



National Association of State Auditors, Comptrollers and Treasurers

September 25, 2009

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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 Exposure Draft (ED), *Accounting and Financial Reporting for Service Concession Arrangements*.

We have reviewed the ED and generally agree with its provisions. Below are our responses to the two issues the GASB specifically requested feedback on, as well as some general comments we believe the Board should consider as it finalizes this document.

Issue 1:

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.

The majority of our responding members agree with the methodology proposed in paragraphs 11 and 12. Recognition of SCA revenues in the period the arrangement commences better reflects interperiod equity in the case of up-front payments, where the revenue is available to pay for current period services. Since the transferor does not control the facilities subject to the SCA in this question, the up-front or installment payments should be reported as a gain. This instance is similar to the sale of a facility, which we feel would be an appropriate treatment because the payments are not associated with future services controlled by the transferor.

Issue 2:

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.

We agree with the proposed requirements for recognition of residual interests because we do not believe that recognizing these as revenues over time reflects the nature of the arrangement. In these cases, amortization is not appropriate because while the transferor is entitled to the residual interest, these rights are not currently available and do not grow over time. It would be inappropriate to reflect an increasing benefit over time in periods when it is not applicable. Therefore, we believe that the transferor should recognize its residual interest in the facility as an asset at the beginning of the arrangement and defer the inflow of resources until the facility reverts to the transferor. We believe this reporting appropriately reflects interperiod equity for this arrangement.

General comments:

- The standard should clarify the differences between an SCA and service and management agreements (SMA), including defining and providing additional examples of SMAs.

- Paragraph 7 - The use of "implicit" in measuring whether the criteria has been met is of concern. This opens up the potential for misapplication of the requirements, intentionally and unintentionally, as well as creates unnecessary inconsistencies between governments, or even for multiple arrangements within governments. While we appreciate trying to provide some level of flexibility in looking to the substance of the arrangement, a better discussion of that approach, other than the use of an "implicit" approach, would be preferred.

The standard would also seem to apply to SCAs that may not be exempted by the "immaterial items" exception such as cafeteria services at a college or university or selling hot dogs at a college football game. The criteria specified in paragraph 7 seems overly restrictive for these smaller types of SCAs. We see no value in trying to derecognize a portion of a student services building or a football stadium simply because a college contracts with a restaurant to provide food service but does not control the price ranges or rates the restaurant charges.

The proposed standard does not define "significant residual interest" or provide information that would assist the government in understanding the meaning of this concept. However, paragraph 47 in the Basis for Conclusions section discusses the significant residual value of future service potential or economic benefit that results when the facility is in operational condition at the end of the SCA and further guidance for assessing whether the residual interest is significant. We recommend that the Board move the guidance in paragraph 47 related to the long-lived nature of most underlying facilities, the inclusion of contractual requirements for the operator to return the property in good condition, and the consideration of the service utility of the facility into the actual standard instead of the Basis for Conclusions.

We believe additional guidance should be included either in the definition of an SCA or in the control criteria discussion in paragraph 7, on the length of agreements that would be considered SCAs. The examples in the exposure draft relate to long-term agreements and the discussion in the basis for conclusions refers to the long duration of such agreements. While it may be unreasonable to use an exact cutoff in terms of the number of years of an agreement that qualify it to be an SCA, additional guidance that would allow the preparer to consider the length of the agreement in determining whether it should be classified as an SCA would be helpful.

- Paragraph 16 – The second sentence beginning with, "A governmental operator should recognize..." uses the terms "revenue" and "expenses" to describe the requirement to record a net liability to the transferor. Since this is effectively agency style accounting in which no revenues or expenses should be recorded, it would be better to use the terms "receipts" and "disbursements" rather than "revenues" and "expenses".

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 (304) 558-2251.

Sincerely,



Glen B. Gainer, III
NASACT President