



March 13, 2012

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, Connecticut 06856-5116

Re: File Reference No. 2011-230

Dear Technical Director:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the revised proposed Accounting Standards Update, “Revenue Recognition (Topic 605): Revenue from Contracts with Customers” (the ASU). NACUBO’s comments on the proposal were developed with input from our member institutions and our Accounting Principles Council (APC). The APC consists of experienced business officers from various types of institutions who, collectively, possess a thorough knowledge of higher education accounting and reporting issues and practices.

NACUBO is a nonprofit professional organization representing chief financial and administrative officers at more than 2,100 not-for-profit and public colleges and universities. In its capacity as a professional association, NACUBO issues accounting and reporting guidance for the higher education industry and educates over 2,000 higher education professionals annually on accounting and reporting issues and practices.

***Overall Observations of the ASU***

We appreciate the Board’s willingness to re-expose the ASU after its redeliberations on this important topic. Many of the issues that we were concerned about in the original exposure draft have been addressed in the revised proposal and we are grateful to the Board for its consideration of those issues.

In our letter to the Board regarding the original proposed ASU, we noted the challenges of applying the proposed principles to the unique revenues of not-for-profit organizations (NFPs). In the case of colleges and universities, we discussed two major sources of revenue – sponsored research and tuition.

### *Sponsored Research Grants*

The vast majority of sponsored research projects in higher education are considered grants that we believe fall outside the scope of the exposure draft because they are fundamentally not contract arrangements as described in the proposal.

Grants from governmental entities (and other sponsors) received by independent institutions are agreements under which funds are provided to the institution to fulfill mutually agreeable goals that are in keeping with the institution's mission. As discussed in our comments on the original exposure draft, the objective of these arrangements is the performance of the research, not the creation of an output with commercial value.

An important factor related to research that is sponsored by the federal government is the policy relationship between the government and higher education. The federal government provides support for two types of activities within higher education. First, increasing access to a higher education through various assistance programs and second, supporting research that is in the national interest.

The federal government is the largest source of sponsored research at higher education institutions. This ongoing investment maintains our national research infrastructure and is provided to colleges and universities through various federal agencies. For example, the National Institutes of Health (NIH), with an annual spending budget of approximately \$31 billion, is the nation's largest source of money for academic research. According to the NIH website, 95 percent of funds provided by the agency are grants and five percent are considered contracts. Grants are provided for the advancement and dissemination of new knowledge whereas contracts typically have a more definitive objective.

Because there is no expectation of an output with commercial value from the majority of sponsored research activities, NACUBO does not believe that such agreements meet the definition of a contract with a customer. As such, we request that the Board specifically exclude grants from the scope of the ASU. This would alleviate the burden on not-for-profit entities and their auditors from having to apply potentially inconsistent judgment when addressing these important and significant sources of revenue.

### *Sponsored Research Contracts*

NACUBO believes that the small number of sponsored research agreements that are not grants are collaborative arrangements and outside the scope of the ASU. The discussion of collaborative arrangements in the Basis for Conclusions supports this belief. We note that paragraph BC37 has been amended to include Higher Education among the list of entities that should consider whether the counterparty to an agreement meets the definition of a customer. The ASU, however, does not provide sufficient discussion on this topic to ensure consistency in its application. For example, paragraph 10 of the ASU states (emphasis added):

For some contracts, the counterparty to the contract might not be a customer but rather a collaborator or a partner that **shares with the entity the risks and benefits of developing a product to be marketed.**

Research contracts do not typically result in any tangible outcome that can be sold or marketed and, as a result, would not meet the criteria of a collaborative arrangement as described in the ASU.

In addition, the definition of a collaborative arrangement from the FASB ASC Master Glossary is (emphasis added):

A contractual arrangement that involves a joint operating activity. These arrangements involve two (or more) parties that **meet both of the following** requirements:

- a. They are **active participants in the activity**.
- b. They are exposed to significant risks and rewards dependent on the **commercial success of the activity**.

We understand that it is necessary for an organization to consider all relevant facts and circumstances in order to determine whether an arrangement meets the definition of a contract with a customer. In this case, however, sponsors of research contracts are not active participants in that research and, as previously discussed, outputs with commercial value are not typically an objective of those contracts.

The ASU seems focused on entities that manufacture a product or provide a service such as consulting. The research undertaken by universities does not neatly fit into either of these categories. We request, therefore, that the Board address the definitions of both a customer and a collaborative arrangement in both the ASU and the Codification to include contracts where no product or service is created for commercial marketing.

#### *Additional Concerns for Higher Education*

We believe that sponsored research grants and contracts would fall outside the scope of the ASU for the reasons mentioned above. In the event that audit firms do not share this opinion, institutions would be required to account for such revenues under the proposed guidance. Additionally, there are other sources of revenue that would fall within the scope of the ASU. In that regard, we offer the following comments.

#### *Proposed Changes to the Standards*

The proposed amendments to the FASB ASC include the elimination of paragraph 958-605-45-2 related to the providing of discounts by an NFP. That paragraph provides an important example of tuition discounting and how that discount should be shown in a statement of activities. This example is widely referred to because tuition discounts are a highly visible and often scrutinized element of higher education financial reporting. We understand that the guidance under the ASU for reporting discounts would not change the information provided in this paragraph. We ask, therefore, that due to its importance this paragraph be left intact or that the example be included elsewhere in the ASC.

### *Onerous Performance Obligations*

We appreciate the addition of the exception for NFPs to recognize a liability for an onerous performance obligation when a contract provides a social or charitable benefit. As most NFPs have a stated mission of performing some sort of social or charitable benefit, the exemption could be construed to refer to all contracts entered into by NFPs. If this is not the Board's intention, we urge that further detail be provided with regard to the applicability of the exemption.

### *Disclosures*

The disclosures required under the ASU are cause for concern to institutions of higher education that meet the definition of a public company for reporting purposes (i.e. conduit debt obligors). In particular, the reconciliation from the opening to the closing aggregate balances of contract assets and liabilities could be significant and would provide little information of value to the users of a college or university's financial statements. We believe, however, that the qualitative disclosures required for nonpublic entities would be valuable and relevant information for the users of an institution's financial statements.

We recognize that colleges and universities that are conduit debt obligors may need to provide additional information to bondholders and others. There are, however, other means by which that information is made available such as through the IRS Form 990, annual disclosures filed with the Nationally Recognized Municipal Securities Information Repositories (NRMSIRs), rating agencies, and the institution itself. These institutions are not subject to SEC Regulation Fair Disclosure (Reg FD) and can, therefore, provide information selectively as desired.

Finally, assuming the exclusion of most sponsored research agreements from the scope of the ASU, the actual number of contracts with customers requiring disclosure would not be significant enough to warrant the extent of such disclosure. As such, we ask the Board to consider thresholds of significance when requiring such extensive disclosures rather than a public and non-public distinction. That is, if a particular revenue stream derived from contracts with customers within the scope of the ASU is not significant to the institution's overall revenue, the disclosure requirements would be waived.

### *Effective Date and Transition*

The ASU calls for a delay in implementation for nonpublic entities of at least one year from the effective date for public entities. We do not believe that this is an appropriate distinction for determining the effective date. Colleges and universities, whether considered public or nonpublic for reporting purposes, have limited resources to assign to the implementation of new accounting standards. To require an earlier effective date for a "public" institution places an undue hardship on those resources. This resource limitation is exacerbated by the need to implement the standards retroactively. We believe that the users of an institution's financial statements would not be disadvantaged if the standards were applied prospectively. As such, we request that the Board provide an exemption from retrospective application for NFPs.

In closing, we wish to express our appreciation for the opportunity to comment. We hope that the Board will address our concerns. We look forward to answering any questions the Board or the staff may have about our response. Please direct your questions to Sue Menditto at 202-861-2542 or [sue.menditto@nacubo.org](mailto:sue.menditto@nacubo.org).

Sincerely,

Susan M. Menditto  
Director, Accounting Policy