KEEPING UP WITH THE GASB

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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 FIFA BOWL

Clemson 31
Ohio State 0
Welcome to Columbus

Buckeye Football

Ohio State

National Champions

1942 1954 1957 1961
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 Implementation Guide xxxxx (Exposure Draft)
GASB 81: IRREVCABLE 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
**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**

**Statement of Net Position**
- Cash: 1,000
- Deposits-Student Organizations: 250
- Unrestricted Net Position: 750
- Total Liabilities and Net Position: 1,000

**Statement of Revenues, Expenses and Other Changes in Net Position**
- Tuition Revenue: 1,200
- Operating Expense: 1,500
- Net Operating Loss: (300)
- State Appropriation: 500
- Increase in Net Position: 200
- Beginning Net Position: 550
- Ending Net Position: 750

**After GASB 84**

**Statement of Net Position**
- Cash: 750
- Deposits-Student Organizations: 250
- Unrestricted Net Position: 750
- Total Liabilities and Net Position: 1,000

**Statement of Fiduciary Net Position**
- Cash: 250
- Fiduciary Net Position: 250

**Statement of Revenues, Expenses and Other Changes in Net Position**
- Tuition Revenue: 1,200
- Operating Expense: 1,500
- Net Operating Loss: (300)
- State Appropriation: 500
- Increase in Net Position: 200
- Beginning Net Position: 550
- Ending Net Position: 750

**Statement of Changes in Fiduciary Net Position**
- Additions to Fiduciary Net Position: 150
- Deductions from Fiduciary Net Position: 100
- Increase in Fiduciary Net Position: 50
- Beginning Fiduciary Net Position: 200
- Ending Fiduciary Net Position: 250
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)

Subsidized and Non-subsidized Resources:

Operating Revenues (non-subsidized)
- 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

Total non-subsidized Revenues: 1,141,940 1,081,657

Operating Expenses:
- Natural or functional expenses 1,681,544 1,596,059
- Interest 12,412 12,853

Performance Before Subsidies (552,016) (527,255)

Subsidies that support operating expenses:
- 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

Total subsidies: 640,895 619,046

Net Performance 88,879 91,791

Other Changes in Net Position:
- 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

178,275 134,228

Increase/(Decrease) in Net Position 267,154 226,019
Net Position - Beginning of Period 3,060,611 2,834,592
Net Position - End of Period 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?
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

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