

# KEEPING UP WITH THE GASB

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**ANNUAL MEETING**

Columbus, Ohio  
October 1-3, 2017

**EXPLORE. EMPOWER. ENRICH.**



# OUTLINE FOR TODAY'S PRESENTATION

- Clemson and Ohio State: Football Highlights
- Lots of New Standards (FY2017-FY2021)
- Highlights from GASB's Research Agenda
- NACUBO Activities and Resources





# FOOTBALL NATIONAL PLAYOFF CHAMPIONS

2015





# 1978 GATOR BOWL

Clemson 17  
Ohio State 15



Woody Hayes punches out Clemson's Charlie Bauman  
in the 1978 Gator Bowl





# 2014 ORANGE BOWL

Clemson 40  
Ohio State 35





# 2016 FIESTA BOWL

Clemson 31  
Ohio State 0





# WELCOME TO COLUMBUS





- Sets accounting and reporting standards for government and governmental entities (GAAP for governments)
- 87 statements and 6 concept statements
- GASB History
  - Established in 1984
  - 1989 - Public higher education under GASB Standards
  - 2002 – Governmental Reporting Model







# NEW ACCOUNTING STANDARDS AND MAJOR PROJECTS THAT WILL IMPACT PUBLIC HIGHER EDUCATION





## NEW GASB STANDARDS (FY2017)

- **Statement 73** – Pensions for employers outside the scope of Statement 68
- **Statement 74** – Other post-employment benefits (plans)
- **Statement 77** – Tax abatement disclosures
- **Statement 78** – Pensions provided through certain multiple-employer plans
- **Statement 80** – Blending requirements for certain component units
- **Statement 82** – Pension issues, including change to require the presentation of covered payroll (instead of covered-employee payroll) in RSI





## NEW GASB STANDARDS (FY2018)

- **Statement 75** – Other Post-Employment Benefits (Employers)
- **Statement 81** – Irrevocable Split-Interest Agreements
- **Statement 85** – Omnibus 2017
- **Statement 86** – Certain Debt Extinguishment Issues
- **Implementation Guide 2017-1** – Implementation Guidance Update





# GASB 75: REPORTING NET OPEB LIABILITIES

- Very similar to GASB 68 pension standards
- Will require employers to recognize a net OPEB liability and related deferrals

## ***Implementation Considerations:***

- Assets set aside for OPEB (meet definition of a trust)?
- Discount rate?
- Timing of actuarial valuation?
- Source of (audited) information?





# GASB 81: IRREVOCABLE SPLIT-INTEREST AGREEMENTS

New standard applies to:

- Irrevocable split-interest agreements for which the government is the intermediary (trustee or agent) and a beneficiary, and
- Beneficial interests in irrevocable split-interest agreements that are administered by a third party\*

*\* Does not apply to all beneficial interests – government must be aware of the agreement, have sufficient information to measure the beneficial interest and meet other criteria for recognition.*





## GASB 81: IRREVOCABLE SPLIT-INTEREST AGREEMENTS (CONTINUED)

- ***Current Accounting*** – recognize revenue at inception of agreement
- ***Future Accounting*** – recognize deferred inflow at inception; recognize revenue upon termination of agreement
- At transition, institutions will need to “de-recognize” revenue related to existing agreements.





# MORE NEW STANDARDS (FY2019-2021)

## FY2019

- **Statement 83** – Certain Asset Retirement Obligations

## FY2020

- **Statement 84** – Fiduciary Activities

## FY2021

- **Statement 87** – Leases





## GASB 83:

### ASSET RETIREMENT OBLIGATIONS (FY2019)

- Requires recognition of an ARO liability and deferred outflow, based on internal and external obligating events (generally when asset is placed in service).
- Deferred outflow would be recognized as expense over life of the asset.
- Examples of assets with potential ARO include nuclear reactors used in research, MRIs, fuel storage facilities and other capital assets that cause contamination in the normal course of their use.







## GASB 84: FIDUCIARY ACTIVITIES (FY2020)

- Requires governments to report fiduciary activities in *separate* fiduciary fund financial statements
- Applies to institutions reporting as stand-alone BTAs
- Examples of fiduciary activities in higher education include sponsorship of pension plans, investment of other institutions' funds in endowment pools and agency funds held longer than 90 days





# GASB 84: FIDUCIARY ACTIVITIES (FY2020) - CONTINUED

## *Definition of Fiduciary Activity*

- Entity controls the assets of the activity
- Those assets are not derived solely from the entity's own-source revenue, and:
- One of the following:
  - Assets result from pass-through grant
  - Assets are administered through a trust agreement or equivalent arrangement in which entity is not a beneficiary
  - Assets used for benefit of outside individuals or organizations (simplified wording)





# FIDUCIARY FUNDS REPORTING EXAMPLE: SIMPLE STATE UNIVERSITY

## Before GASB 84

<b>Statement of Net Position</b>	
Cash	<u>1,000</u>
Deposits-Student Organizations	250
Unrestricted Net Position	<u>750</u>
Total Liabilities and Net Position	<u><u>1,000</u></u>

<b>Statement of Revenues, Expenses and Other Changes in Net Position</b>	
Tuition Revenue	1,200
Operating Expense	<u>1,500</u>
Net Operating Loss	(300)
State Appropriation	<u>500</u>
Increase in Net Position	200
Beginning Net Position	<u>550</u>
Ending Net Position	<u><u>750</u></u>

## After GASB 84

<b>Statement of Net Position</b>	
Cash	<u>750</u>
Unrestricted Net Position	<u><u>750</u></u>

<b>Statement of Revenues, Expenses and Other Changes in Net Position</b>	
Tuition Revenue	1,200
Operating Expense	<u>1,500</u>
Net Operating Loss	(300)
State Appropriation	<u>500</u>
Increase in Net Position	200
Beginning Net Position	<u>550</u>
Ending Net Position	<u><u>750</u></u>

<b>Statement of Fiduciary Net Position</b>	
Cash	<u>250</u>
Fiduciary Net Position	<u><u>250</u></u>

<b>Statement of Changes in Fiduciary Net Position</b>	
Additions to Fiduciary Net Position	150
Deductions from Fiduciary Net Position	<u>100</u>
Increase in Fiduciary Net Position	50
Beginning Fiduciary Net Position	<u>200</u>
Ending Fiduciary Net Position	<u><u>250</u></u>





## GASB 87: LEASES (FY2021)

- Establishes a single model for lease accounting, based on the principle that leases are financings of the right to use an underlying asset.
- Lessees recognize lease liability and right-of-use asset.
- Lessors recognize lease receivable and deferred inflow.
- Only exception is for leases with a maximum term of less than 12 months.





# LEASES – FASB/GASB COMPARISON

## FASB

- Dual Classification Model
  - Operating / Capital
- Lease Term
  - Not concerned with assessment
- Lessor Accounting
  - Performance obligation (if lessor side addressed)
- Multiple components
  - Not required to separate lease/non lease components

## GASB

- Single Model
  - All are considered financing
- Lease Term
  - Probability assessment a factor
- Lessor Accounting
  - Record receivable and deferred inflow
  - Underlying asset not derecognized
- Multiple Components
  - Separate if possible





# IMPLICATIONS OF NEW LEASES STANDARD

- **Financial Ratios** – Recognition of lease liabilities will impact viability and other debt ratios and Composite Financial Index.
- **Audit Emphasis** – Potential for a balance sheet misstatement if you “miss” a lease (applies to both lessees and lessors).
- **Systems and Business Processes** – May need to invest in lease accounting software and centralize lease accounting processes.

*It is not too early to begin planning your implementation. Institutions with June 30 yearends will need to restate lease balances from **June 30, 2018**.*





# GASB PROJECTS OF INTEREST TO HIGHER EDUCATION

## **Major Projects**

- Financial Reporting Model
- Revenue and Expense Recognition

## **Practice Issues**

- Debt Disclosures
- Implementation Guidance – OPEB
- Capitalization of Interest Cost (new)

## **Pre-Agenda Research**

- Note Disclosures Re-examination
- Cloud Computing
- Public-Private Partnerships, including re-examination of GASB 60





## KEY GASB RESEARCH PROJECTS: FINANCIAL STATEMENT RE-EXAMINATION

- Research – began in 2013
- First phase – Governmental Reporting
  - Invitation to Comment issued December 2016
- Second phase – Proprietary/BTA operating indicator
  - Outreach to relevant industries (including higher ed)
- Preliminary Views to be issued July 2018
- Final Statement expected to be issued November 2021







## DEFINING OPERATING ACTIVITIES: SELF-SUSTAINING OR SUBSIDIZED APPROACH

- GASB research paper issued in January 2017 considered four approaches, including the Financial Performance approach currently being pursued by the FASB and IASB.
- GASB staff recommend the ***self-sustaining or subsidized approach*** as most feasible and consistent with current standards for reporting cash flows.
- New guidance based on this approach may provide higher education and other BTAs flexibility to present a more meaningful “net performance” measure, compared to today’s SRECNP format.





# ALTERNATIVE SRECNP FORMAT (NACUBO APC PROPOSAL)

	<u>2016</u>	<u>2015</u>
<b>Subsidized and Non-subsidized Resources:</b>		
<b>Operating Revenues (non-subsidized)</b>		
Tuition and Fees (net)	574,168	525,791
Grants and Contracts	292,962	278,481
Sales & Services	271,345	272,244
Other Operating Revenues	3,465	5,141
<i>Total non-subsidized Revenues:</i>	1,141,940	1,081,657
<b>Operating Expenses:</b>		
Natural or functional expenses	1,681,544	1,596,059
<b>Financing Expenses:</b>		
Interest	12,412	12,853
	12,412	12,853
<b>Performance Before Subsidies</b>	(552,016)	(527,255)
<b>Subsidies that support operating expenses:</b>		
Appropriations (State, Federal, Local)	407,702	394,767
Grants (Pell, State SFA grants)	49,978	44,567
Investment Income (endowment spending)	83,820	89,649
Gifts (current use)	99,395	90,063
<i>Total subsidies:</i>	640,895	619,046
<b>Net Performance</b>	<b>88,879</b>	<b>91,791</b>
<b>Other Changes in Net Position:</b>		
Investment Income (non-expendable portion)	152,000	49,000
Other Nonoperating Revenues, net	3,044	10,898
Capital contributions, capital appropriations, additions to endowment, extraordinary items	23,231	74,330
	23,231	74,330
	178,275	134,228
<b>Increase/(Decrease) in Net Position</b>	267,154	226,019
<b>Net Position - Beginning of Period</b>	3,060,611	2,834,592
<b>Net Position - End of Period</b>	3,327,765	3,060,611

Statement illustrates a subsidized/non-subsidized approach to report a 'net performance' measure.

**Subsidies that support operating expenses** would include all expendable non-operating resources, including endowment distributions.

**Key Consideration** – Will new standards provide sufficient flexibility to higher education and other Business Type Activities?





# KEY GASB RESEARCH PROJECTS: REVENUE AND EXPENSE RECOGNITION

- GASB initiated this long-term (through 2022) project to address a lack of GASB guidance for common exchange transactions and development of the conceptual framework.
- GASB 33 and 36 guidance, which covers various types of gift and grant revenues, pre-dates the conceptual framework and may be revised as part of this project.
- For revenue recognition, GASB is considering whether to adopt a ***performance obligation*** approach, consistent with the new FASB revenue recognition standards.
- Will GASB follow FASB or go its own way?





# PRE-AGENDA RESEARCH: ACCOUNTING FOR CLOUD COMPUTING IMPLEMENTATIONS

- GASB 51 – for internally generated software, capitalize costs incurred during application development phase
- Q&A Z.51.38 in Comprehensive Implementation Guide – GASB 51 capitalization rules apply to “service fee arrangements” for cloud computing services
- In April 2017, GASB added Information Technology Arrangements, including Cloud Computing to its research agenda.





# CLOUD ERP IMPLEMENTATION: APPLYING GASB 51 GUIDANCE

Project Activity	Accounting Treatment	Comments
Subscription fee	Record as prepaid expense (subscriptions not addressed in GASB 51)	Access to cloud “tenant” provided for a fixed period.
Define business processes	Capitalize – application development phase (design of the chosen path)	How to distinguish from non-capitalizable “business process reengineering costs”?
Configuration, prototyping and testing	Capitalize – application development phase	Also consider data conversion costs (capitalize if necessary to make cloud application operational/in condition for use)
Training and post-production support	Expense as incurred	
Future releases	May be capitalizable if implementing significant new functionality	Consider scope of effort and institution’s capitalization thresholds





# KEY CONSIDERATIONS FOR TRACKING CLOUD PROJECT COSTS

- Work with your auditors to interpret GASB 51 and the related Implementation Guidance. As a starting point, assume that costs associated with configuration, prototyping, testing and some portion of data conversion activities will be capitalizable.
- Do you have necessary detail on people, their assigned roles and project phases to make reasonable allocations of capitalizable costs?
- Don't forget post go-live. For example, if your institution decides to begin using significant new functionality in a future release, portions of the related implementation project may be capitalizable (if material).





## IN SUMMARY...

- APC is your advocate and appreciates your input.
- Six(!) new GASB standards are effective this year, highlighted by new reporting rules for OPEB plans.
- Significant new standards are rolling out over the next four years, including OPEB for employers and Irrevocable Split-Interest Agreements (FY2018), Asset Retirement Obligations (FY2019), Fiduciary Activities (FY2020) and Leases (FY2021)
- GASB never sleeps. Major projects in the research pipeline include presentation of an operating/performance measure, revenue recognition, disclosures and cloud computing.





# NACUBO ACCOUNTING PRINCIPLES COUNCIL (APC)

## **Advocacy with GASB:**

- **Committees – GASAC, Reporting Model, Disclosures**
- **Public Testimony – GASB Disclosure Roundtable**
- **Meetings with GASB Staff (Norwalk, CT) – Updates on major research projects, fiduciary funds, cloud computing and disclosures**







# GASB RESOURCES

- GASB Website - [www.gasb.org](http://www.gasb.org)
- Available online for **FREE**
  - Standards
  - Implementation Guide
  - GARS - Governmental Accounting Research System – Basic View
- Public Board Meetings are online





## OTHER RESOURCES

- GFOA – [www.gfoa.org](http://www.gfoa.org)
- NACUBO – [www.nacubo.org](http://www.nacubo.org)
  - FARM – Financial Accounting and Reporting Manual
  - Higher Education Accounting Forum
    - April, 2018 – Kansas City, Missouri
  - Webcasts
  - Sue Menditto, NACUBO
  - Accounting Principles Council



# QUESTIONS?

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**CACUBO –  
Higher Education Accounting Workshop**  
Omaha | May 21-22, 2018