



• National Association of College and University Business Officers
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February 28, 2019

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. 3-13

Dear David:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the Exposure Draft of the Proposed Implementation Guide (Guide) of the Governmental Accounting Standards Board, *Fiduciary Activities*. NACUBO's comments on the proposal 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 approximately 2,000 colleges and universities.

Overall Observations and Conclusions

We appreciate the time and effort that the staff have devoted to this project to clarify the implementation of Statement 84, *Fiduciary Activities* (the Statement). The questions and answers in the Guide provide insight and direction as institutions work through the details of complying with the Statement. However, we suggest edits to Q4.28, and request additional questions that address investments held on behalf of other organizations and assessing materiality for applying the requirements of the Statement..

Suggested edit: Question 4.28

4.28. *Q—A public university holds funds received from a foundation that is a legally separate 501(c)(3) organization. The foundation is not a component unit of the university. The funds are for the sole purpose of granting science and engineering scholarships. ~~at the end of the school year.~~ The funds are contributed by foundation members, ~~and~~ may be withdrawn by the foundation at any time, **and may be held for longer than three months.** Students submit applications to the foundation. The foundation's executive director selects recipients based on the criteria established by the foundation. The recipients' compliance with the scholarship*

criteria is monitored by the foundation. Once awarded, the university applies scholarship awards to recipients' student accounts. In determining whether those resources controlled by the university are fiduciary, are the requirements in paragraph 11c(3) of Statement 84 met?

A—Yes. The university is holding the resources for the foundation and not the individual student scholarship recipients. The foundation is a legally separate entity that is not a component unit so it is not part of the university's reporting entity. Finally, the resources held are not derived from the university's provision of goods or services to the foundation. As a result, the requirements in paragraph 11c(3) of Statement 84 are met.

Since scholarships are rarely awarded at the end of a school year, we suggest deleting that phrase so that the revised sentence reads: "The funds are for the sole purpose of granting science and engineering scholarships," as illustrated above. In addition, we added a sentence that indicates the funds are typically held for longer than three months.

Question 4.28 describes a scenario that is incredibly rare. After donors have made contributions to a foundation for a specific purpose, it would be rare for a foundation to then withdraw those funds for other purposes. While we appreciate this fact pattern may illustrate the concepts in paragraph 11c(3) of Statement 84, we respectfully request that an additional question and answer that describes a more common scenario in higher education be added: *investments held on behalf of other organizations*, as described below.

Investments held on behalf of other organizations

During liaison meetings with GASB staff, NACUBO has discussed the topic of consolidated endowment investment pools in which funds are invested by the university on behalf of other organizations outside of the government's reporting entity. For example, often a flagship university, in a state or system, will hold and invest funds for smaller colleges and universities. These funds are invested for the long term and will not meet the three-month exception described in paragraph 19 of the Statement. We request that a question be added to the Guide that describes this scenario as well as how to connect the fiduciary fund with the Business Type Activity's (BTA) financial reports and notes.

When ownership interests in a consolidated investment pool are in proportionate shares, it is impossible to distinguish between specific investments that belong to the reporting entity and those that belong to other entities. Therefore, we believe that the BTA's investment note must include all of the investments of the consolidated investment pool and a one-line subtraction for fiduciary shares and an additional paragraph that explains the fiduciary activity. However, clarifying this approach through a question and answer will prevent reporting inconsistencies.

Additionally, because public institutions that report as a one column BTA are not familiar with fund reporting, an illustrative question and answer explaining how investments owned by other organizations, previously reported as assets and liabilities, are "lifted out" of the university reporting entity and reported as a fiduciary fund (with related statement and opinion requirements) would also be helpful.

Applying the concept of materiality to reporting on fiduciary activities

Page 10 of the Statement contains GASB's reminder that "the provision of this Statement need not be applied to immaterial items." Currently, NACUBO's member institutions are being told by their auditors that because the fiduciary fund statements are a separate set of statements with a separate opinion, materiality must be assessed based on the distinct statements. It would be helpful to have a question within this Guide that addresses materiality of fiduciary activities.

Question 7.4.1 of GASB's Comprehensive Implementation Guide indicates that a quantitative materiality determination for the fiduciary fund can be based on the significance of those funds to all funds of the government. Therefore, we interpret this to mean that if the fiduciary funds held on behalf of others—although reported as a liability—are immaterial to the BTA (representing in one column all funds of the governmental reporting entity), then separate fiduciary fund statements are not necessary.

We respectfully request that GASB consider adding a question to the implementation guide clarifying that all funds of the government would equate to the BTA reporting entity, and that the guidance in Question 7.4.1 in GASB's Comprehensive Implementation Guide can be followed to assess quantitative materiality.

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