



March 6, 2015

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. 3-13P

Dear David:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the Preliminary Views (PV) of the Governmental Accounting Standards Board (GASB), “Financial Reporting for Fiduciary Responsibilities.” NACUBO’s comments on the ED were developed with input from our member institutions and 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 financial reporting issues and practices.

Overall Observations and Conclusions

We appreciate the time and effort that the Board and staff have devoted to this project. We support the objective of consistent and comparable financial reporting and the related need to clarify governmental fiduciary activities. However, we have concerns about the additional cost, complexity, and value of fiduciary fund reporting for special purpose governments that report as business-type activities (BTA).

General Comments and Questions:

Per paragraph 6 in Chapter 1, “Governments engaged only in business-type activities should present only the financial statements required for enterprise funds”, (paragraph 138 of Statement 34). However, questions have arisen about whether BTAs that also are engaged in fiduciary activities should present financial statements for fiduciary funds as well. GASB research indicates that there is uncertainty regarding whether fiduciary

activities should be reported by BTAs. This Preliminary Views contains financial reporting guidance for a BTA engaged in fiduciary activities.

NACUBO is not convinced that the pre-agenda research findings overwhelming point to a need for fiduciary fund reporting for BTAs such as public colleges and universities. Responses to the written survey indicated little interest in fiduciary activity. Although telephone interviews with users yielded greater information, only 23 users were interviewed and a subset of 13 users expressed a desire to understand the fiduciary activities of BTAs. Thirteen is not an overwhelming number and none of the user groups were typical users of financial information reported by public colleges and universities.

NACUBO believes that the conclusions reached by the Board when Statement 35 was issued still apply to public higher education. Per Paragraph 36 of Statement 35, “Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities,” the Board concluded that “fund group reporting, though useful for some public college and university financial statement users, did not serve the same purposes as fund-based reporting for other governments and was not essential for most users’ understanding of the financial position and results of operations of public colleges and universities. The historical development of the governmental fund structure and the use of the current financial resources and modified accrual basis of accounting have been influenced by the public budgetary process and the taxing power of general purpose governments.”

Private purpose trust funds, agency funds, special purpose trust funds, and so on, all have meaning in the governmental fund operating and reporting environment. However, for the vast majority of public colleges and universities that report as BTAs – and their users – the referenced fund structures are not familiar. In addition, the PV is a difficult read and does not provide adequate illustrations and examples. We found it challenging to interpret the conceptual substance of the PV and to confidently discern fiduciary activities.

Although the flowcharts are helpful, we recommend that the flowcharts be used to illustrate various common and perhaps less common examples of fiduciary activities. As previously alluded to, since the vast majority of public higher education does not use fiduciary funds in the general ledger, organizational, or account structure, being able to conceptually grasp activities and related financial statement elements for their fiduciary nature is important. Further, it would be helpful if the final proposal “walked” the reader through the definitions, concepts, conclusions, and reasoning more concisely.

Specific Questions:

Public higher education is concerned about defined contribution employee benefit plans that fall under Internal Revenue Code Sections 457, 401(k), or 403(b), and are administered by third parties. In a typical scenario an institution retains a third party administrator to manage the plan, does not directly hold the assets, and can establish parameters for the administrator; each participating employee owns their own account balance, directs investment allocation (using fund groups provided by the administrator), and, subject to plan limitations, can withdraw funds either prior to or after retirement. In walking through the PV, we do not believe that these plans are subject to fiduciary reporting because the government employer does not have control over the assets. However, we've been unable to receive verification from GASB project staff and would appreciate assistance with this.

We also seek clarification regarding transactional activities – in the normal course of operations – related to employee payroll tax withholding when the employer has not remitted the withholding amount to the appropriate agent prior to the fiscal year end. In these cases, the public institution has recognized a liability for employee tax withholding. Institutions clear the liability through their operating fund (however, a handful of public institutions record the liability in a fiduciary fund). Without question the public institution has a fiduciary obligation to clear the liability and remit the tax withholding amount on behalf of its employees. In cases like these, would the amount of employee taxes withheld and not remitted before the reporting year end be subject to fiduciary reporting? Would the requirement for fiduciary reporting be dependent upon whether or not the withholding taxes are operationally tracked in a fiduciary fund versus an operating fund? NACUBO has received conflicting guidance from GASB project staff on this question.

Concluding Comments:

Finally, concerning the proposed requirement to report pass-through grants as custodial funds, we are a bit disappointed that the project did not go far enough and revisit known issues with interpreting Statement 24, “Accounting and Financial Reporting for Certain Grants and Other Financial Assistance.” We struggle with understanding how a government can control assets and not have administrative responsibility. Consequently, we think that there may be inconsistency in practice, among many types of governments, concerning pass-through grants.

In higher education, a fair amount of student financial aid passes directly from federal, state, and local government, as well as private sources, to designated (named) students – and public colleges and universities do not have the administrative responsibilities discussed in Statement 24. Higher education would like to treat all forms of student financial aid consistently. Reliably reporting pass-through aid and understanding

NACUBO comments
page 4

financial aid is important for our financial statement users. Our hope was that the fiduciary project would take a closer look at pass-through grants and conclude that fiduciary disclosure, rather than the current practice of grant revenue recognition, is best for our financial statement users.

In summary, NACUBO would like to see greater clarity in the Board's proposal. In general for significant fiduciary responsibilities, we support explaining and quantifying fiduciary activities that public institutions are engaged in through disclosure rather than fiduciary fund reporting. We think that disclosure will allow financial statement users to place the public institution's fiduciary responsibilities in context and understand how the amount and type of activity relate to the core mission of the university.

We wish to express our appreciation for the opportunity to comment. We look forward to answering any questions the Board or the staff may have about our response. Please direct your questions to Sue Menditto at 202-861-2542 or smenditto@nacubo.org.

Sincerely,

Susan M. Menditto
Director, Accounting Policy