



## National Association of State Auditors, Comptrollers and Treasurers

August 16, 2010

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Mr. David Bean  
Director of Research  
Governmental Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the National Association of State Auditors, Comptrollers and Treasurers, we appreciate the opportunity to respond to the Governmental Accounting Standards Board's Revised Exposure Draft (ED), *Accounting and Financial Reporting for Service Concession Arrangements*.

Unless otherwise noted, we agree with the proposed ED and are pleased to see the changes made by GASB as a result of the responses to the original ED.

#### Issue 1:

We agree that the control criteria should be a factor in determining the scope and applicability of this proposed Statement. Each of the control criteria appropriately supports the determination of whether an agreement between entities fits the nature of an SCA. The substance of arrangements where control of the facility is retained by the transferor is sufficiently different from the substance of arrangements where control shifts to the operator. We believe that the scope of the standard should exclude arrangements where control of the facility shifts to the operator, and those arrangements would appropriately be reported using existing lease accounting requirements.

#### Issue 2:

We agree that a transferor should report a deferred inflow of resources for consideration received by an operator. These payments meet the definition of an acquisition of net assets that are applicable to a future reporting period, and would therefore fall into the category of deferred inflows of resources per Concepts Statement No. 4. Deferring the inflow of resources and recognizing revenue over the term of the agreement is in accordance with the matching principle.

However, we are concerned with the reduction of the deferred inflow of resources in recording liabilities associated with the agreement. We believe that reducing the deferred inflow by the amount of the liability does not provide the full disclosure needed in the related financial reporting. The proposed approach is problematic for two reasons: 1) It will result in payments (liquidation of the liability) to the operator or capital expenditures with no flows statement impact at the time of the disbursement; 2) Since the deferred inflow is required to be recognized as revenue systematically over the life of the agreement, the reduction requirement results in the revenue recognition potentially being misstated throughout the life of the agreement because the liability may actually occur early (or late) in the agreement. We believe the user of the financial statements would be best served by recording deferred inflows equal to the cash received and a deferred outflow equal to the liability incurred in the agreement. Under this approach the revenue and expenditure amounts and timing are not interdependent and will reflect the amounts and timing in the agreement.

**Issue 3:**

We agree that a governmental operator should report all revenues and expenses for the service provided, with the transferor recognizing only its portion of the shared revenue. The governmental operator is considered to be the primary responsible party and is expected to collect all revenues and incur all expenses. Therefore, reporting all revenue and expenses would be a proper representation of what is occurring. The transferor is no longer directly involved in these operations so only the portion received by the transferor should be reported.

**General comments:**

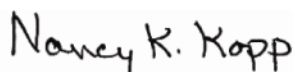
- We request that GASB provide guidance related to the placement of *Deferred Inflows* and *Deferred Outflows* on the financial statements.
- Paragraph 4 of the ED does not clearly specify that all the scope criteria described in subparagraphs a. through d. must be met when determining whether a service concession arrangement (SCA) exists between a government and an operator. The flowchart in Appendix C does clearly present that the arrangement must meet all scope criterion in order to consider that the arrangement is within the scope of the Statement. However, since Appendix C states that the flowchart is non-authoritative, we recommend that the Board include specific language within paragraph 4 to clarify the applicability of all of the scope criteria when determining an SCA.
- Paragraph 10 of the ED says that the transferor should not depreciate the asset if the operator is required to return the asset in its original state or improved condition. Further in the paragraph, it states that improvements made by the operator should be capitalized and are subject to existing guidelines for depreciation. Such wording causes confusion regarding if the facility should be depreciated if the operator is not required to return it in its original or improved state. We believe that more clarification would be beneficial, and suggest that the term "original state or improved condition" be replaced with "original state or better condition". This change would avoid the confusion that "improved condition" is equivalent to a depreciable "improvement".

**Editorial comments:**

- Appendix D, Illustration 1 (page 23) has a calculation error. Under the "Accounting in future years" section, there is a mathematical error in both numbers 1 and 2. The up-front payment of \$3 billion dollars divided by 75 years is equal to \$40 million in depreciation, not \$4 million as stated in the ED.
- Appendix D, Illustration 2 (page 24) has a calculation error. Under the "Accounting at the commencement of the arrangement and completion of construction" section, there is a mathematical error in number 1. The \$5 billion asset less the \$500,000 in insurance is equal to \$4,999,500,000, not \$4.5 billion as stated in the ED. Also, under the "Accounting in future years" section, there is a mathematical error in number 1. The \$5 billion asset less the \$500,000 in insurance divided by 40 years is equal to \$124,987,500, not \$112.5 billion as stated in the ED.

We appreciate the opportunity to provide our comments. Should you have any questions or need additional information regarding our response, please contact Kim O'Ryan of NASC at (859) 276-1147 or me at (410) 260-7160.

Sincerely,



Nancy K. Kopp  
NASACT President