June 24, 2020

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

Project No. 3-40

Dear David:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the Proposed Technical Bulletin of the Governmental Accounting Standards Board, Accounting and Financial Reporting Issues Related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) of 2020 and Coronavirus Diseases. NACUBO’s comments on the ED were developed with input from our 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.

NACUBO is a nonprofit professional organization representing chief financial and administrative officers at both public and not-for-profit colleges and universities. In its capacity as a professional association, NACUBO issues accounting and reporting industry guidance for higher education and educates more than 2,000 professionals annually on accounting and reporting issues and practices.

Overall Observations

We appreciate the timeliness with which the staff developed and issued this bulletin, clarifying the accounting and reporting issues related to financial transactions in response to the global pandemic.

Questions 1, 2 and 3

NACUBO agrees with the provided answers concerning the conditional nature of aid received for expenses and lost revenue under the Coronavirus Relief Fund (CRF) and how to handle reporting for amendments to the CARES Act that may be passed after the end of a government’s reporting period but prior to issuance of financial statements.
Question 4

NACUBO disagrees with the response to Question 4, indicating that Paycheck Protection Program (PPP) loans are reported as a liability until the government is legally released from the debt, regardless of whether the notice is received after the end of the reporting period but before the financial statements are issued. We disagree with the reliance on paragraph 12 in Statement 70. The guarantees made by the Small Business Administration (SBA) were an enticement to encourage lenders to participate and deliver the funds quickly.

While the PPP program is billed as a loan, the intent of the program was to provide aid (tax-exempt revenue) to not-for-profit and business entities. Entities applied for the loans with the intent of meeting the conditions, not to enter into financing arrangements. The statute, intent, lack of credit verification, below market interest rates, payment deferral periods, and eventual revenue recognition support classification of this program as a voluntary non-exchange transaction. As such, we question why the eligibility criteria in Statement 33 do not apply.

Qualified recipients have to meet allowable spending requirements (a threshold of compensation expenses) over a specified period of time. The statute and subsequent federal agency guidance allow partial forgiveness and revenue recognition based on percentages of required spending over the allotted spending period. As such, at least a portion – if not all – of the amount of funds received can become earned revenue. Consequently, eligibility criteria should drive revenue recognition rather than the formal federal agency approval (release from obligation).

With the proposed guidance, it is likely that expenses covered by PPP loans will be reflected in one reporting period and the revenue to cover those expenses will be reported in the subsequent reporting period. We suggest the GASB review the AICPA’s Technical Question and Answer guidance, in which they suggest that PPP funds can be accounted for as conditional contributions if the intent of the recipient was to treat the funds as a grant.

Question 6

NACUBO disagrees with the response to Question 6, that the expenses incurred by governments to respond to the unprecedented events of the past months cannot be reported as extraordinary items. We also disagree with the reasoning in paragraph A20 of the Technical Bulletin. **The event is the global pandemic, not the appearance of a coronavirus disease.** A global pandemic that depresses the world’s economy and shuts down the United States for many months is both an unusual event and infrequent in occurrence and should meet the criteria of an extraordinary item.

If the answer stands as written, we request that you add examples of events that would qualify as extraordinary items. Additionally, we request that a future project revisit the guidance for determining when an event is infrequent in occurrence. This criterion should not require governments to predict the future, but to look back at past occurrences. Regardless, for
this reporting year, the global pandemic is both unusual and infrequent.

Reporting the expenses as extraordinary items keeps them on the activity statement and reports them in a way that most accurately conveys the reporting entity’s financial results. If the additional expenses are included as operating expenses, they will artificially inflate operating deficits and mask any deficits that are truly structural deficiencies. And, in the next reporting period, any decreases in operating expenses from the prior year may be interpreted as cost efficiencies when, in reality, they are the result of the pandemic’s abatement and improving economic conditions. Showing the additional expenses as extraordinary items eliminates these misinterpretations.

In closing, we wish to express our appreciation for the opportunity to comment. We welcome the opportunity to participate at any of your public hearings and look forward to answering any questions the Board or the 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