



National Association of College and University Business Officers
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April 27, 2018

David Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Re: Project No. 4-6I

Dear David:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the Invitation to Comment of the Governmental Accounting Standards Board, *Revenue and Expense Recognition*. NACUBO's comments on the ITC 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 2,000 colleges and universities. In its capacity as a professional association, NACUBO issues accounting and reporting industry guidance for higher education and educates over 2,000 higher education professionals annually on accounting and reporting issues and practices.

Overall Observations and Conclusions

We appreciate the time and effort that the staff have devoted to this project and support the use of an Invitation to Comment for a project such as this. GASB staff always do such thorough research—which cannot be underestimated on a topic as broad as revenue and expense recognition. Considering the breadth and importance of this topic, although NACUBO supports identified needs and discoveries to date, we principally believe that the exchange/nonexchange model can be the foundation upon which revenue and expense recognition conceptually rests.

Exchange/Nonexchange Model

2.1. Do you believe the exchange/nonexchange model would provide a suitable basis for classifying transactions and recognizing revenue and expense? Why or why not?

NACUBO believes that the exchange / nonexchange model would provide a suitable basis for classifying transactions and recognizing revenue and expense. Consequently, we encourage GASB staff to continue pursuing this model.

Even though a few examples of inconsistencies in current practice are noted in the ITC, we believe that remedies for inconsistencies can be provided through updated guidance using an exchange/nonexchange framework. For example, concerning inconsistencies in the reporting of certain non-exchange grants, additional guidance could help clarify differences between eligibility and restrictions. In higher education, we devote a fair amount of professional development time and effort to Statement 33, as amended, with good results.

Additionally, given that subjectivity influences notions of *equal* value in an exchange transaction, GASB might expand their definition of “exchange-like transactions.” Also, updated guidance (and new questions in the Comprehensive Implementation Guide) can focus on refining the concept of exchanged value and its relationship to direct provision or receipt. We think a clearer understanding of the exchange / nonexchange continuum is attainable.

Finally, because the ITC indicates a desire for comprehensive conceptual guidance in this area, it seems inconsistent to have significant standards such as Statements 68 and 75—pensions and OPEB—respectively, based on an employment exchange and have other guidance based on something other than exchange and nonexchange constructs.

Performance Obligation/No Performance Obligation Model

3.1. Do you believe the performance obligation/no performance obligation model would provide a suitable basis for classifying transactions and recognizing revenue and expense? Why or why not?

We think that assessing binding agreements and equivalent terms will be complicated and perhaps more problematic than addressing the handful of discrepancies in practice that exist with today’s exchange/nonexchange model. Assessing equivalent terms, for example, is somewhat analogous to the continuum of value often identified today as a source of inconsistency when using the exchange/nonexchange model.

Concerning binding agreements, we are pleased that the ITC intends a broad spectrum of agreements. However, we are hesitant about unforeseen complexities when assessing types of consideration related to binding agreements. For example, for private institutions that follow FASB, NACUBO has been grappling for months over various nuances related to tuition contracts with students. Tuition agreements are a paramount service contract between an institution and a student. The performance obligations are not difficult to identify—but the

various forms of consideration, pricing, financial aid, and refund policies—influence conclusions about “binding enrollment agreements.” Consequently, as of the date of this letter, we are amid endless hours of debate concerning asset and liability recognition related to tuition agreements at independent colleges and universities. Further, based on conclusions reached, preparers will spend much more time on structural analysis that demonstrates an understanding of the concepts—which will likely satisfy auditors—but not materially change the reporting result. This is a lot of effort for one of the most significant agreements in higher education.

Finally, because non-exchange reimbursement grants contain performance obligations, it strikes us that Statement 33, as amended will no longer apply to these grants. Reimbursement grants are significant in higher education. Since reimbursement grants have been identified as causing inconsistencies in practice today, we recommend enhancing Statement 33 rather than developing a new approach based on performance obligations and dismantling a standard that has undergone review and is working.

Alternative Models

4.1. Do you believe that the alternative model presented as an example in Chapter 4 could provide a suitable basis for classifying transactions and recognizing revenue and expense? If so, what are the potential benefits and challenges of that model?

If an alternative model is studied it should retain the exchange/nonexchange framework. Based on the importance of accountability in a government environment, perhaps performance obligation analysis for certain types of exchange transactions makes sense. However, if the revenue and expense conclusions are not substantially different, the cost may not be worth the benefit.

4.2. The models distinguish transactions on the basis of (a) exchange or nonexchange or (b) a performance obligation or no performance obligation. Do you believe there is another alternative for distinguishing revenue and expense transactions? If so, please describe that alternative and explain why you believe it would be suitable.

We would need more information before we might offer additional alternatives.

In closing, we wish to express our appreciation for the opportunity to comment. We look forward to answering any questions the Board or the staff may have about our response. Please direct your questions to me at 202-861-2542 or smenditto@nacubo.org.

Sincerely,

Susan M. Menditto
Director, Accounting Policy