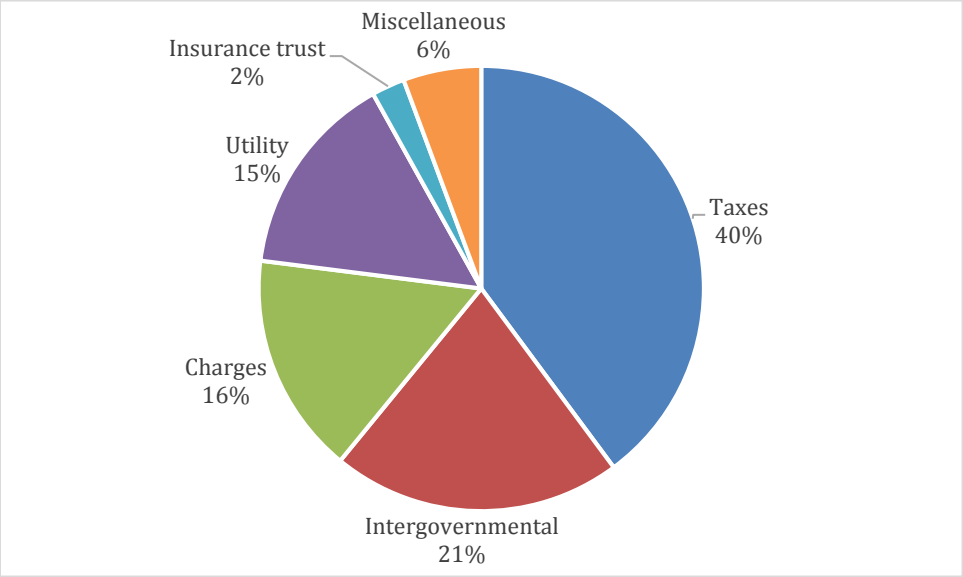
County Government Revenue Sources



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Figure 5

Local Government Revenue Sources



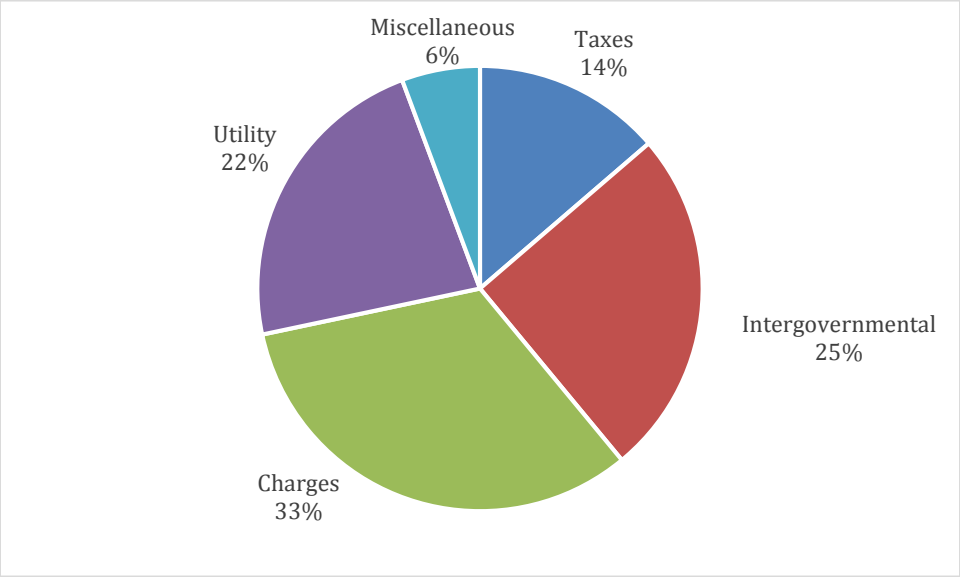
As shown above, local governments show the largest percentage of likely exchange revenues from utility and charges of all types of governments at a combined 31 percent.

Staff also isolated special district revenue sources, as these districts are expected to have lower nonexchange revenues from taxes and higher exchange revenues from charges than general purpose governments. Figure 6 shows revenue by source for all special districts in the 2012 Census of Governments.

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Figure 6

Special District Revenue Sources



The special districts report the lowest percentage of revenue from taxes at 14 percent and the highest combined percentage of utility and charges at 55 percent.

The final analysis separates public colleges and universities and school districts from other special districts. Figure 7 depicts revenue by source for college and universities while Figure 8 shows revenue by source for school districts.

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Figure 7

Public College and University Revenue Sources

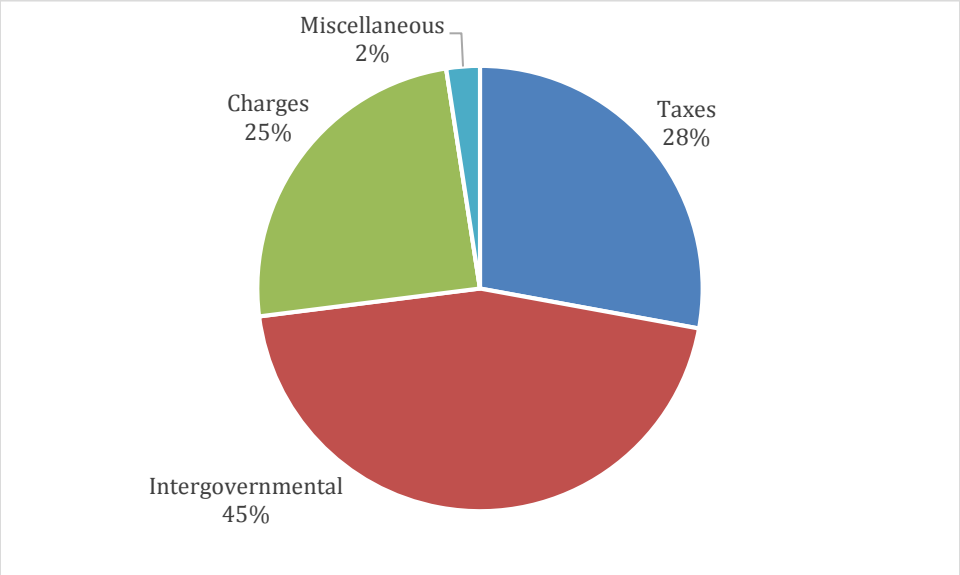
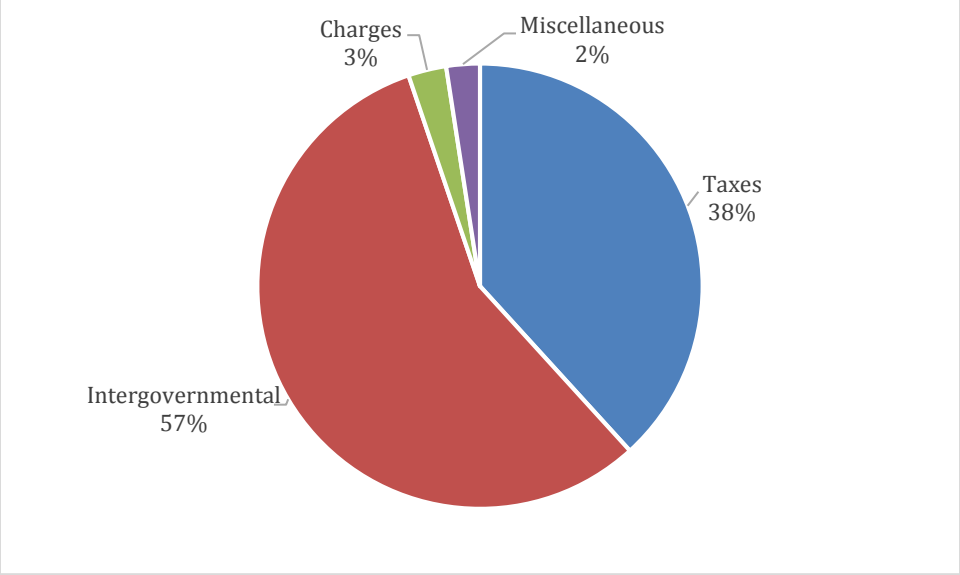


Figure 8

School District Revenue Sources



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As shown above, both colleges and universities and school districts receive a large percentage of revenues from intergovernmental sources (45 percent for college and universities and 57 percent for school districts). These intergovernmental revenues may represent funding from state and local governmental entities that provide appropriations to the college, university, or school district, particularly in areas where school districts do not levy separate property taxes. Colleges and universities show 25 percent of revenues from charges, whereas school districts only report 3 percent of revenues from charges.

This analysis is limited in that some of the revenue source categories may include both exchange and nonexchange transactions. However, some of the sources, such as taxes and utility, generally can be attributed to either non-exchange or exchange transactions.

Preparer Survey

The preparer survey was completed by 53 respondents. The types of governmental entities represented are shown in Table 2.

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Table 2

Preparer Survey Respondents, by Type of Government

Type of Government	Number of Respondents
State	16
County	5
Local government	14
Other taxing district	2
Public college/university	8
Public water/sewer utility	1
Public power utility	1
Public employee retirement system	1
Other	5
Total	53

The first question to preparers following demographic and identifying information asked respondents to identify the percentage of primary government total revenues that is generated from exchange transactions. Table 3 shows the number and percentage of preparers who responded in each category provided in the survey.

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Table 3

Portion of Total Primary Government Revenue Generated from Exchange Transactions

Portion of Revenue	Number of Respondents	Percentage of Responses
Less than 5%	14	26.42%
Greater than or equal to 5% but less than 25%	17	32.08%
Greater than or equal to 25% but less than 50%	9	16.98%
Greater than or equal to 50% but less than 75%	7	13.21%
Greater than or equal to 75%	6	11.32%
Total	53	100%

The 39 respondents who answered anything greater than or equal to 5% were asked to identify the sources of the government's revenue from exchange transactions that comprised at least 10 percent of total primary government revenue from exchange transactions. Three of the respondents had no single exchange revenue that amounted to 10 percent or more. The responses of the other 36 are shown in Table 4.

Questions regarding methods of revenue recognition

The survey described two methods of revenue recognition for exchange transactions. Method A described recognition of revenue when the good or service was sold, and Method B described recognition of revenue when the obligation to the customer was fulfilled. Preparers were asked to identify which of the revenue sources they identified, if any, were recognized under Method A and Method B. If Method B was used, preparers were asked to describe how they determined when to recognize revenue.

Preparers generally indicated that Method A, recognition of revenue when the good or service was sold, was used to recognize revenue from exchange transactions. Fourteen respondents identified Method B as the method used for at least one of their revenue

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sources. Several of those preparers indicated more than one revenue source that used Method B. Several also indicated that a particular revenue source may have some transactions recognized under Method A and some under Method B, such as user fees for recreation programs. One respondent indicated that user fees for recreation programs were recognized using Method A, except for season passes that were recognized using Method B. Table 5 summarizes the types of revenues recognized using Method B, as described by survey participants.

Table 4

Source of Revenue from Exchange Transactions

Category	Number of Responses* (Percentage)
Utility fees	25 (69.4%)
Licenses, fees, permits	22 (61.1%)
Other	9 (25.0%)
Tuition	8 (22.2%)
Health services	8 (22.2%)
General sales and charges for services	6 (16.7%)
Lottery products	5 (13.9%)
Grants and contracts	4 (11.1%)
Auxiliary revenues (housing, meals)	4 (11.1%)
Sales of food and beverage	3 (8.3%)
Sales of merchandise	3 (8.3%)
Benefit contributions	3 (8.3%)
Parking	2 (5.6%)

**Some respondents identified more than one source exceeding 10 percent; therefore, the total number exceeds the total number of responses to the survey.*

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Table 5

Revenue Sources Recognized When Obligation to Customer Is Fulfilled

Revenue Source Recognized When the Obligation Is Fulfilled	Number of Responses (Percentage)
Utility charges	6 (42.9%)
Tuition and fees	4 (28.6%)
Grants and contracts	3 (21.4%)
Season passes or gift cards	2 (14.3%)
Space and equipment rental	2 (14.3%)
Draw game lottery products	1 (7.1%)
Recreation programs not occurring within 90 days of receipt	1 (7.1%)
Special events	1 (7.1%)
Reimbursed service fees	1 (7.1%)
Auxiliary revenues	1 (7.1%)
Participant and employer contributions	1 (7.1%)

The survey participants who indicated Method B was used also were asked to describe how the entity determines when to recognize revenue. Table 6 summarizes the methods as described by respondents for each revenue source above. Based on staff analysis, it does not appear that all respondents who selected this category are actually applying Method B.

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Table 6

Determination of Revenue Recognition under Method B, by Source

Revenue Source Recognized when the Obligation was Fulfilled	Determination of Revenue Recognition
Utility charges	Collection charges recognized systematically each month Based on usage Based on invoice or billing
Tuition and fees	When fees are no longer refundable During semester earned When classes are complete
Grants and contracts	In accordance with the contract
Season passes or gift cards	When the season pass or gift card is used
Space and equipment rental	When the event is settled or the space is used
Draw game lottery products	After the draw occurs
Recreation programs not occurring within 90 days of receipt	Software process recognizes revenue for each class meeting that occurred during the month
Special events	Manual process; recognized when event occurs
Auxiliary revenues	When revenue materially earned
Participant and employer contributions	Month the coverage is provided

Questions regarding difficulty in accounting for exchange transactions

Preparers were asked to identify on a 1-to-5 scale how often they encountered difficulty in accounting for revenue from exchange transactions. A response of 1 meant the respondent never encountered difficulty and a 5 meant the respondent encountered

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difficulty very often. The majority of survey respondents did not identify frequent issues with the accounting for revenue from exchange transactions. No respondents answered with a 4 or 5, whereas 46 respondents answered with a 1 or 2. Table 7 summarizes the responses.

Table 7

Frequency of Difficulty in Accounting for Exchange Transactions

Never (1)	(2)	(3)	(4)	Very Often (5)	Average
16	30	7	-	-	1.83

Respondents who answered 3 or above were asked to identify the nature of the difficulties encountered and how the difficulties were resolved. Five of the 7 respondents who answered 3 described operational issues specific to the respondent's government. These issues include:

- Difficulty determining the time of sale
- Decentralized operations with many agencies collecting and recording cash receipts
- Difficulty identifying and correctly classifying new revenues
- Determining the proper recording value.

These respondents indicated that the difficulties were addressed through internal inquiry with the related department or agency, consultation with GASB literature or state code, and education of decentralized personnel.

Two respondents described issues that were more complex. One indicated issues with food and beverages sales, golf course revenues, and gifts cards:

> For food and beverage sales revenue and golf course revenues - the issue most often encountered is a decision on recording it as gross or net

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> revenues as the majority of these functions are performed under contract by concessionaires. We researched SEC rule guidance long ago to document our position to reflect these at gross revenues (and recording concessionaire expenses as our own) - as this made theoretical sense to us at a GAAP - and also a budgetary basis presentation - basis. We get resistance from facilities managers to this presentation, partially due to an excise tax we charge on our own services for enterprise revenues and grossing up revenues increases this tax.
>
> For gift cards, revenue is recognized when used. However, when they become quite old with no activity - a decision on when to recognize the remaining balances is presented. Consulting a recent article in the Journal of Accountancy - we evaluated the methods presented there and are using the simplest approach based upon time analysis. [Other taxing district]

The second respondent indicated difficulty assessing the characteristics of the transaction to determine whether a contribution has occurred:

> Assessing the characteristics of the transaction, from the perspectives of both the resource provider and the recipient, is necessary to determine whether a contribution has occurred. [Other business-type activity]

The respondent noted the following resolution of this difficulty:

> Develop a matrix which ask specific questions regarding the exchange transaction to determine how to account for it, and if it is indeed an exchange transaction and GAAP. [Other business-type activity]

Questions regarding certain features of exchange transactions

Preparers also were asked to identify how often their governments had entered into transactions with certain features that may be present in exchange transactions, including multiple elements, unexercised rights, customer options, variable consideration, stand-ready obligations, discounts, and right of return. Table 8 summarizes the responses. Respondents were not required to provide an answer for each question; therefore, not all 53 respondents provided a response to each item in the

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table below. The total number of respondents answering each question is provided in the table below following the description of the feature.

Table 8

Frequency of Exchange Transaction Features

Feature	Never (1)	(2)	(3)	(4)	Very Often (5)	Unsure	Average
Multiple elements, such as a contract for both goods and services (52)	13	21	2	2	3	11	2.05
Unexercised rights (the customer does not use all of what it is entitled to) (52)	15	18	3	2	3	11	2.02
Customer options to acquire additional goods or services (53)	23	16	1	2	1	10	1.65
Variable consideration (51)	23	14	4	1	2	7	1.75
Stand-ready obligations (52)	23	13	3	-	2	11	1.66
Discounts (51)	24	15	3	1	4	4	1.85
Right of return (53)	26	17	2	-	3	5	1.69

Preparers who answered with a 3, 4, or 5 to any feature described above were asked to identify the exchange transactions with that feature and to describe the feature in further detail. A discussion of the responses for each feature is described below.

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Multiple elements

Seven respondents indicated their governments had entered into transactions that involve multiple elements with a frequency of 3, 4, or 5 described above. The following types of exchange transactions and multiple elements were described by these respondents:

- Banquets and events include food, premium services, electronic services, entertainment, and vendor tents [Other taxing district]
- Golf course operations, parking facility operations, food and beverage operations at convention or performing arts facilities [Other taxing district]
- Probation services to monitor customers and attend classes. [County]

Unexercised rights

Eight respondents indicated their governments had entered into transactions that involve unexercised rights with a frequency of 3, 4, or 5 described above. Descriptions provided of the unexercised rights include season passes to recreation facilities with unlimited use, lottery products, gift cards, and bus passes. One respondent described tap fees for water/sewer and gas services, indicating the revenue for the tap fees is not recognized until the customer begins using the service.

Two public colleges/universities described refunds or forfeitures of tuition or fees. One indicated that partial refunds of both tuition and charges due to changes in housing or meal plan options are given to students. The other indicated that some fees are eventually forfeited by students who do not attend that otherwise would be applied against student tuition and fees when the student enrolls.

Customer options

Four respondents indicated their governments had entered into transactions that involve customer options to acquire additional goods or services with a frequency of 3,

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4, or 5 described above. Respondents described customer options as fitness center memberships and other programs in which use is entirely at the customer's option, lottery tickets that provide the customer with an additional ticket as a prize, premium services for weddings or corporate events, pro shop sales, concessions, and utilities.

Variable consideration

Seven respondents indicated their governments had entered into transactions that involve variable consideration with a frequency of 3, 4, or 5 described above. However, one of the respondents described contracts from a purchaser standpoint and indicated that no contracts with variable consideration were entered into from a seller standpoint. Another respondent also described contracts for purchases involving discounts. The remaining descriptions of variable consideration are summarized below.

- Discounts and other price concessions on food and programs to parcel owners [Other business-type activity]
- Parking permit pricing differences based on length of period, type, and location of permit [Local government]
- Discounted or free play lottery tickets [Other business-type activity]
- Space and facility rental for convention, trade, and performing art facilities; food and beverage concession arrangements; reimbursed services [Other taxing district]
- Scholarships and waivers [Public college/university]

Stand-ready obligations

Five respondents indicated their governments had entered into transactions that involve stand-ready obligations with a frequency of 3, 4, or 5 described above. Three respondents described utility services, including cable, internet, sanitary sewer, water, electric, and sanitation services for which customers are billed based on usage. One of those respondents described special large-item pickups that are charged to the customer when the customer requests pick-up of items in excess of the free amount the

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customer is allocated. The remaining respondents described annual passes for use of parks and recreation facilities and building permits.

Discounts

Eight respondents indicated their governments had entered into transactions that involve discounts with a frequency of 3, 4, or 5 described above. Several of the respondents referenced the answers they gave to the question regarding variable consideration. Additional answers provided to this question regarding discounts include medical center and professional fee revenues and weekly wine, beer, and liquor sales and promotions.

Right of return

Five respondents indicated their governments had entered into transactions that involve right of return with a frequency of 3, 4, or 5 described above. The respondents described the following transactions with the right of return:

- Lottery tickets
- Fees for recreation classes or events
- Sale of beer, wine, and liquor
- Golf pro shop merchandise
- Items sold at museums and parks.

Auditor Survey

The auditor survey was completed by 22 respondents. The types of governmental entities audited by the survey respondents are shown in Table 9.

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Table 9

Types of Governments Audited by Respondents

Type of Government	Number of Respondents*
State	12
County	15
Local government	18
School district	12
Other taxing district	11
Tribal government	4
Public college/university	9
Public water/sewer utility	14
Public hospital/healthcare	5
Public power utility	7
Other	8

**Some respondents identified more than one type of government audited; therefore, the total number exceeds the total number of responses to the survey.*

Questions regarding methods of revenue recognition

The survey described the same two methods of revenue recognition for exchange transactions as described in the preparer survey. Method A was revenue recognition when the good or service was sold, and Method B was revenue recognition when the obligation to the customer was fulfilled. Auditors were asked to identify which of their clients' revenue sources, if any, were recognized under Method A and Method B. Tables 10 and 11 present the responses.

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Table 10

Source of Revenue from Exchange Transactions Recognized when Good or Service Is Sold

Category	Number of Responses* (Percentage)
Licenses, fees, permits	16 (76.2%)
Utility fees	12 (57.1%)
Transportation fees	5 (23.8%)
Rental fees	5 (23.8%)
General sales and charges for services	4 (19.0%)
Parking	3 (14.3%)
Other	3 (14.3%)
Auxiliary revenues (housing, meals)	2 (9.5%)
Health services	2 (9.5%)
Tuition	2 (9.5%)
Grants and contracts	1 (4.8%)
Sales of food and beverage	1 (4.8%)
Sales of merchandise	1 (4.8%)

**Some respondents identified more than one source; therefore, the total number exceeds the total number of responses to the survey.*

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Table 11

Source of Revenue from Exchange Transactions

Recognized when the Obligation is Fulfilled

Category	Number of Responses* (Percentage)
Licenses, fees, permits	8 (53.3%)
Rental fees	5 (33.3%)
Utility fees	5 (33.3%)
Transportation fees	3 (20.0%)
General sales and charges for services	2 (13.3%)
Parking	2 (13.3%)
Grants and contracts	1 (6.7%)
Special assessments	1 (6.7%)

**Some respondents identified more than one source; therefore, the total number exceeds the total number of responses to the survey.*

Questions regarding recognition when the obligation is fulfilled

If a respondent provided an answer to the question above regarding recognition of revenue when the obligation to the customer was fulfilled, the respondent was asked to answer two additional questions:

- How does their client determine when to recognize revenue?
- What issues do their clients have, if any, in determining when to recognize revenue from exchange transactions as the obligations are fulfilled?

Respondents provided the following answers about how their clients determine when to recognize revenue from exchange transactions when the obligation is fulfilled:

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- Period in which services were consumed or take place
- Ratably over the period
- When the specified event occurs
- Based on the contract (passage of time or use of product)
- As permits are issued to a developer on future projects (developer credits).

The following response describes several methods:

> Typically these are spread evenly because they cover a period of time and these are easy. Some are to occur when specific events occur - in particular the two that come to mind are tickets for events at venues (such as suite sales at an arena) - this is recognized based on the contract with the customer and the known events at the facility that it would cover - and transit permits that cover a specific number of rides (when I have encountered this, the transit authority could not easily track when these individual passes are used so they performed studies on them and recognized revenue based on estimates supported by these studies). [Accounting firm]

When describing difficulties faced by clients in determining when to recognize revenues from exchange transactions as the obligation to the customer is fulfilled, several respondents indicated challenges with obtaining or tracking information, either from other departments or from accounting systems. Some representative comments of these challenges follow:

> Obtaining information from other departments outside of accounting / finance that are the direct contact with the customer. [Accounting firm]

* * *

> When to determine when the service takes place if it is a "long-term" parking situation and the time period of parking for each customer is unknown. [Accounting firm]

* * *

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> Having accurate accounting systems to track the status of fulfillment. [Accounting firm]
>
> * * *
>
> Given the size of accounting of cities, most exchange transactions are relatively small to warrant manual entries to recognize such revenues over extended time within a single reporting period, and they usually do not have automated features in their accounting systems for exchange transactions. [Accounting firm]
>
> * * *
>
> Tracking the variable used to recognize the revenue. Not usually an issue. [Accounting firm]
>
> * * *
>
> For exchange transactions where time/use should be considered in recognizing revenues, its accounting system limitations, including flow of information from operating departments. [Accounting firm]

Similarly, one respondent noted that for permit fees, the cost of the process to determine the portion that was not fulfilled as of year-end may exceed the benefits of doing so. Another respondent described difficulties faced by general governments that report on a different measurement basis during the year and make adjustments to full and modified accrual at year-end.

Respondents also described specific situations faced by their clients, including special assessments, event rentals, and connection fees:

> Clients are often not clear as to when a special assessment should be viewed as exchange-like, rather than as nonexchange. Building permits are generally small but numerous, and are on the cash basis; but when an individually large permit comes in that will cross over several years, they realize it's inappropriate to recognize at the time the permit is pulled; they generally are then confused as to whether all building permits should be recognized as the obligations are fulfilled (which is generally a costly exercise). [Accounting firm]

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* * *

> The event rental at arenas, etc is cumbersome, but manageable and part of the business. The transit issue above was a little more worrisome because you were estimated something that could theoretically be known but tracking individual cards would be more costly than the resulting improvement in data. Even then, the studies have to be updated somewhat routinely and that proves to be difficult and somewhat costly for the transit agency, but as auditors we'd like to see it done pretty routinely (at least every other year or something like that). One more that causes problems for one client I have in particular (but no other clients have this) is that this county's water operations presold to developers the right to connect to the water system (prepaid tap fees). They did this at the cost at the time and it helped speed up the process for the developer - however they did this before the recession and development has since significantly slowed so it is unclear when/if some of these amounts will ever be used. [Accounting firm]

Several respondents also indicated that their clients did not have issues with determining when to recognize revenue from exchange transactions as the obligation to the customer is fulfilled.

Questions regarding difficulties with revenue from exchange transactions

Auditors were asked to identify on a 1-to-5 scale how often their clients encountered difficulty in accounting for revenues from exchange transactions. A response of 1 meant the respondent's clients never encountered difficulty and a 5 meant the respondent's clients encountered difficulty very often. The majority of survey respondents did not identify frequent issues with the difficulty in accounting for revenue from exchange transactions. No respondents answered with a 5 and one respondent answered with a 4, whereas 14 respondents answered with a 1 or 2. (See Table 12.)

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Table 12

Frequency of Difficulty in Accounting for Exchange Transactions

Never (1)	(2)	(3)	(4)	Very Often (5)	Average
4	10	7	1	-	2.23

Respondents who answered 3 or above were asked to identify the nature of the difficulties encountered and how the difficulties were resolved. Many of the responses indicated issues with multi-year transactions or recording adjustments at year-end. Many of these same respondents indicated that their clients relied on the auditors or internal accounting policies to resolve the issues. An illustrative response is provided below:

> Our audit reports frequently include recommendations related to recognition of multi-year revenue. These recommendations generally address revenue recognition that does not align with the associated term of the license or permit, instances where unearned revenue (previously deferred revenue) from prior years is not properly recognized in the current year, and additional errors resulting from error correction efforts. [State auditor]

One respondent provided the following description of the difficulties encountered, followed by the guidance consulted to try to resolve the issue:

> Finance officers often think the exchange transaction is complete once they receive the cash or set the legal assessment determining who will pay and how much. The obligations are performed by other departments, and sometimes not considered. Given that accounting has to be cost-effective, this method (method A) is appropriate for many smaller types of transactions. At times a very large transaction comes up with the obligations to be performed in the future, and it becomes obvious that they're recognizing fund balance inappropriately. Often this is a special assessment or a building permit for a large development.

* * *

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GASB 62 para. 23 has been helpful. I would note that many finance officers tell me it feels inappropriate to consider the timing of the exchange (when the obligations take place) in order to recognize revenue in a modified accrual fund (in other words, they don't feel a modified accrual fund should ever need to consider exchange-like concepts). This is a misconception that would be helpful to correct. [Accounting firm]

Table 13

Frequency of Clients' Exchange Transaction Features

Feature	Never (1)	(2)	(3)	(4)	Very Often (5)	Unsure	Average
Multiple elements, such as a contract for both goods and services	6	11	3	-	-	1	1.85
Unexercised rights (the customer does not use all of what it is entitled to)	8	8	1	-	1	3	1.78
Customer options to acquire additional goods or services	10	8	1	-	-	2	1.53
Variable consideration	10	7	1	1	-	2	1.63
Stand-ready obligations	10	6	2	-	2	1	1.90
Discounts	12	7	-	-	-	2	1.37
Right of return	15	6	-	-	-	-	1.29

Questions regarding certain features of exchange transactions

Auditors also were asked to identify how often their clients had entered into transactions with certain features that may be present in exchange transactions. Table

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13 summarizes the frequency of these features reported by survey respondents. (One respondent did not answer any of the questions in this section.)

If respondents answered any of the questions above with a 3, 4, or 5, they were asked to identify the exchange transactions with the feature described and to describe the nature of that feature. Table 14 presents a summary of the responses for the features (except discounts and right of return, which no respondent rated above 2).

Table 14

Types of Transactions with Certain Features

Feature	Description
Multiple elements, such as a contract for both goods and services	• Lease of software with maintenance contract • University research grants or contracts • Build out costs
Unexercised rights (the customer does not use all of what it is entitled to)	• Prepaid sewer capacity • Prepaid train fares
Customer options to acquire additional goods or services	• Water supply contracts
Variable consideration	• Leases with base rents plus additional rent based on sales • Maintenance fees • Landing fees
Stand-ready obligations	• Water supply contracts • Convention facilities • Recreation and transit passes • Permit and inspection services

In the final question to auditors in the survey, auditors were asked to describe what issues, if any, their clients had in accounting for the features described in the previous question. Nine respondents indicated that they were not aware of any issues. Several

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others noted similar issues to those described for exchange transactions previously, including year-end adjustments and proper tracking in the accounting system.

One respondent noted that these arrangements do not generally affect multiple years and, therefore, rarely cause issues:

> Of the few types of revenues we are aware of with these types of features, most are resolved within the fiscal year and therefore would not require any financial reporting considerations. For rare instances where options or unexercised rights are outstanding across fiscal years - such as with land banks or special agreements for land or building sales – governments normally use contingent gain / loss criteria in GASB 62 as the basis for reporting. Practice issues are no different than evaluating any other contingent gain / loss scenario. [State auditor]

User Survey

Thirty-two complete responses to the user survey were received. The types of users responding are shown in Table 15.

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Table 15

User Respondents, by Organization Type

Type of Organization	Number of Respondents
Academic—accounting	10
Academic—other than accounting	4
Legislator or legislative staff—state	4
Mutual fund	3
Other users	2
Other—retired CPA	2
Citizen/taxpayer group	1
Other buy-side	1
Research organization	1
Sell-side	1
Other—consultant	1
Other—data and analytics provider	1
Other—federal government	1
Total	32

The types of governmental entities evaluated by the survey respondents are shown in Table 16.

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Table 16

Types of Governments Evaluated by Respondents

Type of Government	Number of Respondents
States, counties, cities, other localities, taxing districts, and/or school districts	7
Colleges/universities, toll roads, hospitals, utilities, airports, mass transit, and/or other governments that charge a fee for service (business-type activities)	1
Some or all of both groups of governments	23
Other (tribal governments and their enterprises)	1
Total	32

Questions about the value of information about revenues from exchange transactions

The survey explained how GASB standards currently require governments to report revenue from exchange transactions in their financial statements. Users were asked to evaluate how valuable the information in financial statements about revenues from exchange transactions is to them. Table 17 summarizes the users' responses.

Table 17

Value of Information about Revenues from Exchange Transactions

Not at all valuable (1)	(2)	(3)	(4)	Very valuable (5)	Unsure	Average
1	2	3	7	18	1	4.26

Respondents who answered 2 or below were asked to explain how the information in financial statements about revenues from exchange transactions could be made more valuable. Of the 3 respondents who answered 2 or below, 2 of them indicated that revenue from exchange transactions was rarely material to the governments they

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evaluate and that the volume of such transactions was relatively low for general purpose governments. The third respondent indicated that information on the source of revenue (for example, citizens or local businesses) as well as the specific type of charge (such as parking permits) would make the information more valuable.

Respondents who answered 4 or above were asked how they used the information in financial statements about revenues from exchange transactions in their analysis, decision making, or assessment of accountability. Thirteen of the respondents who answered 4 or above indicated they use the information to compare the revenue generated from product or service offered to the cost of that product or service, including evaluation of the sustainability of business-type activities.

Six of the respondents who answered a 4 or above stated that they use the information about revenue from exchange transactions to evaluate trends in those revenue sources, as well as the government's reliance on those particular sources of revenues. Four respondents indicated that they use the information to determine the relationship of exchange revenues to tax revenues, and three respondents believe that exchange revenues were the most secure or most significant source of revenue to entity.

Three of the respondents described their use of information about exchange revenues as a way to understand the financial pressures on the entity or to evaluate the creditworthiness of the entity. One respondent indicated the information was used to identify the potential for a particular type of transaction that was prohibited by state law.

Questions about methods to recognize revenue from exchange transactions – parking authority

The survey described a situation in which there currently is no specific guidance on a particular exchange transaction. The example given was a parking authority that primarily derives revenue from parking permit fees. The permits sold allowed a

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purchaser to park in the authority's facilities 5 times. Users were asked which revenue recognition method for those permits provided the most useful information to their assessment of the parking authority—when the permit is sold, as the permit holder uses the parking facilities, or an alternative method. Table 18 summarizes the users' choice of method.

Table 18

Recognition Method Most Useful to Assessing a Parking Authority

Recognition Method	Number of Respondents
Recognize revenue when the permit is sold	19
Recognize revenue as the permit holder uses the parking facilities	9
Recognize revenue using a different method	4
Total	32

Respondents were asked to describe what makes the method of revenue recognition the respondent selected most useful. The respondents who selected a method other than when the permit was sold or as the permit holder used the permit also were asked to explain the method of revenue recognition they would prefer.

As shown above, a majority of the respondents (19 of 32, or 59 percent) prefer revenue recognition when the permit is sold. The primary reasons this method was chosen as most useful included:

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- The costs of the alternative method(s) outweigh the benefits (five respondents)
- The revenue to the parking authority does not change based on the number of uses and, therefore, recognition should not be driven by the number of uses (nine respondents)
- This method reflects when the resources are available to the city (six respondents).

Some respondents (9 of 32, or 28 percent) preferred revenue recognition as the parking permit was used. These respondents believe this method of revenue recognition provides more useful information for:

- Understanding revenue and costs in the same time period (five respondents)
- Comparing to the private sector (two respondents)
- Accurately performing trend analysis (one respondent)
- Providing more conceptual alignment (one respondent)
- Providing time-of-use data in addition to financial data (one respondent).

Four respondents indicated that they preferred a method of revenue recognition other than when the permit is sold or when the permit is used. Table 19 summarizes the description of the method preferred by these respondents and the reason for each respondent's preference:

Table 19

Rationale for Recognition Method, by Method

Method of Recognition Preferred	*Reason for Preference*
Recognize revenue ratably over the term of the permit (two respondents)	Relatively simple and no material difference in recognition ratably and recognition per use
Use a full-cost accounting method	Provides the full cost of the product sold
Recognize revenue in the period it is budgeted to be spent	Relevant to assessing current and future financing of services and stewardship of resources

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Questions about methods to recognize revenue from exchange transactions – city

Users were given another similar example, but the government was a city rather than a parking authority. In the example, the parking permit fees were not a primary revenue source for the city and generated a small portion of the resources available to the city. Users were asked to select which method of revenue recognition provided the most useful information to their analysis of the city. The options were the same as the prior example. (See Table 20.)

Table 20

Recognition Method Most Useful to Assessing a City

Recognition Method	Number of Respondents
Recognize revenue when the permit is sold	24
Recognize revenue as the permit holder uses the parking facilities	5
Recognize revenue using a different method	3
Total	32

A majority of respondents (24 of 32, or 75 percent) preferred revenue recognition when the permit is sold. Some of the reasons for this preference were the same as those given in the previous question related to the parking authority: the method is cost effective (eight respondents), the method reflects when the revenues are available to the city (seven respondents), and the revenue does not change based on the number of uses of the permit (four respondents). Two respondents also indicated that this method was more accurate if the parking permit fee was not refundable. Three respondents indicated this method was preferred because the revenue source was not significant to city.

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Five respondents preferred revenue recognition as the parking permit is used. These respondents preferred this method of recognition because they believe it allows for a more precise comparison of revenue and expenses in the same time period (two respondents), as well as better comparison to the private sector (two respondents). One respondent indicated this method of full accrual accounting was more relevant.

Three respondents indicated that they preferred a method of revenue recognition other than when the permit is sold or when the permit is used. Table 21 summarizes the description of the method preferred by these respondents and the reason for each respondent's preference.

Table 21

Rationale for Recognition Method, by Method

Method of Recognition Preferred	*Reason for Preference*
Recognize revenue ratably over the term of the permit	If there is minimal loss of fee revenue, for an immaterial revenue source, the entity needs to have reasonable assurance it is collecting the fees
Use a full-cost accounting method	Provides the full cost of the product sold
Recognize revenue in the period it is budgeted to be spent	Relevant to assessing current and future financing of services and stewardship of resources

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Table 22

Usefulness of Information in Notes to Financial Statements

Information	Not Useful At All (1)	(2)	(3)	(4)	Very Useful (5)	Unsure	Average
Description of the types of transactions included in program revenues in the government-wide statement of activities	1	2	6	10	12	1	3.97
Description of polices for recognizing revenues	-	1	7	12	12	-	4.09

Questions regarding usefulness of current notes to the financial statements regarding revenue from exchange transactions

Users were asked about the usefulness of the information provided in disclosures about revenues from exchange transactions. Specifically, they were asked about the description of the types of transactions included in program revenues in the government-wide statement of activities and the policies for recognizing revenues. (See Table 22.)

Users that responded to either type of note disclosure information with a 1 or a 2 were asked how the information could be more useful. Those who answered with a 4 or 5 were asked to indicate how they used the information in decision making or assessments of accountability.

Three users rated the usefulness of the description of the types of transactions included in program revenues in the government-wide statement of activities a 1 or 2 and provided the following comments regarding how the information could be made more useful:

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> The descriptions are boiler-plate and do not always provide a breakdown of dollar amounts. It is difficult to make comparisons between municipalities. [Academic—accounting]
>
> * * *
>
> I think just a general statement in the notes about the primary sources of exchange revenue is sufficient. [Academic—other than accounting]
>
> * * *
>
> I do not use it. Government-wide financial statements consolidating or otherwise aggregating information on individual funds distract and misdirect stakeholder attention and auditing resources away from where they should be on financial statements of individual funds, including detailed multiple expenditure budgetary comparisons. [Other: Retired CPA]

Twenty-two respondents rated the usefulness of the description of the types of transactions included in program revenues in the government-wide statement of activities a 4 or 5. The following summarizes the responses provided by those respondents:

- Understand the entity's operations, creditworthiness, and sources of revenues
- Identify trends, including reliability, volatility, and sustainability of various revenue sources
- Evaluate revenues compared to costs.

One respondent indicated that the information regarding policies for recognizing revenues was a 1 or 2, noting that the information was not relevant to their research.

Twenty-four respondents indicated that the information regarding policies for recognizing revenues was very useful, through a rating of 4 or 5. Respondents generally noted that the information on policies was critical to:

- Understanding the entity and its revenue sources

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- Narrowing evaluation focus on the primary sources of revenues
- Assessing the appropriateness of the policies.

Questions regarding usefulness of potential disclosures regarding revenue from exchange transactions

The survey identified two potential disclosures about revenue from exchange transactions—significant judgments made by the government for revenue recognition and methods used to recognize revenue over multiple years—based on disclosures required by FASB Topic 606. The survey asked users how useful each disclosure would be to their analysis of a government. Table 23 summarizes the responses to each potential disclosure.

Table 23

Usefulness of Potential Information in Notes to Financial Statements

Information	Not Useful At All (1)	(2)	(3)	(4)	Very Useful (5)	Unsure	Average
Description of significant judgments made by the government in deciding when and how to recognize revenue from exchange transactions	2	3	10	5	11	1	3.65
Methods used to recognize revenue over multiple years, if any	1	3	9	8	10	1	3.74

Users that responded with a 4 or 5 were asked to further describe how that particular information would be used in their analysis. Those that responded with a 4 or 5 to the description of significant judgments made by governments believe the information would aid in the understanding of how an entity recognizes revenue, which would

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enable them to better evaluate management and compare entities. Users who responded with a 4 or 5 to the methods used to recognize revenue over multiple years had similar responses, in that the disclosure would better help them understand the pattern of revenue recognition to better understand the effects on an organization.

Questions regarding additional information

Users were asked to describe any additional information they need but are unable to obtain about a government's revenue from exchange transactions for analysis, decision making, or assessments of accountability. Users who responded to the question also were asked how they would use the information they described. The following comments were provided:

> More on pricing decisions. How much of a programs costs is the government trying to recapture from fees etc. and why. For example if a public utility is charging below market rates to encourage business development and job creation in the region. Comparability is difficult when different agencies set different prices for different reasons. [Academic—accounting]
>
> * * *
>
> Depending on the entity, taxes on ticket sales for entity-owned or even privately-owned facilities, transit fares, excise taxes on communication equipment usage, sales, "sin" taxes, etc. may each be more material than parking garage fees.
>
> My major observation is that "odd ball" taxes/user fees are too seldom re-evaluated. Examples are right-of-way royalties for pipelines buried under entity-owned land, or commercial space usage under entity-owned sidewalks, buildings constructed over roadways-air rights, mineral extraction royalties, etc. [Other user]
>
> * * *
>
> How often revenues are collected, expenditures related to those revenues, cash flow statements.

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> To determine financial management competency so it would be used in analysis and accountability. [Mutual fund]
>
> * * *
>
> It is difficult from the current financial statements to determine (a) whether exchange revenues are likely to continue, (b) if certain revenue streams are declining or improving, (c) whether the fees assessed are appropriate given the associated expenses.
>
> Trend analyses. How are the revenue streams changing? How is the associated with changes in other revenue streams and/or expenditures? [Academic—accounting]

The final question of the survey provided users with an opportunity to provide comments on revenue recognition from exchange transactions that were not specifically addressed in the survey. The following represent comments regarding exchange transactions:

> Exchange and non-exchange transactions are just black and white different - there is a lot of grey area of "exchange like" transactions. Information on how close the transactions are to actual true value for value exchanges and why they may differ is useful for evaluating outcomes versus stated goals. [Academic—accounting]
>
> * * *
>
> I often struggle with federal and state grants and aid - not sure if these are exchange transactions - would be helpful to be able to better assess the sustainability of these revenue sources. [Mutual fund]
>
> * * *
>
> The private sector, with all of its high priced and qualified staff, is generally dealing with significant issues relating to implementing ASU 2014-09. There are few SLGs with the staff to effectively implement something similar. The benefits do not appear to me to justify the initial and ongoing costs. [Academic—accounting]
>
> * * *

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You should re-visit the whole notion of using the term "exchange transactions" as you have been. It confuses stakeholders regarding the nature and purposes of government and government transactions.

All government activities comprise exchange transactions between government and particular current and future individual stakeholders and/or classes of stakeholders. It is critical to prospects for sound government that all such transactions be soundly managed and subjected to effective informed legislative and meaningfully equal public oversight. You must be careful to not suggest that you have concluded otherwise

There is little is to be gained by considering some government revenues "voluntary" and other "involuntary, and there is much to be lost in doing so in terms of exacerbating already rampant disdain for government.

You should also re-visit the entire notion of ranking FASB and AICPA standards in a pecking order to which the GASB is to submit. This unnecessarily increases confusion and conflict. It undercuts prospects for either Board adequately inclusively involving sufficiently representative and informed stakeholders in encouraging and facilitating the evolution of appropriately public interest ambitious standards. It perpetuates the wildly inappropriate and counterproductive notion that FASB standards are "real accounting" and "the right stuff," and that other standards setters must justify any omissions or other departures. [Retired CPA]

* * *

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APPENDIXES

Appendix A: Auditor Survey

Appendix B: Preparer Survey

Appendix C: User Survey

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APPENDIX A: AUDITOR SURVEY

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Reporting Revenue from Exchange Transactions
Survey of Auditors of Government Financial Statements

Thank you for participating in this survey to inform the GASB's research on the effectiveness of state and local government reporting of revenue from exchange transactions.

An *exchange transaction* involves a government and another party willingly exchanging goods or services for compensation of equal or roughly equal value. These transactions are distinguished from *nonexchange transactions* in which the amounts exchanged are not equal or are not clearly connected, such as taxes and most intergovernmental grants.

Governmental entities such as water and electric utilities (often referred to as business-type activities) obtain most of their revenue from exchange transactions. Most of the revenue of states, counties, localities, and school districts is from nonexchange transactions, but they also receive significant revenue from exchange transactions.

This survey is a part of GASB research that is intended to gather feedback on these broad questions:

- What issues have arisen in practice with regard to recognition of exchange revenues by state and local governments?
- What types of revenue transactions having multiple-elements, for example, a contract for goods and services, do governments generally engage in for exchange arrangements?
- In the governmental environment, how prevalent are exchange transactions with certain features, including sales with a right of return, unexercised rights, customer options, variable consideration, stand-ready obligations, and discounts?

About You

This background information is requested to assist in the analysis of survey responses and will be used for internal GASB purposes only. Responses to this survey will be considered anonymous and will not be attributed to specific individuals or specific governments.

A.1. Your name:

A.2. Your email address:

A.3. Your title:

A.4. Your employer:

A.5. For what types of governments do you conduct financial audits (select all that apply)?

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- ❍ State
- ❍ County
- ❍ City/town/village
- ❍ School district
- ❍ Other taxing district
- ❍ Tribal government
- ❍ Public college/university
- ❍ Public water/sewer utility
- ❍ Public hospital/healthcare
- ❍ Public power utility
- ❍ Other business-type activity (please describe: _____)

Revenue from Exchange Transactions

GASB standards require governments to report revenue from exchange transactions in their financial statements when the exchange takes place. This generally results in revenue being recognized in one of two ways:

A. When the government sells a good or service to a customer—for instance, when a parking permit is sold

B. As the government fulfills its obligations to the customer under the terms of the sale of a good or service—for instance:

(1) A government sells a parking permit that is valid for six months and recognizes the revenue in installments in each month

(2) A government sells a parking permit that may be used to park 10 times and recognizes the revenue as the owner of the permit uses the parking facilities, with the unused portion recognized when the permit expires

1. What types of revenues from exchange transactions, if any, do your clients recognize when the good or service is sold (method A above)? If none, answer "None."

2. What types of revenues from exchange transactions, if any, do your clients recognize as the obligation to the customer is fulfilled (method B above)? If none, answer "None" and proceed to question 3.

2a. For the revenues from exchange transactions that your clients recognize as the obligation to the customer is fulfilled, in general how do your clients determine when to recognize the revenue?

2b. What issues do your clients have, if any, in determining when to recognize revenues from exchange transactions as the obligation to the customer is fulfilled?

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3. How often do your clients encounter difficulties in the accounting for revenues from exchange transactions?

Never Very often

❍ 1 ❍ 2 ❍ 3 ❍ 4 ❍ 5

If you answer 1 or 2, please proceed to question 4. If you answered 3, 4, or 5, please answer the following questions before proceeding to question 4.

3a. What is the nature of the difficulties encountered? (Please be as specific as possible).

3b. How do your clients resolve the difficulties? Please identify what guidance, if any, was consulted.

Features of Exchange Arrangements

4. Exchange transactions may have certain features that could affect the recognition of the transaction. How often have your clients entered into transactions with the following features?

	Never				Very Often	Unsure
A. Multiple elements, such as a contract for both goods and services	❍ 1	❍ 2	❍ 3	❍ 4	❍ 5	❍

If you answered 1 or 2, please proceed to question 4B. If you answered 3, 4, or 5, please answer the following question before proceeding to question 4B.

4A1. Please identify the exchange transactions with multiple elements and describe the nature of the multiple elements. (Please be as specific as possible).

	Never				Very Often	Unsure
B. Unexercised rights (the customer does not use all of what it is entitled to)	❍ 1	❍ 2	❍ 3	❍ 4	❍ 5	❍

If you answered 1 or 2, please proceed to question 4C. If you answered 3, 4, or 5, please answer the following question before proceeding to question 4C.

4B1. Please identify the exchange transactions with unexercised rights and describe the nature of the unexercised rights. (Please be as specific as possible).

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	Never				Very Often	Unsure
C. Customer options to acquire additional goods or services	❍ 1	❍ 2	❍ 3	❍ 4	❍ 5	❍

If you answered 1 or 2, please proceed to question 4D. If you answered 3, 4, or 5, please answer the following question before proceeding to question 4D.

4C1. Please identify the exchange transactions with customer options and describe the nature of the customer options. (Please be as specific as possible).

	Never				Very Often	Unsure
D. Variable consideration (the amount the customer is required to pay may vary due to discounts, rebates, incentives, performance bonuses, price concessions, or other similar items, or due to the occurrence or nonoccurrence of a future event)	❍ 1	❍ 2	❍ 3	❍ 4	❍ 5	❍

If you answered 1 or 2, please proceed to question 4E. If you answered 3, 4, or 5, please answer the following question before proceeding to question 4E.

4D1. Please identify the exchange transactions with variable consideration and describe the nature of the variable consideration. (Please be as specific as possible).

	Never				Very Often	Unsure
E. Stand-ready obligations (the government promises to provide goods or services when the customer requests, or to make goods or services available for the customer to use when the customer decides)	❍ 1	❍ 2	❍ 3	❍ 4	❍ 5	❍

If you answered 1 or 2, please proceed to question 4F. If you answered 3, 4, or 5, please answer the following question before proceeding to question 4F.

4E1. Please identify the exchange transactions with stand-ready obligations and describe the nature of the stand-ready obligations. (Please be as specific as possible).

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	Never				Very Often	Unsure
F. Discounts	❍ 1	❍ 2	❍ 3	❍ 4	❍ 5	❍

If you answered 1 or 2, please proceed to question 4G. If you answered 3, 4, or 5, please answer the following question before proceeding to question 4G.

4F1. Please identify the exchange transactions with discounts and describe the nature of the discounts. (Please be as specific as possible).

	Never				Very Often	Unsure
G. Right of return (customer may return goods under certain conditions)	❍ 1	❍ 2	❍ 3	❍ 4	❍ 5	❍

If you answered 1 or 2, please proceed to question 5. If you answered 3, 4, or 5, please answer the following question before proceeding to question 5.

4G1. Please identify the exchange transactions with right of return and describe the nature of the right of return. (Please be as specific as possible).

5. If your clients entered into transactions with any of the features described in Question 4, what issues, if any, have they had in accounting for those features? Please be as specific as possible.

The survey is complete. Thank you for participating in the GASB's research. You can review information about the status of this research activity on the GASB website at http://www.gasb.org/cs/ContentServer?c=GASBContent_C&pagename=GASB%2FGASBContent_C%2FProjectPage&cid=1176166904641 . This page of the website is updated on a regular basis.

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APPENDIX B: PREPARER SURVEY

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Reporting Revenue from Exchange Transactions
Survey of Preparers of Government Financial Statements

Thank you for participating in this survey to inform the GASB's research on the effectiveness of state and local government reporting of revenue from exchange transactions.

An *exchange transaction* involves a government and another party willingly exchanging goods or services for compensation of equal or roughly equal value. These transactions are distinguished from *nonexchange transactions* in which the amounts exchanged are not equal or are not clearly connected, such as taxes and most intergovernmental grants.

Governmental entities such as water and electric utilities (often referred to as business-type activities) obtain most of their revenue from exchange transactions. Most of the revenue of states, counties, localities, and school districts is from nonexchange transactions, but they also receive significant revenue from exchange transactions.

This survey is a part of GASB research that is intended to gather feedback on these broad questions:

- What issues have arisen in practice with regard to recognition of exchange revenues by state and local governments?
- What types of revenue transactions having multiple-elements, for example, a contract for goods and services, do governments generally engage in for exchange arrangements?
- In the governmental environment, how prevalent are exchange transactions with certain features, including sales with a right of return, unexercised rights, warranty options, bill-and-hold arrangements, customer options, variable consideration, stand-ready obligations, discount allocations, and sales with financing (other than leases)?

About You

This background information is requested to assist in the analysis of survey responses and will be used for internal GASB purposes only. Responses to this survey will be considered anonymous and will not be attributed to specific individuals or specific governments.

A.1. Your name:

A.2. Your email address:

A.3. Your title:

A.4. Your employer:

A.5. What type of governmental entity do you currently work for?

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- ❍ State
- ❍ County
- ❍ City/town/village
- ❍ School district
- ❍ Other taxing district
- ❍ Tribal government
- ❍ Public college/university
- ❍ Public water/sewer utility
- ❍ Public hospital/healthcare
- ❍ Public power utility
- ❍ Other business-type activity (please describe: _____)

Revenue from Exchange Transactions

1. In general, what portion of your *total primary government revenues* is generated from exchange transactions?

   - ❍ Less than 5%
   - ❍ Greater than or equal to 5% but less than 25%
   - ❍ Greater than or equal to 25 % but less than 50%
   - ❍ Greater than or equal to 50% but less than 75%
   - ❍ Greater than or equal to 75%

If you answered "Less than 5%", please proceed to question 4.

1a. Please describe the primary source(s) of your government's revenues from exchange transactions. Please include only sources that comprise at least 10 percent of total primary government revenue *from exchange transactions* and be as specific as possible.

(a) _____
(b) _____
(c) _____
(d) _____
(e) _____
(f) _____
(g) _____
(h) _____

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GASB standards require governments to report revenue from exchange transactions in their financial statements when the exchange takes place. This generally results in revenue being recognized in one of two ways:

A. When the government sells a good or service to a customer—for instance, when a parking permit is sold

B. As the government fulfills its obligations to the customer under the terms of the sale of a good or service—for instance:

(1) A government sells a parking permit that is valid for six months and recognizes the revenue in installments in each month

(2) A government sells a parking permit that may be used to park 10 times and recognizes the revenue as the owner of the permit uses the parking facilities, with the unused portion recognized when the permit expires

2. Of the revenues from exchange transactions that you identified in question 1a, which ones, if any, do you recognize when the good or service is sold (method A above)? If none, answer "None."

3. Of the revenues from exchange transactions that you identified in question 1a, which ones, if any, do you recognize as the obligation to the customer is fulfilled (method B above)? If none, answer "None" and proceed to question 4.

3a. For each of the revenues from exchange transactions that you recognize as the obligation to the customer is fulfilled, how do you determine when to recognize the revenue?

4. How often do you encounter difficulties in the accounting for revenues from exchange transactions?

Never Very often

❍ 1 ❍ 2 ❍ 3 ❍ 4 ❍ 5

If you answered 3, 4, or 5, please answer the following question prior to proceeding to question 5.

4a. What is the nature of the difficulties encountered? (Please be as specific as possible).

4b. How do you resolve the difficulties? Please identify what guidance, if any, was consulted.

Features of Exchange Arrangements

5. Exchange transactions may have certain features that could affect the recognition of the transaction. How often has your government entered into transactions with the following features?

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	Never				Very Often	Unsure
A. Multiple elements, such as a contract for both goods and services	❍ 1	❍ 2	❍ 3	❍ 4	❍ 5	❍

If you answered 3, 4, or 5, please answer the following question before proceeding to question 5B.

5A1. Please identify the exchange transactions with multiple elements and describe the nature of the multiple elements. (Please be as specific as possible).

	Never				Very Often	Unsure
B. Unexercised rights (the customer does not use all of what it is entitled to)	❍ 1	❍ 2	❍ 3	❍ 4	❍ 5	❍

If you answered 3, 4, or 5, please answer the following question before proceeding to question 5C.

5B1. Please identify the exchange transactions with unexercised rights and describe the nature of the multiple elements. (Please be as specific as possible).

	Never				Very Often	Unsure
C. Customer options to acquire additional goods or services	❍ 1	❍ 2	❍ 3	❍ 4	❍ 5	❍

If you answered 3, 4, or 5, please answer the following question before proceeding to question 5D.

5C1. Please identify the exchange transactions with customer options and describe the nature of the multiple elements. (Please be as specific as possible).

	Never				Very Often	Unsure
D. Variable consideration (the amount the customer is required to pay may vary due to discounts, rebates, incentives, performance bonuses, price concessions, or other similar items, or due to the occurrence or nonoccurrence of a future event)	❍ 1	❍ 2	❍ 3	❍ 4	❍ 5	❍

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If you answered 3, 4, or 5, please answer the following question before proceeding to question 5E.

5D1. Please identify the exchange transactions with variable consideration and describe the nature of the multiple elements. (Please be as specific as possible).

	Never				Very Often	Unsure
E. Stand-ready obligations (the government promises to provide goods or services when the customer requests, or to make goods or services available for the customer to use when the customer decides)	❍ 1	❍ 2	❍ 3	❍ 4	❍ 5	❍

If you answered 3, 4, or 5, please answer the following question before proceeding to question 5F.

5E1. Please identify the exchange transactions with stand-ready obligations and describe the nature of the multiple elements. (Please be as specific as possible).

	Never				Very Often	Unsure
F. Discounts	❍ 1	❍ 2	❍ 3	❍ 4	❍ 5	❍

If you answered 3, 4, or 5, please answer the following question before proceeding to question 5G.

5F1. Please identify the exchange transactions with discounts and describe the nature of the multiple elements. (Please be as specific as possible).

	Never				Very Often	Unsure
G. Right of return (customer may return goods under certain conditions)	❍ 1	❍ 2	❍ 3	❍ 4	❍ 5	❍

If you answered 3, 4, or 5, please answer the following question.

5G1. Please identify the exchange transactions with right of return and describe the nature of the multiple elements. (Please be as specific as possible).

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The survey is complete. Thank you for participating in the GASB's research. You can review information about the status of this research activity on the GASB website at http://www.gasb.org/cs/ContentServer?c=GASBContent_C&pagename=GASB%2FGASBContent_C%2FProjectPage&cid=1176166904641 . This page of the website is updated on a regular basis.

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APPENDIX C: USER SURVEY

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Reporting Revenue from Exchange Transactions
Survey of Users of Government Financial Statements

Thank you for participating in this survey to inform the GASB's research on the effectiveness of state and local government reporting of revenue from exchange transactions.

An *exchange transaction* involves a government and another party willingly exchanging goods or services for compensation of equal or roughly equal value. These transactions are distinguished from *nonexchange transactions* in which the amounts exchanged are not equal or are not clearly connected, such as taxes and most intergovernmental grants.

Governmental entities such as water and electric utilities (often referred to as business-type activities) obtain most of their revenue from exchange transactions. Most of the revenue of states, counties, localities, and school districts is from nonexchange transactions, but they also receive significant revenue from exchange transactions.

Common examples of exchange transactions that produce revenue for governments include user charges for water, sewer, and electricity and fees for parking lots and street meters.

This survey is a part of GASB research that is intended to gather feedback on these broad questions:

- What information regarding revenue from exchange transactions is essential for decision-making and assessing government accountability?
- How important is information regarding revenue from exchange transactions to the analysis of the financial statements of governments?
- How do the perceptions of the benefits of the information in financial reports compare with the costs of applying the relevant accounting standards?

About You

This background information is requested to assist in the analysis of survey responses and will be used for internal GASB purposes only. Responses to this survey will be considered anonymous and will not be attributed to specific individuals or organizations.

A.1. Your name:

A.2. Your email address:

A.3. Your title:

A.4. Your employer:

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A.5. What type of organization do you currently work for?

- ❍ Rating agency
- ❍ Mutual fund
- ❍ Private wealth management
- ❍ Other buy-side
- ❍ Sell-side
- ❍ Bond insurance/credit enhancement
- ❍ Commercial bank—investing
- ❍ Commercial bank—direct lending
- ❍ Public finance advisor
- ❍ Academic—accounting
- ❍ Academic—other than accounting
- ❍ Legislator or legislative staff—state
- ❍ Legislator or legislative staff—county
- ❍ Legislator or legislative staff—local
- ❍ Oversight entity
- ❍ Research organization
- ❍ Citizen/taxpayer group
- ❍ Private citizen
- ❍ Other (please describe: _____)

A.6. What types of governments do you evaluate (or are associated with in other than a preparer or auditor capacity)?

- ❍ States, counties, cities, other localities, taxing districts, and/or school districts
- ❍ Colleges/universities, toll roads, hospitals, utilities, airports, mass transit, and/or other governments that charge a fee for service (business-type activities)
- ❍ Some or all of both groups of governments
- ❍ Neither, I do not evaluate governments (proceed to exit survey with notice that survey is for those who analyze governments only)
- ❍ Other (please explain: _____)

Financial Statements

GASB standards require governments to report revenue from exchange transactions in their financial statements when the exchange takes place. Most often, that is when the government delivers a good or service to a customer—for instance, when a parking permit is sold. Revenues from exchange transactions typically are reported with the program revenues in the government-wide statement of activities and with the operating revenues in the statement of revenues, expenses, and changes in net position of a business-type activity or proprietary fund.

1. How valuable is information in financial statements about revenues from exchange transactions to your analysis, decision making, or assessments of accountability?

Not valuable at all				Very valuable	Unsure

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❍ 1 ❍ 2 ❍ 3 ❍ 4 ❍ 5 ❍

1a. If you answered 1 or 2, how could the information in financial statements about revenues from exchange transactions be made more valuable, if at all? (Please be as specific as possible.)

1b. If you answered 4 or 5, how do you use the information in financial statements about revenues from exchange transactions in your analysis, to make decisions, or to assess accountability? (Please be as specific as possible.)

_____

New private sector accounting guidance requires businesses to identify obligations to perform contained in each contract with a customer. Revenue is recognized when, or as, the obligations to perform are satisfied by the entity.

Consider the following example in the government sector. A parking authority derives the majority of its revenues through parking permit fees. A typical parking permit allows the purchaser to park in the authority's facilities 5 times. The parking authority requires the full fee for the permit to be paid at the time of purchase, and the permit expires one year after the date of purchase regardless of the number of times the permit is used. No portion of the fee is refundable.

Current GASB guidance requires the permit fee to be accounted for as an exchange transaction. However, there is no specific guidance for this type of transaction. Revenue from the permit could be recognized when the exchange takes place—that is, when the permit is sold or it could be recognized as the parking facilities are used with the unused portion being recognized when the permit expires.

If the new private sector guidance was applicable to the parking authority, it would identify use of the parking facilities 5 times as the parking authority's obligation to perform. The parking authority would recognize revenue from the parking permit fee as the obligation to perform is satisfied—that is, as the permit holder uses the parking facilities. Revenue related to any of the 5 occasions that are not used within the year would be recognized when the permit expires.

2. Which method of revenue recognition would provide the most useful information to your analysis of the parking authority?

   ❍ Recognize revenue when the permit is sold
   ❍ Recognize revenue as the permit holder uses the parking facilities
   ❍ Recognize revenue using a different method.

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If you selected the first or second option, please skip to question 2b. If you selected the third choice—"recognize revenue using a different method"—please answer both question 2a and question 2b:

2a. Please describe the method of recognizing the parking permit revenue that would be more useful to you.

2b. What makes the method of revenue recognition you selected more useful to you?

In a similar example, a city owns a parking garage and charges parking permit fees in the same manner as the parking authority described previously. The parking permit fees are not a primary revenue source for the city and generate a small portion of the resources available to the city.

3. Which method of revenue recognition provides the most useful information to your analysis of the city?

- ❍ Recognize revenue when the permit is sold
- ❍ Recognize revenue as the permit holder uses the parking facilities
- ❍ Recognize revenue using a different method.

If you selected the first or second option, please skip to question 3b. If you selected the third choice—"recognize revenue using a different method"—please answer the both question 3a and question 3b:

3a. Please describe the method of recognizing the parking permit revenue that would be more useful to you.

3b. What makes the method of revenue recognition you selected more useful to you?

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Notes to the Financial Statements

4. State and local governments are required to disclose the following information about revenues from exchange transactions. How useful is this information to your analysis, decision making, or assessments of accountability?

	Not Useful At All				Very Useful	Unsure
A. Description of the types of transactions included in program revenues in the government-wide statement of activities	❍ 1	❍ 2	❍ 3	❍ 4	❍ 5	❍

4A1. If you answered 1 or 2, how could this information be made more useful, if at all? (Please be as specific as possible.)

4A2. If you answered 4 or 5, how do you use this information in your analysis, decision making, or assessments of accountability? (Please be as specific as possible.)

	Not Useful At All				Very Useful	Unsure
B. Description of policies for recognizing revenues	❍ 1	❍ 2	❍ 3	❍ 4	❍ 5	❍

4B1. If you answered 1 or 2, how could this information be made more useful, if at all? (Please be as specific as possible.)

4B2. If you answered 4 or 5, how do you use this information in your analysis, decision making, or to assessments of accountability? (Please be as specific as possible.)

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5. If state and local governments were required to disclose the following information related to revenue from exchange transactions in the notes to the financial statements, how useful would it be to your analysis, decision making, or assessments of accountability?

	Not Useful At All				Very Useful	Unsure
A. Description of significant judgments made by the government in deciding when and how to recognize revenue from exchange transactions	❍ 1	❍ 2	❍ 3	❍ 4	❍ 5	❍

5A1. If you answered 4 or 5, if you had this information, how would you use it in your analysis, decision making, or assessments of accountability? (Please be as specific as possible.)

	Not Useful At All				Very Useful	Unsure
B. Methods used to recognize revenue over multiple years, if any	❍ 1	❍ 2	❍ 3	❍ 4	❍ 5	❍

5B1. If you answered 4 or 5, if you had this information, how would you use it in your analysis, decision making, or assessments of accountability? (Please be as specific as possible.)

6. What additional information do you need about a government's revenue from exchange transactions for your analysis, decision making, or assessments of accountability, but cannot obtain, if any?

6a. How would you use this information in your analysis, decision making, or assessments of accountability? (Please be as specific as possible.)

7. If you have other comments about revenue recognition from exchange transactions not specifically addressed in the survey questions, please feel free to include them here:

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