February 26, 2021

David Bean  
Director of Research and Technical Activities  
Governmental Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, Connecticut 06856-5116

Re: Project No. 3-25

Dear David:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the Exposure Draft (ED) of the Governmental Accounting Standards Board, Financial Reporting Model Improvements.

NACUBO is a nonprofit professional organization representing chief financial and administrative officers at 1,700 colleges and universities. In its capacity as a professional association, NACUBO issues accounting and reporting industry guidance for higher education and educates thousands of higher education professionals annually on accounting and reporting issues and practices.

NACUBO’s comments on the ED were developed with input from its Accounting Principles Council (APC). The APC consists of experienced business officers from various types of institutions who, collectively, possess a thorough knowledge of higher education accounting and reporting issues and practices.

**Overall Observations and Conclusions**

NACUBO thanks GASB and its staff for the proposed changes to the Statement of Revenues, Expenses and Changes in Net Position. Displaying a performance metric that includes operating revenues, expenses, and noncapital subsidies will help readers of public institutions’ financial statements better understand financial results and how subsidies support the institution.

**Proprietary Fund Financial Statements**

**Definition of Operating Revenues and Expenses**

NACUBO is concerned that defining the important concept of *operating* as “other than nonoperating revenues and expenses” belies the criticality of operating results for financial
reporting. We respectfully request that the definition of operating include both the concept and a “default”—and propose the following revision to the definition in the ED (new text is underlined, omitted text is struck through):

31. Operating revenues and expenses are those directly related to the purpose and primary mission of the proprietary fund. Revenues and expenses other than nonoperating revenues and expenses. Nonoperating revenues and expenses are for activities that do not meet the definitions of (a) subsidies received and provided, (b) revenues and expenses related to financing, (c) resources from the disposal of capital assets and inventory, and (d) investment income and expenses are operating unless the inclusion as operating would misrepresent “operating income (loss) and noncapital subsidy” results reported on the Statement of Revenues Expenses and Changes in Net Position (SRECNP). Revenues and expenses that otherwise would be classified as nonoperating in most proprietary fund financial statements should be classified as operating revenues and expenses if those transactions constitute the proprietary fund’s principal ongoing operations. For example, interest revenues and expenses should be reported as operating revenues and expenses by a proprietary fund established to provide loans to first-time homeowners. Consistent with the classifications in the statement of cash flows, revenues and expenses of certain loan programs as described in paragraph 19 of Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, should be reported as operating revenues and expenses.

We appreciate that the qualifier in footnote 42 of paragraph 102 of SGAS 34 has been included in the definition of operating revenues and expenses.

Definition of a Subsidy

NACUBO believes that the inclusion of a subtotal for operating income (loss) and noncapital subsidies provides clearer performance information for users of public college and university financial statements. However, we suggest that the proposed definition of a subsidy be modified—or clarified—to address our interpretation related to endowment gifts and annual spending from the endowment fund.

Endowments: Current Period Concept

The proposed definition does not note the period to which the provided resources must relate. Field tests conducted by higher education institutions following issuance of the Preliminary Views document led to confusion as to where to record endowment fund gifts. Endowment fund gifts must be invested in perpetuity. The permanency and inability to use the gift when received will not keep rates lower for provided goods and services in the reporting period of receipt. Rather, it is the annual spending from endowment fund growth (appreciation and earnings) that keeps rates lower for provided goods and services.

The notion of “resources available for use in the current period” makes clear that the gift of a permanent endowment is not a current reporting period subsidy but rather an investment activity.
However, if the proposed definition of a subsidy in the ED is not clarified to either incorporate the notion of current period or exclude permanently restricted investment additions, then some may incorrectly report endowment gifts as subsidies.

**Spending From Endowment Funds**

Endowment funds are invested to perpetually support a public institution. Endowment fund resources are appropriated by the governing board annually based on an approved spending rate that aligns with uniform state law. Investment returns that exceed the spending rate are accumulated to protect for inflation and for use in periods when the return does not sufficiently cover the spending rate.

Because the proposed definition of a subsidy states that “subsidies are resources received from another party or fund to keep rates lower than otherwise would be necessary to support the level of goods and services to be provided,” (emphasis added), NACUBO’s interpretation is that the annual spending from the fund meets the proposed definition of a subsidy.

**Third-party Payments**

We also suggest that the definition of a subsidy be improved by specifically addressing named recipients or beneficiaries of other governmental or private resources. This would clarify that Pell Grants from the federal government to students (or similar resources provided by state, local, or private entities) are not subsidies to the institution and would be operating revenue. This would also provide clarity for other third-party payments for service recipients, such as Medicaid payments to university hospitals and health-care facilities.

**Revised Subsidy Definition**

Based on the concerns noted above, we suggest the following revisions to the definition of a subsidy (new text is underlined, omitted text is struck through):

32. Subsidies are resources available for current use that are (a) resources received from another party or fund to keep rates lower than otherwise would be necessary to support the level of goods and services to be provided or (b) resources provided to another party or fund that results in higher rates than otherwise would be established for the level of goods and services to be provided. Payments by third parties on behalf of primary recipients of the reporting government’s services are not subsidies.

We request that the final standard include several scenarios to illustrate the subsidy concept.

**Presentation of Major Component Units**

Paragraph 33 of the ED specifies that “governments should present each major component unit in a separate column in the reporting entity’s statements of net position and activities, if it does not reduce the readability of the statements.” However, it is not clear whether the requirement is referencing blended component units (BCU), discrete component units (DCU), or both. When component units qualify for blending, it would be misleading and burdensome to tease them apart from the college or
university reporting entity. We request clarity on this requirement in the final standard.

It is also unclear whether the requirement is only for primary governments that present fund financial statements. Since a few public institutions now present fiduciary fund financial statements, we ask for clarity.

If the ED is addressing only DCU, please clarify which of the following statements accurately describes the requirement:

1. When optional combining statements of discrete component units are presented, they must be shown as financial statements rather than notes to the financial statements.

OR

2. Combining statements of discrete component units are required financial statements.

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In closing, we wish to express our appreciation for the opportunity to comment. We welcome the opportunity to participate in any of your public hearings and look forward to answering any questions the Board or staff may have about our response. Please direct your questions to me at 202-861-2542 or smenditto@nacubo.org.

Sincerely,

Susan M. Menditto
Senior Director, Accounting Policy