National Association of College and University Business Officers
1110 Vermont Ave, NW, Washington, DC 2005
T 202.861.2500 F 202.861.2583
www.nacubo.org

January 31, 2011

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

Re: File Reference No. 1890-100

Dear Technical Director:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the Discussion Paper "Effective Dates and Transition Methods" (the Paper). NACUBO's comments on the Paper 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 colleges and universities. In its capacity as a professional association, NACUBO educates over 2,000 higher education professionals annually on accounting and reporting issues and practices. Where appropriate, NACUBO also issues industry specific accounting and reporting guidance.

Overall Recommendations

We offer the following recommendations for the implementation of the standards included in the discussion paper, in addition to answers to certain of the specific questions posed by the Board in the Paper. Our recommendations are based on the broad range of organizations that will be required to implement the new standards and the varying degrees of resources and systems that may be available to assist in the implementations.

We believe that the Board should set a date in the future by which all of the standards must be implemented, with early application available for all standards. This would allow organizations to adopt the standards in the order that best suits their business model and strategy rather than in an order prescribed by the Board. In addition, we believe that standards should be grouped by broad topic and all standards under a given topic would be required to be implemented together. We recommend the following groupings:

- Balance sheet, including: Accounting for financial instruments and revisions to the accounting for derivative instruments and hedging activities, including netting of financial instruments; and financial instruments with characteristics of equity.
- Income statement, including: Revenue from contracts with customers; leases; and insurance contracts.
- Financial statements, including: Financial statement presentation (including discontinued operations); and other comprehensive income.

With regard to transition methods, we believe that all of the standards should be applied prospectively. To provide comparability between periods, we recommend that, in addition to presentation under the new standards, the current year be presented as it would have looked under the old standard. This could be presented through the use of an additional column showing the impact of the changes to move from the old to new accounting as the standards are adopted.

We favor this approach for its simplicity and the ease with which organizations of all sizes and types could effectively and efficiently implement the plethora of impending standards. Providing this level of flexibility in adopting the standards would a welcome dichotomy to the complexity and effort required to adapt systems and methodologies under these standards.

Our responses to the questions below assume the adoption by the Board of our above recommendations regarding effective dates and transition methods.

Question 1: Please describe the entity (or the individual) responding to this Discussion Paper. For example:

a. ***Please indicate whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor, or other user of financial statements (such as a regulator). Please also indicate whether you primarily prepare, use, or audit financial information prepared in accordance with U.S. GAAP, IFRSs, or both.***
b. ***Please describe the degree to which each of the proposed new standards will likely affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors might explain the significance of the transactions to the particular industries or sectors they follow).***

Question 2: Focusing only on those proposals that have been published as Exposure Drafts (accounting for financial instruments, other comprehensive income, revenue recognition, and leases):
a. How much time will you need to learn about each proposal, appropriately train personnel, plan for, and implement or otherwise adapt to each the new standard?
b. What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?

NACUBO’s members are primarily preparers of financial statements in accordance with U.S. GAAP. These colleges and universities will be most significantly affected by the proposed standards on leases, financial instruments and revenue recognition. In our comments to the Board on those proposed standards we attempted to provide information on the frequency and materiality of the transactions that would be impacted. NACUBO's comments also addressed concerns over undue implementation costs to higher education institutions. We believe that while the proposals may make sense for businesses or other public entities, requiring the same level of financial reporting and disclosures for colleges and universities comes at a great cost to the organization. Moreover, many of the proposed disclosures are not considered particularly important to users of higher educations' financial statements.

For reference, below are extracts from those comment letters:

Leases

Institutions of higher education enter into lease transactions as both lessees and lessors. As a lessee, the institution may lease research and scientific equipment, office equipment, fitness equipment, vehicles, real estate, etc. Transactions as a lessor include: the leasing of dorm rooms to students, student computers, bookstores, long-term land leases and real estate investment property. In addition, institutions, especially those in urban areas where housing space is at a premium, are often sublessors of apartments to faculty and students. It is this breadth of transactions that causes us trepidation with respect to the initial implementation of the ASU and the ongoing accounting for leases.

We are aware of one university that has 310 photocopier leases. Each of the leases is immaterial to the overall financial position of the university and were the university to purchase these photocopiers, they would not be capitalized. Aggregating the "right-to-use" 310 photocopiers into one asset would likely cause the auditors to consider it material for audit testing and presentation, even though individually they would not be capitalized. Continuing with this example, significant effort would be required to review each of the lease agreements in order to determine the estimated life of the lease. The resulting liabilities and assets would require detailed tracking to generate the general ledger entries. Since the assets and liabilities are derecognized in different ways, this would require 620 separate calculations each reporting period – for the photocopier leases only. Add to this the other leases of consumable goods (such as cell phones, computers, fitness equipment, etc.) and it is easy to conclude that the University would need to add more staff and undertake system modifications to meet the requirements of the ASU.

NACUBO continues to be concerned that disclosure requirements that target a particular industry in which a certain transaction type is common affect many others. The result is often disclosures that are costly to produce and unnecessary for the user of the financial statements. We recommend that the Boards consider whether there are two levels of required disclosures—one set of disclosures for entities whose lease income (or lease expense) exceeds X% of total revenue (or total expense)—and another set for all other entities.

Accounting for Financial Instruments

The ASU proposes to eliminate the "probable" threshold for recognizing credit impairments, essentially reducing the amount of a receivable at the time it is booked. Interest income is then reduced over the life of the receivable in an attempt to more accurately reflect the cash flows. In theory, this seems reasonable, but in practice it is likely to reduce current interest income revenue streams by arbitrary amounts. More importantly, and as previously noted, earning interest is not the primary purpose of most loans in higher education. Accordingly, periodic adjustment of loss provisions through what would otherwise be labeled interest income is unnecessarily confusing. Users of financial statements currently have a clear understanding of what is included in interest income and to arbitrarily adjust that amount would result in less decision-useful information. The proposed model seems overly complicated and would require significant administrative time and effort to implement. Once again, the cost of implementing the guidance would far outweigh the benefit, if any, to the users.

Revenue Recognition from Contracts with Customers

The proposed guidance leaves open many questions about how not-for-profit organizations (NFP's) would apply the principles to their unique revenues. In the case of colleges and universities, it is unclear how revenue from research projects and tuition – two major sources of revenue – would be recognized under the ASU. In particular research projects which can stretch over many years and have only vaguely defined deliverables. In 2009, independent higher education institutions recognized over $17 billion of sponsored research revenue and expenditures, with indicators of growing volume through 2010 and 2011.

Additionally, we do not believe that the disclosure requirements are operational for organizations that have more than a handful of contracts. Many colleges and universities have thousands of contracts that would have to be analyzed in order to comply with the proposed guidance. To require the level of disaggregation suggested by the ASU would be potentially voluminous and provide little useful information to users. Any benefit would be far outweighed by the cost of providing such information.

Question 7: For which standards, if any, should the Board provide particular types of entities a delayed effective date? Should companies eligible for a delayed effective date have the option of adopting the requirements as of an earlier date?

The Board may wish to consider providing two future dates by which all standards must be adopted based on the size of the organization. We believe that smaller organizations have fewer resources and less sophisticated systems to handle the changes required by the standards and, therefore, may require additional time for implementation. We do not believe, however, that any delayed date should be determined based on the public or non-public status of the organization.

Question 9: How does the Foundation's ongoing evaluation of standards setting for private companies affect your views on the questions raised in this Discussion Paper?
Although independent institutions may be fundamentally different from private companies, we can understand why private companies believe that many accounting standards and recently proposed guidance does not meet their needs. Over the last year, NACUBO's comments to FASB have consistently maintained that technical research and proposed guidance has not considered the needs of not-for-profit entities and their financial statement users. NACUBO hopes that in the future, the standard setting bodies will establish parameters around guidance – so that not every aspect of every standard must be complied with by every industry. For example, we suggested in our comments to the financial instruments proposal that:

> If NFPs are not excluded from the scope, we ask that the Board consider offering measurement alternatives for organizations that hold financial instruments but do not leverage the fair value of assets and liabilities for growth or income generation. For example, an alternative methodology for calculating credit losses could be made available to organizations with loans receivable that are not a significant portion of income producing assets and do not generate a significant source of mission related revenue. A NFP with loans receivable would be allowed to estimate an allowance for doubtful accounts using collection experience rather than being required to use a complex formula based on interest income assumptions.

In closing, we wish to express our appreciation for the opportunity to comment. We hope that the Board will consider 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.

Sincerely,

Susan M. Menditto
Director, Accounting Policy