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1135 Accounting Principles and Financial Reporting

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SACUBO
SOUTHERN ASSOCIATION OF COLLEGE AND UNIVERSITY BUSINESS OFFICERS

Auxiliary Services

Learning Objectives

- Recall and apply foundational accounting concepts
    - Identify appropriate accounting guidance for your institution
- Evaluate your institution’s approaches to endowment accounting, contributions, and gift acceptance
- Identify effective internal controls
- Describe unique issues for capital accounting at a college
- Compute and interpret relevant financial ratios
- Interpret lease guidance and determine best practices for compliance
- Explain guidance related to software subscriptions and develop procedures for capturing information

Introductions & Course Links

- Introduction
- Reference Financials:
  - Public institution financial statement: 2025 Consolidated Document (UK Annual Financial Statements)

  - Private institution financial statement: Documents & Reports | Howard University (Go to the Audited Financial Statement 2025)

Note: Please copy and paste the link to the financial statements.

Recall & Apply Foundation Accounting Concepts

- Activities (Lets jog your memory)
  - Quiz: 15 minutes review and discussion

Foundations of Accounting

Background Information

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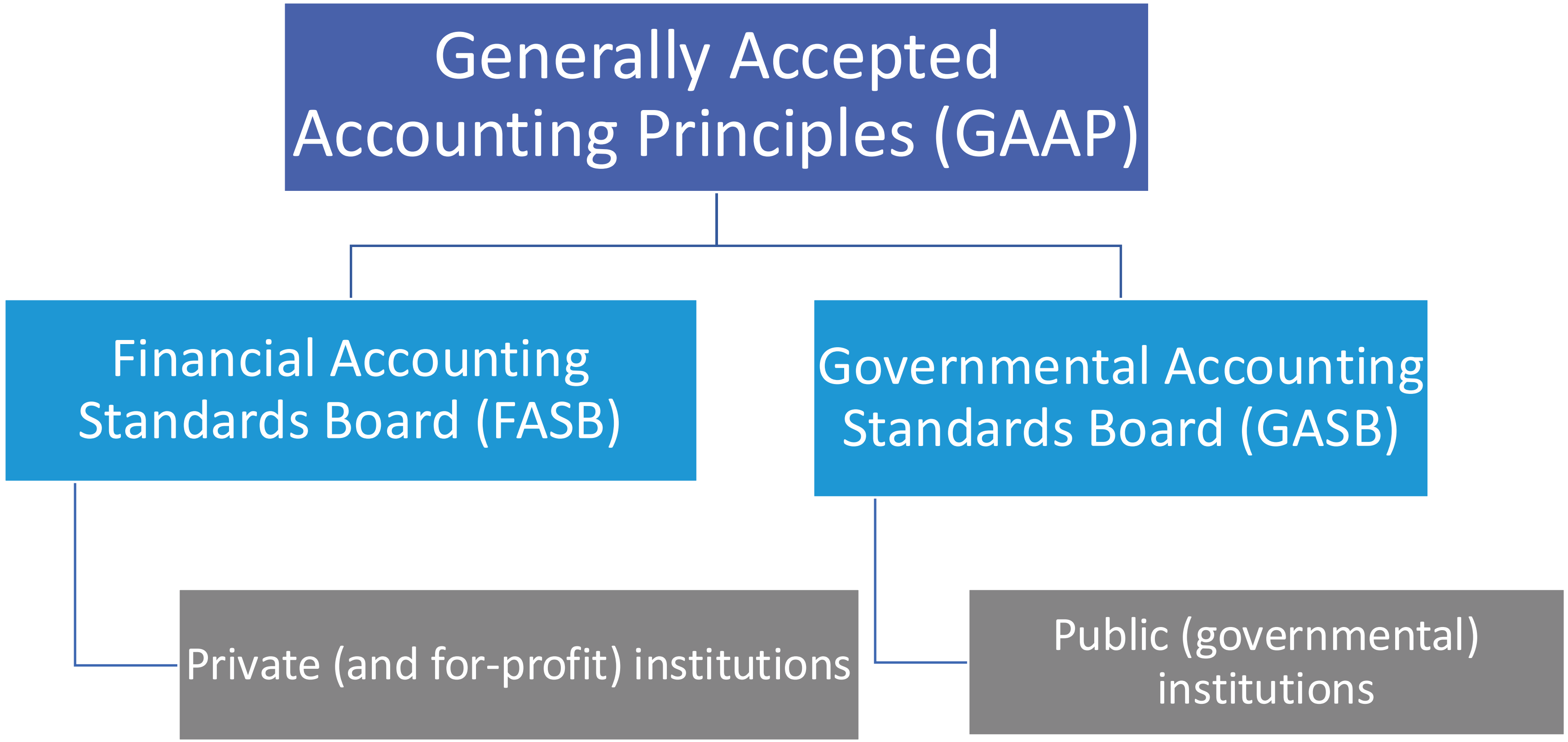
Background: Standards



Background: Accounting Formula

FASB

Assets

=

Liabilities

+

Net Assets

GASB

Assets

-

Liabilities

=

Net Position

Background: Accrual Accounting

- Record a transaction when it occurs, rather than when cash changes hands
  - Revenue is recorded when earned
  - Expenses are recorded when incurred
- Public institutions use modified accrual for Funds

Background: Net Assets/Position Classification

Net Assets (FASB)

1. Without donor restrictions
2. With donor restrictions

Net Position (GASB)

1. Unrestricted
2. Restricted
3. Net Investment in Capital Assets

Background: Endowment Types

- With donor restrictions (FASB) or Restricted (GASB) includes:
  - Permanent endowments – Principal intact in perpetuity
  - Term endowments – Principal intact until specific event or period of time
- Board-restricted assets are NOT an endowment
  - Presented as Without donor restrictions (FASB) or Unrestricted (GASB)

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Background: Revenue Classification

- Private institutions classify revenue as “with donor restrictions” or “without donor restrictions”
    - Net assets released from restrictions for meeting time or purpose restrictions

- Simultaneous release election under ASC 958-605-45-4
    - If University receives restricted revenue and meets restrictions in the same period
        - Then can report directly as revenue without donor restrictions
    - To follow this policy for contributions, must also follow a similar policy for restricted investment return
    - Disclose the accounting policy and apply it consistently

Endowments and Contributions

Endowments: First-dollar rule

- ASC 958-205-45-11
  - Both unrestricted and restricted funds are available to a department
    - An expense is incurred which meets donor-imposed restrictions
      - Treat as using the restricted net assets first
      - Any donor-imposed time restrictions must have expired first

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Contributions: Revenue Recognition

- Recognize revenue once all eligibility requirements met
  - Eligibility requirements under GASB N50.117 include one or more:
    - Recipient characteristics
    - Time requirements
    - Reimbursements
    - Contingencies
  - ASU 2018-08 recognizes revenue once barriers have been overcome
    - Then determine any donor restrictions

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Contributions: Pledges

- Is the pledge unconditional?
  - No: Is the pledge to be held in perpetuity?
    - No: Recognize revenue when conditions are met
    - Yes: Recognize revenue when cash is received
  - Yes: recognize revenue at time of pledge

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Contributions: Nonfinancial

- ASU 2020-07
  - Statement of Activities:
    - Contributions of Non-Financial Assets on a separate line from cash contributions
  - Disclosures:
    - Further detail contributions by category (Ex. Buildings, vehicles)
    - Provide for category:
      - Whether contributions were monetized or utilized and any University policies regarding this
      - Describe any donor-imposed restrictions
      - Describe valuation techniques
        - Market used for fair-value measurement if University is restricted from selling or using the contribution

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Contributions: Discussion

- What are the most important components of a gift acceptance policy?
- Have you added to or changed any of your policies in response to an unexpected situation?

Internal Control and Fraud

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ACFE Report to the Nations 2024

- 32% of occupational frauds due to lack of internal controls
- Another 19% due to override of existing controls

- In Education, most common fraud schemes:
  - Corruption (43%)
  - Billing (36%)

https://legacy.acfe.com/report-to-the-nations/2024/

Internal Control Objectives & Elements

- Internal Controls are intended to:
  - Safeguard assets
  - Ensure reporting is accurate
  - Ensure compliance with laws and regulations

- Elements:
  - Control environment
  - Risk assessment
  - Control procedures
  - Monitoring
  - Information and Communication

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Detection Techniques per ACFE 2024

- 43% of fraud cases uncovered due to whistleblower
  - Hotlines doubled chances of detecting via a tip
- 4 controls associated with 50% or more reduction in fraud loss and duration:
  - Surprise audits*
  - Financial statement audits
  - Hotlines
  - Proactive data analysis*

*These are some of the least implemented

Internal Control in Practice

- Support a culture of asking questions
  - Be willing to talk to people
- Discuss Policies & Procedures frequently
  - Make sure employees are doing what you think they are
  - Consider internal controls when processes evolve
- Segregate duties
  - Including reconciling and reviewing
- Brainstorm risks specific to your department

GROUP ACTIVITY TIME

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Capital Assets

Unique Issues for Colleges

Capital Assets: Background

- GASB and FASB both initially capitalize at historical cost
  - All costs necessary to bring the capital assets into intended use
  - Depreciate after initial measurement
- GASB & FASB differences
  - Intangible assets
    - GASB presents as a capital asset
    - FASB presents separately from capital assets
  - Infrastructure
    - GASB presents within capital assets as a separate line item
    - FASB doesn’t provide for infrastructure

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Capital Assets: Collections

- Art and historical treasures are not required to be presented on balance sheet
  - Must meet all:
    - Held for public exhibition, education, or research in furtherance of public service, rather than financial gain
    - Protected, kept unencumbered, cared for, and preserved
    - Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections
  - Disclosures necessary
  - No revenue recognition from contributed assets that aren't capitalized
  - GASB 34 and ASC 958-605-25-19 are similar

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Capital Assets: Infrastructure

- Available election for modified approach (see GASB 34)
  - Public institutions only
- No depreciation required if University both:
  - Uses an asset management system that
    - Has an up-to-date inventory
    - Performs condition assessments using a measurement scale
    - Annually estimates the annual amount to maintain and preserve the infrastructure
  - Documents the infrastructure is being preserved at an established condition

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Capital Assets: Discussion

- What are some types of capital assets at your institution that are particularly challenging to account for?
  - What policies have you established to deal with these?
- What are the fraud risks related to construction projects?
  - How have you addressed these risks?

CFI and Ratio Analysis

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Composite Financial Index (CFI)*

- 4 ratios are weighted
  1. Primary Reserve (35%)
  2. Viability (10%)
  3. Return on Net Assets (Position) (20%)
  4. Net Operating Revenues (35%)
- Result ranges -4 to 10
    - Goal is 3 or higher

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Ratio Name	What it measures	Numerator	Denominator
Primary Reserve	Liquid resources to support mission	Expendable net assets	Total expenses
Viability	Appropriate management of debt	Expendable net assets	Plant-related debt
Return on Net Assets (Position)	Asset performance	Change in net assets	Total net assets (beginning of year)
Net Operating Revenues	Sufficiency of operating revenues to cover operating costs	Excess of operating income over operating expenses	Total operating revenue

CFI Example

https://www.maine.edu/finance/wp-content/uploads/sites/39/2021/03/F-USM-FY20-ratios.pdf

Note: University of Southern Maine is USM. UMS is University of Maine system.

CFI: Independent Work and Discussion

- Search for your institution's CFI Calculation or try a few ratios yourself
- Discuss in your group the benefits or challenges you've faced using the CFI
- What are some other ratios you've found helpful?

Lease Accounting Updates

Leases: Background

- Previously:
  - Operating leases
    - Statement of Activities only
      - Rental expense
  - Capital leases
    - Statement of Position, then Statement of Activities
      - Asset & Liability at lease initiation
      - Depreciation and Interest expense as asset used

Leases: Now (Private)

- FASB ASC 842
  - All leases create an asset and a lease liability
  - 2 types of leases:
    - Operating
    - Finance
  - Exception for short-term leases (12 months or less)

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Leases: Now (Public)

- GASB 87
  - Short-term
    - Expense
      - *Maximum* possible lease term of 12 months or less
  - Contracts that transfer ownership
    - Use financed purchase guidance (asset purchase)
  - All others
    - Capitalize and amortize the lease asset

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What *is* a lease?

ASC 842-10-15-3 A contract is or contains a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an **identified asset**) for a period of time *in exchange for consideration*. (emphasis added)

GASB difference: requires "an exchange or exchange-like transaction."

Leases: Identified Asset

- Usually specifically identified, but could be implicit
- Portions must be physically distinct
- Limited substitution rights
  - NOT an identified asset if both:
    - Supplier has practical ability to substitute
    - AND supplier would benefit economically from doing so.

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Leases: Reporting & Disclosure

- Detailed note disclosures, including (but not limited to)
  - Description of leased asset and terms
  - Any variable payments
  - Options to extend/terminate
  - Maturity schedule with undiscounted cash flows
- For Private institutions
  - Finance and Operating leases reported separately
  - Separate liability between current and noncurrent

Leases: Brainstorm implementation

- What controls are you establishing to evaluate new contracts?
- How are you handling de minimis amounts?
- What has been the most challenging part of implementing the lease guidance?
- Do you have any best practices to share?

- Document any new ideas you'd like to take home

Software Subscriptions

Updated Guidance

Subscription Software

- ASU 2018-15
- GASB 96

Do you have any software subscriptions?

Subscription Software - FASB

- Is there a license?
  - Yes: treat as internal-use software
    - EXPENSE Preliminary project costs
    - CAPITALIZE Application development costs
  - No: ongoing costs are expensed

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FASB – Is there a license?

- Must meet both:
  - Customer has contractual right to take possession without significant penalty

    AND
  - Feasible to run the software on customer's hardware or contract with another party to host the software

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FASB – Software Implementation Costs

- For implementation costs, use internal-use software guidance
  - Whether there's a license or not!*
- Capitalize: Configuration, customization
  - Amortization generally on straight-line basis over term of agreement
- Expense: Training, data conversion

*A software subscription without a license should not be presented with internal-use software on financials

GASB – Subscription-Based IT Arrangements

- If a contract conveys control of the right to use a vendor’s IT software
  - Then it creates a right-to use subscription asset and a corresponding subscription liability
    - The liability doesn’t exist until start using the asset
    - Implementation costs are permitted, but not required, to be added to the asset

GASB 96 Exception

- Capitalization NOT required if subscription is < 1 year

- If both parties have ability to cancel with a certain amount of notice (**notice period**),
  - Then **notice period** is treated as the lease period

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Software: Update brainstorming

- Which procedures for leases will also work for software?
  - How do they need to be tweaked?
  - Do you need to add any steps?

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Thank You!

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