October 27, 2009

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

Re: Project No. 30

Dear David:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the proposed statement, “Accounting and Financial Reporting for Service Concession Arrangements.” 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 colleges and universities. In its capacity as a professional association, NACUBO issues accounting and reporting guidance for the higher education industry and educates over 2000 higher education professionals annually on accounting and reporting issues and practices.

For well over a decade higher education institutions have entered into various types of arrangements with private business enterprises to deliver services to university students, faculty and staff. Initial arrangements involved residence halls, and have since expanded to included campus dining facilities, parking, and multi-purpose buildings. NACUBO appreciates the Board’s approach and attention to this ever evolving area of service partnerships. We look forward to the accounting and reporting consistency that guidance in the final accounting standard will provide.

**Issue #1:**

This Exposure Draft proposes financial reporting requirements for recognition of an up-front payment or installment payments from an operator to a transferor associated with a Service Concession Arrangement (SCA) in which the transferor does not meet all the control criteria set forth in paragraph 7. Paragraphs 11 and 12 would require that such up-front payments or present value of installment payments be recognized currently as revenue or a gain, rather than deferred and amortized over the term of the SCA, as would be required if the transferor does meet the control criteria in paragraph 7. Paragraphs 53 and 54 provide the Board’s basis
for that conclusion. The Alternative View, discussed in paragraphs 63 and 64, would require that the up-front payment or present value of installment payments initially be deferred and amortized as revenue in a systematic and rational method over the term of the agreement.

**Question: How should up-front or installment payments be reported when a transferor does not control the facilities subject to an SCA? Please state why you support this position.**

NACUBO agrees with the accounting described in paragraphs 11 and 12 of the Exposure Draft. A transferor that does not meet the prescribed control criteria has passed the arrangements risks and rewards to the operator. Consequently, the transferor does not have an ongoing ownership stake in future revenue associated with the SCA. The installment payments described are an exchange for the right of the operator to control the SCA. In these cases, a full transaction has occurred and current recognition of the up-front payments is the appropriate accounting treatment. Further, because a full (or complete) transaction has occurred, the concept of interperiod equity is not applicable. Recognizing up-front payments over the future service utility of the asset would only apply if the transferor had an ownership interest in the asset over the designated period of service utility.

**Issue 2:**
The Exposure Draft proposes financial reporting requirements for recognition of a residual interest by a transferor in a facility subject to an SCA for which the transferor does not meet all the control criteria set forth in paragraph 7. Paragraph 11 provides that if the facilities are purchased, constructed, or materially improved upon by the operator, the transferor would recognize its entitlement to the residual interest as an asset measured at fair value at the commencement of the SCA and a deferred inflow of resources. The deferral would be recognized as revenue when the facility reverts to the transferor at the end of the arrangement. Paragraph 56 provides the Board’s basis for that conclusion. The Alternative View, discussed in paragraph 65, provides that the transferor would recognize an asset and a corresponding deferred inflow of resources at the commencement of the SCA. The deferral would be amortized and revenue would be recognized over the term of the arrangement.

**Question: How should a transferor’s residual interest in a facility subject to an SCA be reported when the transferor does not control the facility? Please state why you support this position.**

NACUBO thinks the accounting proposed in the Exposure Draft is correct, for reasons that are similar to our Issue #1 conclusion. When the transferor has a residual interest in a facility but does not meet the control criteria, the transferor has no ownership interest in the facility during the SCA period. Consequently, the asset can only be considered a deferred inflow. The deferral period ends upon completion of the SCA, and recognition of the residual interest (deferred inflow) is appropriate at that time. The transferor has no interest in the asset or its service utility until the SCA has been satisfied.
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 Sue Menditto at 202-861-2542 or sue.menditto@nacubo.org.

Sincerely,

Susan M. Menditto
Director, Accounting Policy