



Accounting Update for Public Institutions

Chris Leach, NACUBO
November 1, 2023



What are We Talking About Today?

- A little background info...
- NACUBO's Top Five accounting topics
 1. SBITAs
 2. P3s and APAs
 3. Section 457 plans and component units
 4. Compensated absences
 5. Tuition and Auxiliary discounts

Who Makes the Rules?

Governmental Accounting Standards Board (GASB) – Setting Standards Since 1984

- Independent private-sector organization based in Norwalk, CT
- Establishes accounting and financial reporting standards for U.S. state and local governments
 - *Includes state-funded institutions of higher education*
- Supported and overseen by the Financial Accounting Foundation (FAF)

Who Makes the Rules?

GASB Board Members

The chair serves full-time; the other six members serve on a part-time basis

- Joel Black, chair
- Jeffrey J. Previdi, vice chair
- Brian W. Caputo — president, College of DuPage
- Kristopher E. Knight
- Dianne E. Ray
- Jacqueline L. Reck
- Carolyn Smith



What Should We Have Done Already?

GASB Guidance Effective for FY23

- **Authoritative Guidance**

- Statement No. 91 – Conduit debt
- Statement No. 94 – Public-private partnerships (P3; supersedes Statement No. 60 on SCA) †
- Statement No. 96 – Subscription-based information technology arrangements (SBITA) †
- Statement No. 97 – Certain component unit criteria and Sec. 457 plans (all other paragraphs) †
- Statement No. 99 – Omnibus (leases, P3, and SBITA)
- Implementation Guide 2020-1 – Leases (Q4.6-4.17), conduit debt (Q4.19-4.21)
- Implementation Guide 2021-1 – Leases (Q4.1-4.21), nonexchange transactions (Q4.23), amendments to previous Q&A (Q5.2 and Q5.4)

- **Concepts Statement No. 7 – issued in June 2022**

- *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements (an amendment of GASB Concepts Statement No. 3)*
- Does not establish authoritative guidance for accounting and financial reporting
- Lays conceptual groundwork for the two comprehensive projects in the GASB pipeline

† - Will be discussed later in the presentation

What Should We Be Doing Now?

GASB Guidance Effective for FY24

- **Authoritative Guidance**

- Statement No. 99 – Omnibus (financial guarantees and derivatives)
- Statement No. 100 – Accounting changes and error corrections
- Implementation Guide 2021-1 – Individual asset or group of assets (Q5.1)
- Implementation Guide 2023-1 – Leases; SBITAs
- Scheduled for issuance, 4Q 2023– Risks and uncertainties disclosures

What Should Be On Our Radar?

GASB Guidance Effective for FY25 and FY26

- **FY 2025 – Next Year**
 - Statement No. 101 – Compensated absences
 - Scheduled for issuance, 2Q 2024 – Financial reporting model (more than \$75M revenue)
- **FY 2026 – *Next Next Year***
 - Scheduled – Financial reporting model (all others)
 - Scheduled – Disclosure and classification of certain capital assets

What Goodies Can We Look Forward To?

In the GASB Pipeline

Topic	Current Status	Scheduled Issuance	Effective Date
<i>Conceptual Framework Projects</i>			
Recognition	EDR	Mar 2024	N/A
<i>Comprehensive Projects</i>			
Financial Reporting Model Improvements	EDR	2 nd Qtr 2024	FY25 / FY26 ¹
Revenue and Expense Recognition	PVR ²	2 nd Qtr 2027	TBD

¹ Dependent on revenues; more than \$75M, effective FY25, otherwise, effective FY26.

² Exposure draft expected in 1Q 2025.

EDR = exposure draft redeliberations

PVR = preliminary views document redeliberations

Source: GASB Technical Plan as of Aug 28, 2023

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Source: GASB Technical Plan as of Aug 28, 2023

What Goodies Can We Look Forward To?

In the GASB Pipeline (continued)

Topic	Current Status	Scheduled Issuance	Effective Date
<i>Major Projects</i>			
Going Concern and Severe Financial Stress	New ¹	2 nd Qtr 2027	TBD
Infrastructure Assets	New ²	2 nd Qtr 2027	TBD
<i>Practice Issues</i>			
Classification of Nonfinancial Certain Capital Assets	ED	3 rd Qtr 2024	FY26
Risks and Uncertainties Disclosures	ED	4 th Qtr 2023	FY24

¹ Preliminary views document expected in 4th Qtr 2024.

² Preliminary views document expected in 3rd Qtr 2024.

ED = exposure draft issued

Source: GASB Technical Plan as of Aug 28, 2023

What Goodies Can We Look Forward To?

In the GASB Pipeline (continued)

Topic	Current Status	Scheduled Issuance	Effective Date
<i>Practice Issues</i>			
Subsequent Events	New ¹	4 th Qtr 2025	TBD
Implementation Guidance – Update	If needed	TBD	TBD

¹ Exposure draft expected in 4th Qtr 2024.

ED = exposure draft issued

Source: GASB Technical Plan as of Aug 28, 2023

What Goodies Can We Look Forward To?

In the GASB Pipeline (continued)

Topic	Current Status	Final Board Vote	Effective Date
<i>Pre-Agenda Research Activities</i>			
GAAP Structure			

GASB staff is monitoring, among other things—

- Digital assets
- Electronic financial reporting
- ESG reporting
- Emerging accounting issues
- SBITA implementation

Source: GASB Technical Plan as of Aug 28, 2023

What Goodies Can We Look Forward To?

Potential GASB Projects Affecting Higher Education

- Acquisition of less than 100% equity in component units
- Impairments of assets other than capital assets
- In-kind contributions and contributed services
- Investment fees
- Present value
- Reporting unit presentations
- Many potential reexamination projects

Source: GASB Technical Plan as of Aug 28, 2023

When Do They Look at Impact of Guidance?

Post-Implementation Review

- Stage 1 – Post-issuance date implementation monitoring
- Stage 2 – Post-effective date evaluation of costs and benefits
- Stage 3 – Summary of research and reporting

Pronouncement	Stage 1	Stage 2	Stage 3
Pensions: Statements No. 67 and 68	Done	Done	1Q 2024
Fair Value: Statement No. 72	Done	4Q 2023	4Q 2024
OPEB: Statement No. 75	Done	4Q 2025	4Q 2026
Fiduciary Activities: Statement No. 84	4Q 2024	2Q 2028	2Q 2029
Leases: Statement No. 87	2Q 2025	2Q 2029	2Q 2030

Source: GASB Technical Plan as of Aug 28, 2023

Who Keeps Up With This Stuff?

NACUBO Accounting Principles Council, 2023

Public Institutions	Private Institutions
Chad Greenwell, Chair , University of Michigan	Terri Albertson
Shea Bryant, Michigan State University *	Russell DiLeo, University of Pennsylvania
Teresa Edwards, Texas A&M University System	Jamie Houghtaling, Stevens Institute of Technology
Anita Kovacs, Pensacola State College	Karen Mahalo, Cornell University
Robert Kuehler, University of Colorado	Kelli Perry, Past Chair , Rensselaer Polytechnic Institute *
Karl Strauss, Oregon Health and Science University	Nicole Tirella, Boston University
Shannon Turner, University of California, San Francisco	Kerri Tricarico, New York University

* Recipient of NACUBO Daniel D. Robinson Accounting Award

Who Keeps Up With This Stuff?

Governmental Accounting Standards Advisory Council (GASAC)

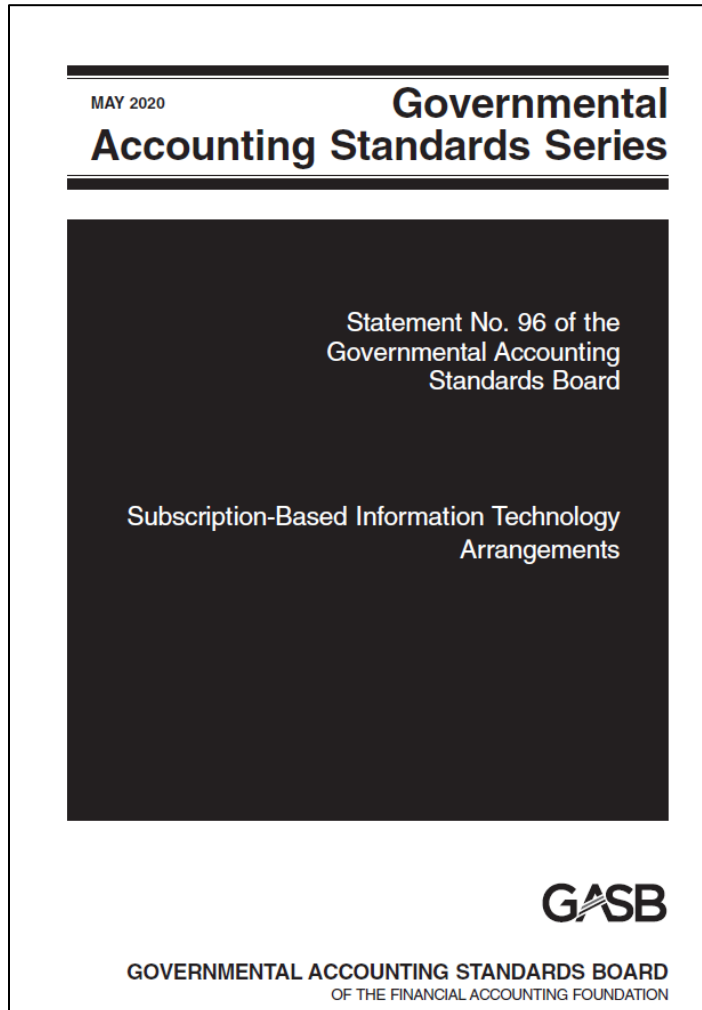
- Advises GASB on current agenda, potential new agenda items, and research priorities
- 25 members broadly representative of preparers, attestors, and users of financial information
 - GFOA, NASACT, NACUBO
 - AICPA
 - Bond experts
- **NACUBO representative – Anita Kovacs**, Vice President of Business Affairs, Pensacola State College (also member of APC)

Top Topic #1

Statement No. 96 – Subscription-Based Information Technology Arrangements

Overview

- Much commonality with Statement No. 87 (leases) and Statement No. 94 (P3).
- Addresses use of another party's software for a specified period of time.
- Costs of initial implementation stage are capitalized as part of the ROU asset.



Subscription-Based Information Technology Arrangements – SBITA

Let's Look at Some Definitions

- Subscription-based IT arrangement to use another's IT software (alone or in combination with hardware)
- **Control** of right to use when:
 - User has contractual rights to use present service capacity of underlying IT assets; and
 - User has right to determine nature/manner of use of underlying IT assets.
- Underlying IT assets = the vendor's assets and can be intangible (vendor's software) or tangible (vendor's capital assets)

SBITAs – Accounting and Reporting

What are the Impacts on the Financial Statements?

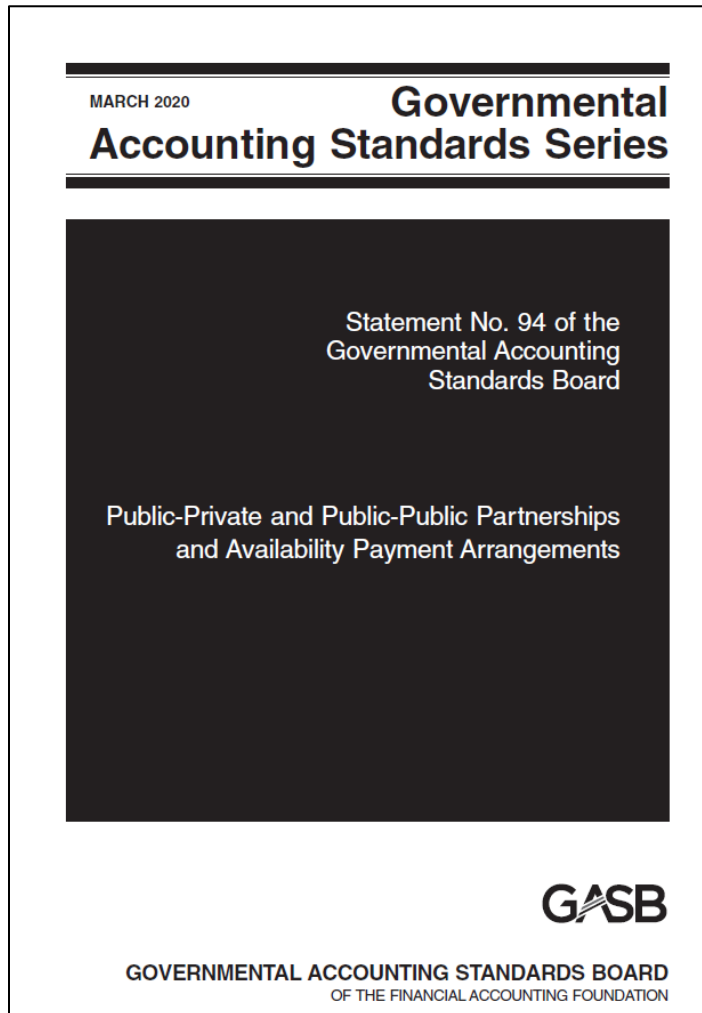
- SNP effect
 - Subscription asset (RTU asset), net of accumulated amortization
 - Subscription liability = present value of future payments
- SRECNP impact
 - A financing; therefore, interest expense as part of vendor payments
 - Amortization of the RTU asset in a rational and systematic fashion
- Net position: Net investment in plant
- Disclosures (for example)
 - All SBITAs can be grouped and totaled; total amortization
 - Separate from other capital assets
 - Principal, interest requirements to maturity

Top Topic #2

Statement No. 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements

Overview

- Supersedes Statement No. 60 on service concession agreements but retains general approach.
- Much commonality with Statement No. 87 and Statement No. 96 (SBITA).
- Provides guidance on availability payment arrangements, where payments are based on availability for use, not actual usage.



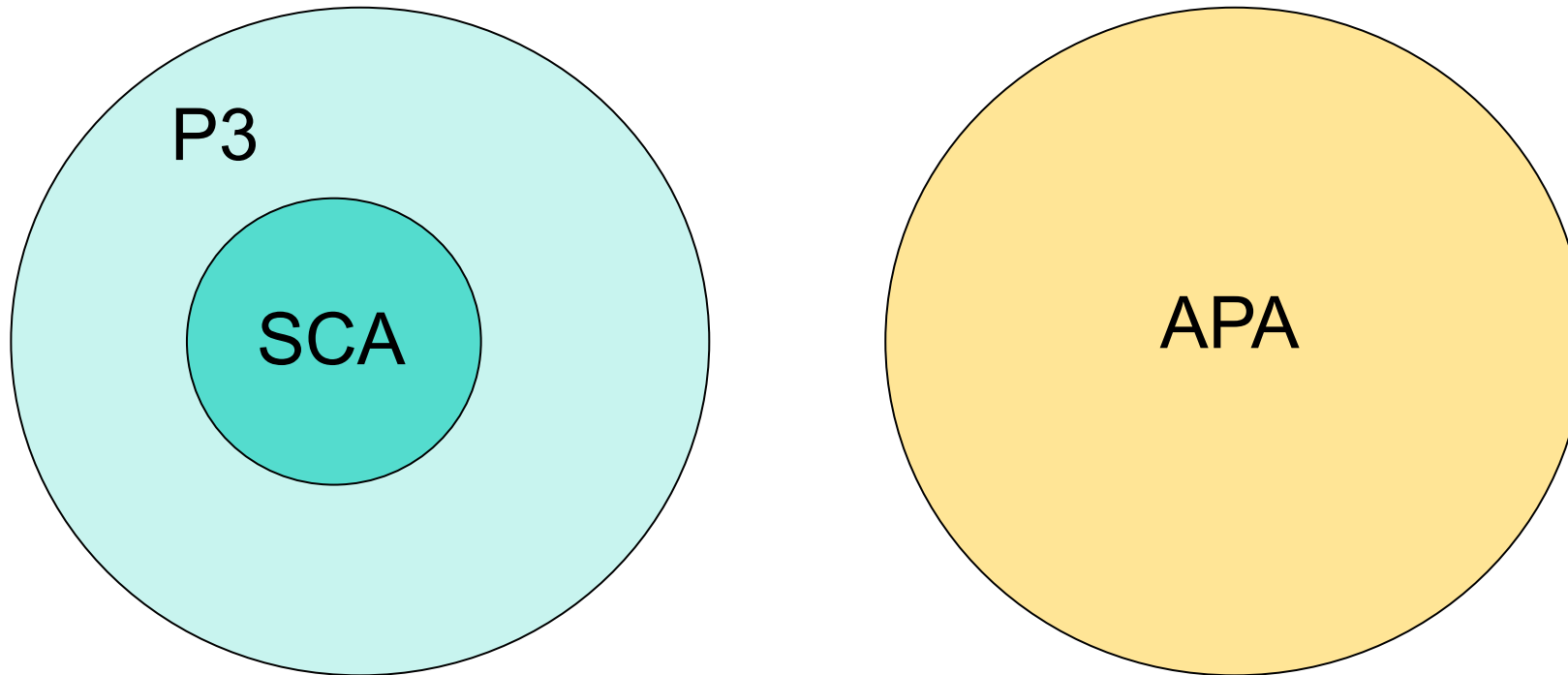
GASB 94 — PPP/APA

What are These Things?

- An arrangement in which transferor contracts with an operator to **provide public services**:
 - By conveying *control* of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset),
 - For a *specified period of time* in an exchange or exchange-like transaction
- Institution can be either lessor/transferor or consumer/operator
- How they relate:
 - Some P3s are SCAs
 - All SCAs are P3s
 - APAs are *not* P3s, because payments based upon availability of asset rather than usage

GASB 94 — PPP/APA

Hey, a Venn Diagram!



GASB 94 – P3 Example

University Leases Dining Facility to Operator

- Term of agreement is 15 years;
- Operator (lessee) pays guaranteed sum each year, plus percentage of sales;
- Facility improvements will be made by the operator; and
- University retains residual interest in facility

GASB 94 – P3 Example

What's the Accounting/Reporting?

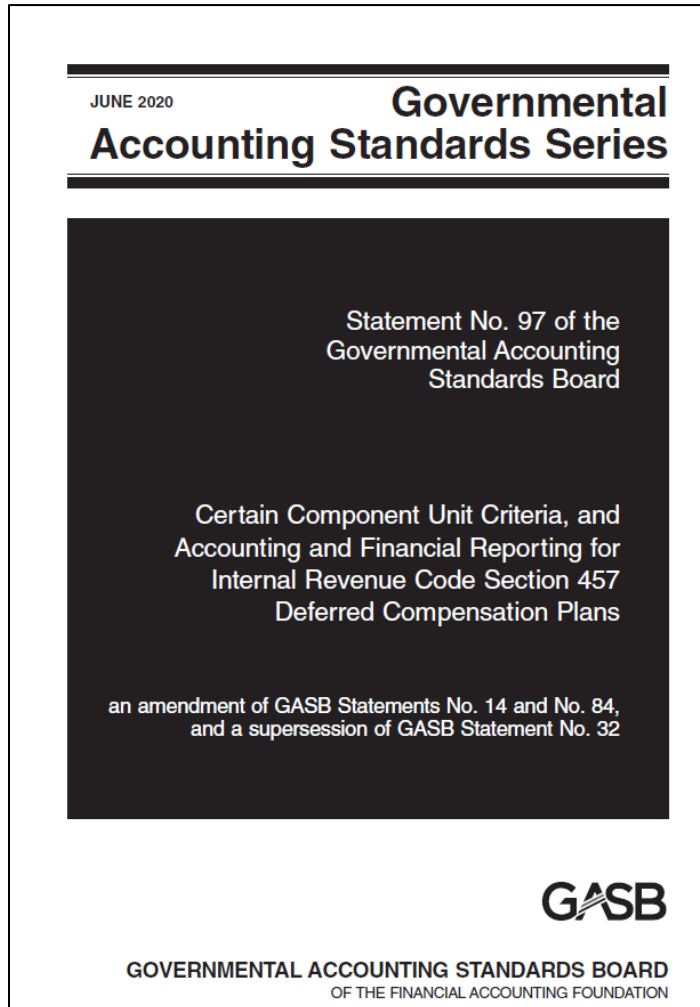
- SNP effect
 - a. Recognize receivable for present value of guaranteed payments; and
 - b. Recognize deferred inflow of resources (*exclude* variable portion)
- When asset improvements are placed into service, recognize receivable for estimated carrying value of asset at the end of lease
 - For example, if dining hall improvements were \$8 million and ending carrying value is estimated at \$1.5 million, record receivable and deferred inflow for \$1.5 million
- In future years, recognize revenue and reduce deferred inflow of resources
- At end of agreement, eliminate receivable, recognize capital asset (building), and begin depreciating the asset over the remaining useful life

Top Topic #3

Statement No. 97 – Certain Component Unit Criteria, and Accounting for Section 457 Deferred Compensation Plans

Overview

- In determining component unit status, if no governing board for CU, treat as if government appoints voting majority.
- Financial burden criterion in Statement No. 84 (fiduciary activities) applies only to defined benefit pension and OPEB plans.
- If a Section 457 plan meets definition of pension plan, it is a pension plan for accounting and financial reporting purposes.
- Otherwise, it is an OPEB.



Certain Component Unit (CU) Criteria, Etc.

What if the Potential Component Unit Does Not Have a Governing Board?

- Addresses the “financially accountable” criterion for determining CU status.
- If primary government performs typical governing board duties:
 - Absence of governing board treated same as appointment of voting majority
 - **Except** when potential CU is a defined contribution plan

Certain Component Unit Criteria, Etc.

Financial Burden Criterion – Fiduciary Activities

- Statement 84, paragraph 7, addresses when pension and OPEB plans are fiduciary component units
- If administered through certain trusts, financial burden if primary government is legally obligated or has assumed the obligation to make contributions to the plan.
- Statement 97 clarifies that this provision applies only to defined benefit plans administered through certain trusts.

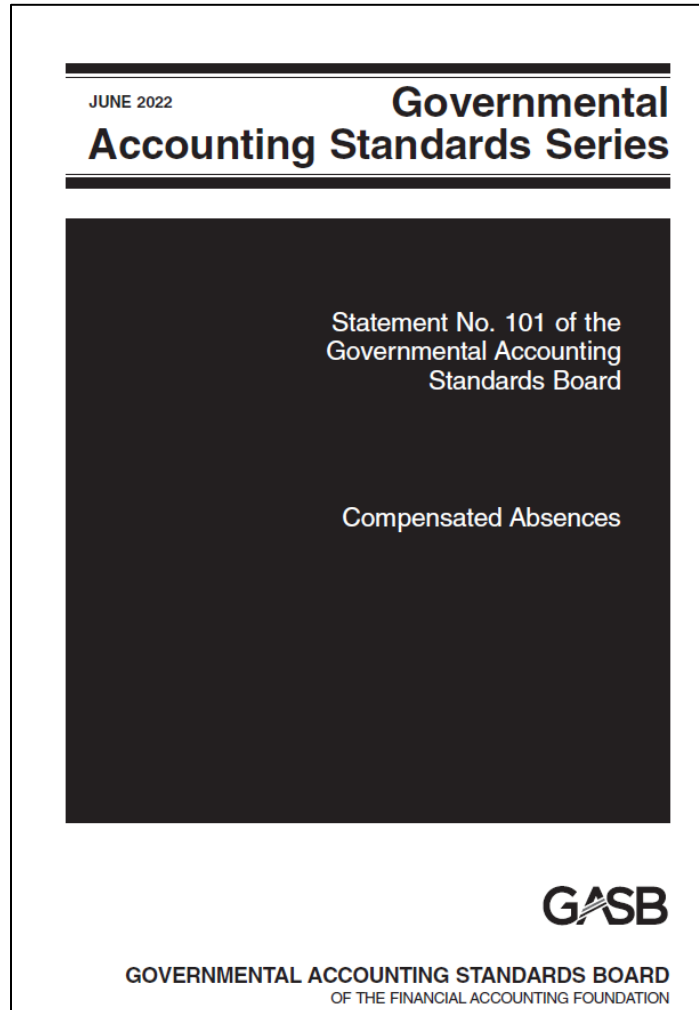
Certain Component Unit Criteria, Etc.

Section 457 Plans

- If Section 457 plan meets definition of pension plan (GASB 67 or GASB 73), it is a pension plan for accounting and reporting purposes.
- Otherwise, the Section 457 plan is an OPEB plan.
- Refer to GASB 84 to determine if a Section 457 plan should be reported as a fiduciary activity.
- If the plan is a pension plan, it is subject to all the requirements pertaining to pensions.

Top Topic #4

Statement No. 101 – Compensated Absences



Overview

- Effective for fiscal year 2025.
- Liability recognized if the leave...
 - Is attributable to services already rendered;
 - Accumulates (i.e., can be carried forward); and
 - Is more likely than not to be used.
- Portion of sick leave is a liability, *even if it does not vest*.
- Liability measured using pay rates as of date of financial statements.

Compensated Absences

Wait...Don't We Already Have Guidance on This?

- Definition
 - Leave for which employees receive:
 - Cash payment when the leave is used for time off;
 - Other cash payment during employment or upon termination of employment; or
 - Settlement through noncash means (e.g., conversion to postemployment benefits).
- Examples
 - Vacation and **sick leave**
 - Paid time off (PTO)
 - Holidays
 - Certain types of sabbatical leave

Compensated Absences

How Do We Measure the Liability?

- Liability measured using employee's pay rate at reporting date
 - Exception – if more likely than not to be paid at a different rate
 - For example, if new pay rate goes into effect on first day of new fiscal year.
 - Absence is attributable to services already rendered; and
 - Absence is *more likely than not* to be paid or settled.
 - Likelihood is more than 50 percent.
 - Vesting is **not** a criterion for recognition.
 - If leave does not vest, likely only a portion must be recognized.
- Exceptions
 - Holidays
 - Sabbaticals when no services required

Compensated Absences

What Should We be Doing Now in FY24?

Effective Date: Fiscal years beginning after Dec 15, 2023 (i.e., FY25)

- Identify sick leave policies
- Identify class of employees that each policy applies to
- Compile hours of accrued sick time by employee class
- Review annual accrual of sick leave by employee class for each policy
- Review five-year history of sick time used by employee class

Top Topic #5

Tuition & Fees and Auxiliary Discounts

Why Change Something That's Worked for Over 20 Years?

- Why did NACUBO revise guidance so significantly?
- What has NACUBO done?
- What's in NACUBO's guidance?
- Example methodology flowchart

Why Did NACUBO Make Such a Big Change?

The “Alternate Method”...Has Issues

- In 1999, GASB issued Statements 34 and 35, which require reporting revenue discounts
- In 2000, NACUBO issued Advisory Report 2000-05 to provide guidance
- “Alternate Method” adopted by the majority of public institutions
- Perceived issues with the Alternate Method:
 - Estimates expense based on disbursements to students from all sources, then allocates discount
 - Tends to over-allocate institutional aid to scholarship expense
 - Tends to over-allocate discount to auxiliary services revenues
- GASB revenue and expense recognition project – underlying contractual agreement

What Has NACUBO Done?

Discount Methodology Should Reflect Business Processes

- In 2021, NACUBO put out an exposure draft of a revised advisory
- Work group of public institution accounting professionals formed
- Consensus reached – Alternate Method needed to be revisited and guidance updated
- [Advisory Report 2023-1](#) issued in May 2023; available on NACUBO website
- Guidance is non-authoritative (“Other” in GAAP Hierarchy)
- Guidance is non-prescriptive

NACUBO does not endorse or “approve” any specific methodology

GAAP Hierarchy

Category A

GASB Statements

Category B

- **GASB Technical Bulletins**
- **GASB Implementation Guides**
- **AICPA literature cleared by GASB**

Other

- **Analogy to Category A or Category B**
- **Non-authoritative sources**
 - **NACUBO**
 - GASB Concepts Statements
 - AICPA literature not cleared by GASB
 - FASB guidance
 - Recognized industry practice
 - Federal Accounting Standards Advisory Board
 - Other professional associations and regulators
 - Accounting textbooks, handouts, and articles

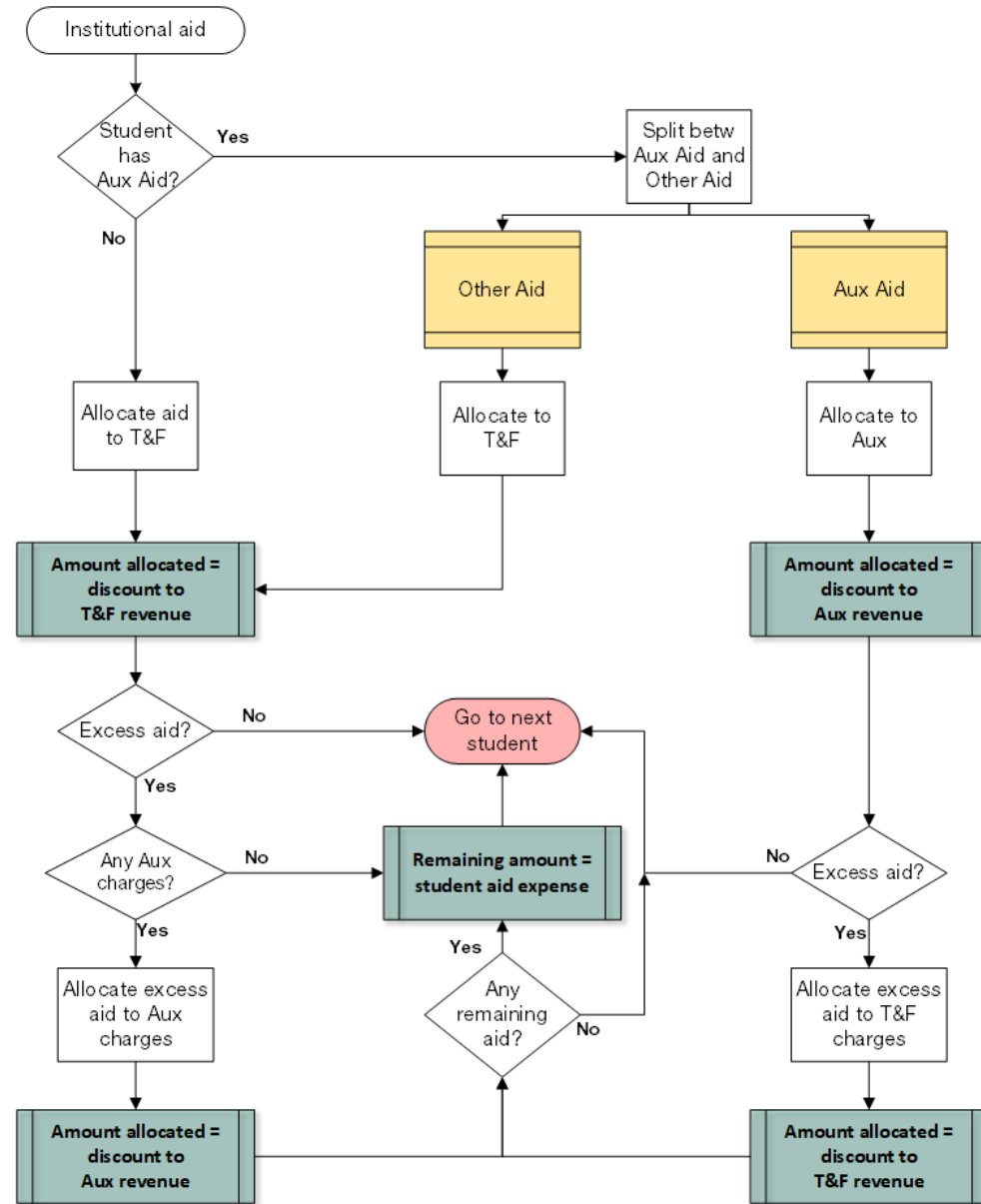
What's in the New Guidance?

Conceptual Framework and Examples

- Historical background and why a change is needed
- Conceptual framework for estimating the discount
- Four *example* estimation methodologies
 - “Method A” – detail by student, by term
 - “Method B” – detail by student, by fiscal year
 - “Method C” – high-level estimation, by fiscal year
 - “Method D” – adjusted refunds, by fiscal year
- Conclusions
 - Methodology should reflect institution’s aid awarding policies and related business rules
 - Methodology should be consistent with current and anticipated GASB revenue and expense guidance
 - Methods based on student detail are preferable
 - Methods using highly aggregated data are acceptable when based on facts and circumstances

What's the Logic?

Allocation of Aid to Discount and Expense: Expanded Approach



How Do We Report the Change in Method?

Follow GASB Statement No. 101

- Change in accounting estimate
- Accounting treatment: Prospective, recognize change in reporting period in which the change occurs
- Disclosures
 - Nature of the change and financial statement line items affected
 - Reason for the methodology change
 - Explanation of why the new methodology is preferable
- Before you pull the trigger, discuss with
 - Auditors
 - Board and/or audit committee
 - Other stakeholders

How Can NACUBO Help Me?

NACUBO Resources

- *Financial Accounting and Reporting Manual (FARM)*
- *Accounting & Tax Quarterly*
- *NACUBO Current*
- Advisory reports
- Accounting tutorials
- Accounting comment letters to GASB and federal agencies
- Accounting Principles Council (APC)
- Two NACUBO staff dedicated to accounting matters
- And more – www.nacubo.org

Where Can I Answer GASB-Related Questions?

Tons of Resources – Don't Overlook Other Institutions!

- GASB – www.gasb.org
 - [Governmental Accounting Research System \(GARS\)](#)
 - Statements
 - Concepts statements
 - Implementation guides
 - Technical agenda
 - Quarterly report from GASB chair
- NACUBO – www.nacubo.org
 - NACUBO FARM manual
 - NACUBO APC
 - NACUBO staff
- Peer institutions (including NACUBO listservs)
- State oversight agency

Questions?



Contact Information



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