Grant Thornton

2020 Audit Wrap-up Presentation and Discussion

Nevada System of Higher Education

Our Values are CLEARR

To achieve our global vision, we capitalize on our strengths by embracing the following values:

- Unite through global **Collaboration**
- Demonstrate **Leadership** in all we do
- Promote a consistent culture of **Excellence**
- Act with **Agility**
- Ensure deep **Respect** for people
- Take **Responsibility** for our actions

Our values serve as the foundation of each step we take toward achieving our vision. They guide our decision-making and provide a framework for our people to make correct and appropriate choices.

Our Responsibilities

We are responsible for:

- Performing an audit under US GAAS and *Government Auditing Standards* of the financial statements prepared by management, with your oversight
- Forming and expressing an opinion about whether the financial statements are presented fairly, in all material respects in accordance with US GAAP
- Forming and expressing an opinion about whether certain supplementary information, including the Schedule of Expenditures of Federal Awards (SEFA) is fairly stated in relation to the financial statements as a whole.
- Reporting material noncompliance with federal awards requirements applicable to major program(s) audited under the Uniform Guidance requirements (formerly OMB Circular A-133), as well as significant deficiencies and/or material weaknesses in internal control over compliance
- Communicating fraud and abuse with regard to federal and state programs
- Communicating specific matters to you on a timely basis.
- Reading other information and considering whether it is materially inconsistent with the financial statements
- Reporting material non-compliance related to laws, regulations, contracts and grant agreements, as well as significant deficiencies and/or material weaknesses in internal control related to financial reporting
- An audit provides reasonable, not absolute, assurance that the financial statements do not contain material misstatements due to fraud or error. It does not relieve you or management of your responsibilities. Our respective responsibilities are described further in our engagement letter.

Those Charged With Governance and Management Responsibilities

Those Charged with Governance are responsible for:

- Overseeing the financial reporting process
- Setting a positive tone at the top and challenging the System's activities in the financial arena
- Discussing significant accounting and internal control matters with management
- Informing us about fraud or suspected fraud, including its views about fraud risks
- Informing us about other matters that are relevant to our audit, such as:
  - Objectives and strategies and related business risks that may result in material misstatement
  - Matters warranting particular audit attention
  - Significant communications with regulators
  - Matters related to the effectiveness of internal control and your oversight responsibilities
  - Your views regarding our current communications and your actions regarding previous communications

Management is responsible for:

- Preparing and fairly presenting the financial statements including supplementary information such as SEFA (Schedule of Expenditures of Federal Awards) in accordance with US GAAP
- Designing, implementing, evaluating, and maintaining effective internal control over financial reporting
- Communicating significant accounting and internal control matters to those charged with governance
- Providing us with unrestricted access to all persons and all information relevant to our audit
- Informing us about fraud, illegal acts, significant deficiencies, and material weaknesses
- Adjusting the financial statements, including disclosures, to correct material misstatements
- Informing us of subsequent events
- Providing us with written representations

Those Charged With Governance and Management Responsibilities- Cont.

Financial Reporting Entity of NSHE

The Financial Reporting Entity of NSHE includes:

- The System (Eight Colleges and Universities plus System Administration)
- System-Related Organizations (17 not-for-profit organizations including fund raising foundations and faculty medical practice plans)

Governmental Accounting Standards Board (GASB) Those Charged With Governance

GASB is an independent, private-sector, not-for-profit organization that establishes and improves standards of financial accounting and reporting for U.S. state and local governments, including state university systems. The basic financial statements for a state and local government are:

- The Statement of Net Position
- The Statement of Revenues, Expenses and Changes in Net Position
- The Statement of Cash Flows
- Management's Discussion & Analysis is also considered Required Supplementary Information to be reported with the basic financial statements

Materiality

Essentially, Materiality is the magnitude of an omission or misstatement that likely influences a reasonable person's judgment. It is based on a relevant financial statement benchmark.

- We believe that total assets is the appropriate benchmark for the System and System-Related Organizations

Financial statement items greater than materiality are within our audit scope. Other areas less than materiality may be in our scope if qualitative risk factors are present (for example, related party relationships or transactions and fraud risk).

Audit Timeline & Scope

Spring 2020	Client reacceptance	• Client reacceptance • Issue engagement letter • Conduct internal client service planning meeting, including coordination with IT audit support team
May-August 2020	Planning	• Meet with management to confirm expectations and discuss business risks, coordinate planning and develop work calendar • Discuss scope of work and timetable • Identify current-year audit issues and discuss recently issued accounting pronouncements of relevance
August 2020	Preliminary risk assessment procedures	• Develop audit plan that addresses risk areas • Update understanding of internal control environment
May-September 2020	Interim fieldwork	• Perform walk-throughs of business processes and controls • Performed compliance procedures specific to federal major programs
September-December 2020	Final fieldwork and deliverables	• Perform final phase of audit and year-end fieldwork procedures • Issue our report on the financial statements • Present results to the Audit Committee • Uniform Guidance audit of federal major programs- completion and issuance TBD once OMB issues Compliance Supplement for CARE's Act Education Stabilization (Higher Education Emergency Relief Fund

Significant risks and other areas of focus

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Significant Risk	Results
Tuition revenue and related receivables/deferred revenue	• Obtained the rates in effect for the year under audit and used this information to set expectations of revenue for tuition and fees. Performed detailed tuition reasonableness test based on this information. • Obtained an understanding of the semester and billing schedules. Performed substantive testing on receivables and deferred amounts to ensure proper cutoff. • Reviewed management's analysis of allowance for doubtful accounts for consistency with methodology and accuracy of inputs. • Performed detailed testing of PeopleSoft student account revenue by selecting a random sample, then testing verified charges and receipt of payment to revenue recorded.

Significant risks and other areas of focus

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Significant Risk	Results
Valuation of investments	• Confirmed existence of investment holdings directly with custodians. • Tested reasonableness of investment-related income, including unrealized appreciation/(depreciation) • Tested management's process of valuing custodied investments • Tested management's process of valuing alternative investments • Reviewed completeness and accuracy of footnote disclosures

Significant risks and other areas of focus

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Significant Risks	Results
State Appropriations	• Verified revenue recognized to appropriation communications from the State
Accrued Postretirement benefit obligation and accrued pension liability	• Reviewed the analysis of accrued postretirement benefit obligations. • Assessed the reasonableness of actuarial assumptions: discount factor, trend rates and cash flows, amongst others. • Tested participant census data.
	• Obtained PERS and PEBP audit reports which NSHE relied on for certain data supporting its share of the respective obligations • Reviewed financial statement disclosures.

Significant risks and other areas of focus

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Significant Risk	Results
Management override of controls – (presumed fraud risk and therefore significant risk in all audits)	• Considered the design and implementation of entity-level controls, including information technology controls, designed to prevent/detect fraud. • Assessed the ability of the University to segregate duties in its financial reporting, information technology, and at the activity-level. • Conducted interviews of individuals involved in the financial reporting process to understand (1) whether they were requested to make unusual entries during the period and (2) whether they are aware of the possibility of accounting misstatements resulting from adjusting or other entries made during the period. • Performed risk assessment for journal entries and detail test a sample of journal entries based on our risk assessments to ensure propriety of the entries

Significant risks and other areas of focus- continued

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Area of focus	Results
Federal, State, local and other grant revenue and related receivables/deferrals	• Performed detailed testing of grant revenue by selecting a random sample and testing grant contract, request for reimbursement, receipt of payment and reasonableness of expenses to revenue recorded. • Selected a random sample of grant revenue receivable and tested balance to ensure appropriately recorded.
Sales and Service Revenue	• Performed detailed testing of sales and services revenues by selecting a random sample and testing verified charges, and receipt of payment to revenue recorded. • Preformed analytical review and substantive testing on receivables and deferred amounts to ensure proper cutoff.

Technology support as part of the audit process

- **Phase 1**: Understand and document business processes material to the audit
- **Phase 2**: Assess IT risks
- **Phase 3**: Identify IT controls that support audit objectives
- **Phase 4**: Test technology-related controls

An important component of our audit approach is to understand how IT is used in supporting business operations and producing financial reports. Our technology specialists place particular emphasis on the risks relating to the use of technology and its associated controls, processes and practices.

Our general controls review evaluates the design of controls that mitigate risk in areas such as organization and operations, protection of physical assets, application systems development and maintenance, access controls and computer operations.

COVID-19 pandemic

Accounting considerations

1. **Asset impairment** - material assets subject to possible impairment or devaluation. Universities need to carefully identify the appropriate impairment model and consider whether the pandemic affects whether an impairment should be recognized and, if so, the extent of the impairment. This could impact fixed assets, investments, and other assets.
2. **Insurance recoveries** - Universities may be entitled to reimbursement for losses under various types of insurance policies as a result of the pandemic.
3. **Contingent losses** - A University is required to recognize a contingent loss if (a) it is probable that the liability has been incurred as of the balance-sheet date, and (b) the amount of the loss is reasonably estimable (as either a point estimate or a range of loss).
4. **Going concern evaluations** - Universities will need to evaluate their ability to continue as a going concern within one year after the financial statements are either issued or made available to be issued. A University that concludes that there is substantial doubt about its ability to continue as a going concern, or that its plans alleviate such doubt, must provide disclosures to that effect.
5. **Impact of various federal relief programs** - Universities are eligible to participate in certain federal government relief programs to mitigate the financial impacts of the pandemic. The appropriate accounting and financial reporting of the various relief programs such as PPP loans, CARES Act section 18004(a)(1) relief, Student room and board refunds, Title IV refunds, etc. is evolving.
6. **Reserves for uncollectible accounts** - Because of the significant economic impact of the pandemic, Universities may need to reevaluate the basis for reserves on certain accounts such as student accounts and loans receivable, as well as other reserves.
7. **Disclosures of risks and uncertainties** - Disclosure of risks and uncertainties related to operations/activities, accounting estimates, and vulnerabilities, among others specified in ASC 275 should be considered when preparing the financial statement footnotes.

Summary of Misstatements

	Increase (Decrease) to:			
Description	**Assets**	**Liabilities**	**Net Position**	**Change in Net Position**
Uncorrected misstatements				
Dr. Unbilled receivables	$ 6,218,490			
Cr. Revenue				$ 6,218,490
To record revenue associated with the CARES Act Higher Education Relief Fund Institutional share for UNR				
Dr. Deferred outflows related to OPEB	4,755,700			
Cr. Net Position-BOY			4,755,700	
To record prior year impact of employer allocation of estimated implicit subsidy study.				
Dr. Deferred outflows of related to OPEB	432,200			
Cr. OPEB Expense				432,000
To record the current year impact of the implicit subsidy study.				
Net impact	$ 11,406,390	$ -	$ 4,755,700	$ 6,650,490

Other Required Communications

Professional standards require that we communicate the following matters to you, as applicable.

Going concern matters
Fraud and noncompliance with laws and regulations
Significant deficiencies and material weaknesses in internal control over financial reporting
Use of other auditors
Use of internal audit
Related parties and related party transactions

Other Required Communications
(continued)

Disagreements with management
Management's consultations with other accountants
Significant issues discussed with management
Significant difficulties encountered during the audit
Other significant findings or issues that are relevant to you and your oversight responsibilities
Modifications to the auditor's report
Other information in documents containing audited financial statements

Quality of Accounting Practices

Accounting policies	Accounting policies are disclosed in Note 2 of the financial statements, and appear consistent and appropriate.
Accounting estimates	Significant accounting estimates include the fair value of alternative investments, OPEB and pension liability. Management has informed us that in determining the appropriateness of these fair value determinations, they evaluated all significant information from investment fund managers, including audited financial statements for all funds invested in, as well as all significant information from the actuarial reports and allocation schedules for the net pension and OPEB liabilities.
Disclosures	Financial statement and related disclosures appear to be clear and complete. Disclosures are presented with overall neutrality, consistency and clarity.

Deliverables

- Report on the financial statements of Nevada System Of Higher Education (the "System") for the year ended June 30, 2020
- Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Required by Government Auditing Standards for the year ended June 30, 2020
- Provide appropriate communication with management and the Audit Committee regarding technical audit, accounting and internal control matters.

Internal Control Matters

Responsibility

We are responsible for obtaining reasonable assurance about whether the financial statements are free of material misstatement. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. Control deficiencies that are of a lesser magnitude than a significant deficiency will be communicated to management.

Definitions

- A deficiency in internal control ("control deficiency") exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect, misstatements on a timely basis.
- A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the system's financial statements will not be prevented or detected and corrected on a timely basis. Internal control deficiencies associated with the System's financial statements that we consider to be significant deficiencies are summarized in the Schedule of Findings and Questioned Costs

Use of Other Auditors-System Related Organizations

Component	Auditors	Benchmark*	Response**
Grant Thornton International Ltd member firms			
Integrated Clinical Services, Inc.	Grant Thornton	1%, 7%	Comprehensive
University of Nevada, Las Vegas Medicine	Grant Thornton	2%, 37%	Comprehensive
Aggregate SRO's	Grant Thornton	4%, 2%	Analytical
Other unaffiliated auditors			
UNLV Rebel Football Foundation	Other	0%, 0%	Analytical
UNLV Rebel Soccer Foundation	Other	0%, 0%	Analytical
Athletic Association University of Nevada	Other	1%, 0%	Analytical
UNLV Research Foundation	Other	1%, 0%	Analytical
DRI Foundation	Other	1%, 0%	Analytical
DRI Research Park	Other	0%, 0%	Analytical
TMCC Foundation	Other	0%, 1%	Analytical
CSN Foundation	Other	1%, 1%	Analytical
NSC Foundation	Other	2%, 6%	Analytical
UNR Foundation	Other	37%, 19%	Analytical
University of Nevada, Las Vegas Foundation	Other	50%, 27%	Analytical

The benchmark is based on the percentage of the System Related Organization's consolidated assets and revenues, respectively. Our firm audited approximately 7% and 46%, respectively.

** A comprehensive response consists of an audit of the component's financial information, planned within the context of our overall audit of the Organization. A targeted response consists of the component auditor performing specific audit procedures that are determined by our firm to respond to identified risks.

Use of the Work of Others

Specialists

Management relied on the work of Segal Consulting for the PERS actuarial assumptions used to arrived at the net pension liability and the pension related deferred inflows and outflows of resources. Similarly, management relied on the work of Aon Consulting for the PEBP actuarial assumptions used to arrived at the net other post-employment benefit liability and the other post-employment benefit related deferred inflows and outflows of resources. GT also utilized our internal valuation group to determine the reasonableness of the actuarial assumptions used by Aon Consulting. Management also relied on the work of STRATA Fund Services to assist in the valuation of alternative investments. GT used Harvest Investments to assist with testing the valuation of investments.

Commitment to Promote Ethical and Professional Excellence

We are committed to promoting ethical and professional excellence. To advance this commitment, we have put in place a phone and internet-based hotline system.

The Ethics Hotline (1.866.739.4134) provides individuals a means to call and report ethical concerns.

The EthicsPoint URL link can be accessed from our external website or through this link:
https://secure.ethicspoint.com/domain/en/report_custom.asp?clientid=15191

Disclaimer: EthicsPoint is not intended to act as a substitute for a organization's "whistleblower" obligations.

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Audit Wrap Up Presentation

Technical Updates – GASB

Selected pronouncements effective for the year ending June 30, 2020 or subsequent periods - GASB

Title	Effective date
GASB 84 – Fiduciary Activities	Periods beginning after December 15, 2019**
GASB 87– Leases	Periods beginning after June 15, 2021**
GASB 89 – Accounting for Interest Cost Incurred before the end of a Construction Period	Periods beginning after December 15, 2020**
GASB 90 – Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61	Periods beginning after December 15, 2019**
GASB 91 – Conduit Debt Obligations	Periods beginning after December 15, 2021**
GASB 92 – Omnibus 2020	Periods beginning after June 15, 2021*

Selected pronouncements effective for the year ending June 30, 2020 or subsequent periods – GASB-Continued

Title	Effective date
GASB 93 – Replacement of Interbank Offered Rates	Periods beginning after June 15, 2020
GASB 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements	Periods beginning after June 15, 2022
GASB 95 – Postponement of the Effective Dates of Certain Authoritative Guidance	Immediately
GASB 96 – Subscription-Based Information Technology Arrangements	Periods beginning after June 15, 2022
GASB 97 – Certain Component Unit Criteria, and Accounting and Financial Reporting for IRC Section 457 Deferred Compensation Plans – an amendment of GASB Statements 14 and 84 (Supersedes GASB Statement 32)	Periods beginning after June 15, 2021

GASB Statement 84, *Fiduciary Activities*

Summary	Potential impact

• Guidance addresses the following:
  • The categorization of fiduciary activities for financial reporting
  • How fiduciary activities are to be reported
  • When liabilities to beneficiaries must be disclosed
• Types of fiduciary funds that must be reported include the following:
  • Pension (and other employee benefit) trust funds
  • Investment trust funds
  • Private-purpose trust funds
  • Custodial funds
• A government controls the assets of an activity if it holds the assets or "has the ability to direct the use, exchange or employment of the assets in a manner that provides benefits to the specified or intended recipients"
• Fiduciary activities must be disclosed in the basic financial statements of the government entity and a statement of fiduciary net position and changes in fiduciary net position should be presented (unless the period of custody is less than three months).
• Effective for periods beginning after December 15, 2019.
	Universities often will agree to act as a fiduciary for certain third party organizations that might be somehow affiliated to the university (such as student clubs, alumni clubs, or other such organizations). Under this new requirement, the University must report the fiduciary activity on its financial statements, where it may not have done so in the past. Management should identify which fiduciary activities it is engaged in to inventory the relationships which may need to be reported. Management may want to consider changing the terms of the relationships such that they are not subject to reporting on the financial statements of the University when the requirement becomes effective.

GASB Statement 87, *Leases*

Summary

- The GASB issued guidance which resembles the FASB guidance on leases
- To determine whether a lease exists, a government should assess whether it has both:
  1) The right to obtain the present service capacity from use of the underlying asset as specified in the contract, and
  2) The right to determine the nature and manner of use of the underlying asset as specified in the contract
- For Lessees:
  - In general, all leases will be reported on the statement of net position (the distinction between operating and capital leases is no longer relevant) as a "right of use" intangible asset and a corresponding lease liability within long term debt
  - On the statement of changes, rent expense will be replaced by amortization expense of the right-of-use asset as well as interest expense on the lease liability (thus accelerating expenses in the beginning years of the lease term)
  - There is an exemption for short term leases (those with a term of 12 months or less, including extension options) as well as leases that transfer ownership at the end of the term
  - Disclosures regarding matters such as total leased assets by major class of underlying assets and related accumulated amortization (in total), principal and interest payments for each of the five subsequent fiscal years and in five year increments thereafter and commitments under leases before a lease commencement period, among other items

GASB Statement 87, *Leases* *(continued)*

Summary, continued	Potential Impact

• For Lessors:
  • Record a lease receivable and a deferred inflow of resources equal to the present value of future lease payments (which should generally equal the amount recorded as a liability by the lessee), and also continue to report the leased asset
  • The receivable will be reduce as cash is received, the asset will be depreciated (generally) and the deferred inflow will be recognized over the lease term
  • Disclosures include matters such as general description of leasing arrangements, total amount of inflows of resources, and those related to variable payments, residual guarantees, etc., and the existence, terms and conditions of options by the lessee to terminate the lease or abate payments in certain circumstances, among other disclosures
• Effective for periods beginning after June 15, 2021, with early adoption encouraged. Existing leases will be adjusted based on the remaining lease payments as of the beginning of the period of adoption or beginning of any earlier periods restated (for example, for June 30 year ends, adoption is June 15, 2022 so the beginning period is July 1, 2021).
	• For those universities which use operating leases to finance certain capital activities, this standard could have a significant impact on the financial statements of the University upon adoption. Management should consider the impact on financial covenants, as well as ensuring a complete inventory of existing leases that will be subject to the new accounting and disclosures.

GASB Statement 89, *Accounting for Interest Cost Incurred before the end of a Construction Period*

Summary	Potential Impact

• This Statement improves financial reporting by providing users with more relevant information about capital assets and the cost of borrowing, and enhancing comparability of information for both governmental activities and business-type activities.
• Financial statements prepared using the economic resources measurement focus:
  • Interest cost should be recognized as an expense in the period incurred.
• Financial statements prepared using the current financial resources measurement focus:
  • Interest cost should be recognized as an expenditure consistent with governmental fund accounting principles.
• Effective for periods beginning after December 15, 2019, with early adoption encouraged. Changes to adopt this standard should be applied prospectively at adoption.
	• Universities may have varying amounts of interest incurred during periods of significant construction. With the implementation of this new guidance, complex calculations of interest to be capitalized will no longer be required, thus simplifying accounting requirements. The new accounting accelerates the expense impact for the construction period, which should be considered when preparing budgets for future periods.

GASB Statement 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*

Summary	Potential Impact

• Improves consistency and comparability of reporting a government's major equity interests in legally separate organizations.
• Defines an equity interest as a financial interest in a legally separate organization evidenced by the ownership of shares of the organization's stock or by otherwise having an explicit, measureable right to the net resources of the organization, usually based on an investment of financial or capital resources by the government.
  • If the equity interest holding meets the definition of an investment (GASB 72), the equity interest should be reported as an investment and measured using the equity method.
    • If the equity interest is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment or permanent fund, the equity interest should be measured at fair value
  • If the equity interest holding does not meet the definition of an investment, the legally separate organization should be reported as a component unit of the government.
    • If the legally separate organization is reported as a discretely-presented component unit, the equity interest should also be reported as an asset of the government (or fund) that holds the equity interest, measured using the equity method.
• Effective for periods beginning after December 15, 2018. Changes to adopt this standard should be applied retroactively, with certain exceptions.
	• Universities should inventory financial interests in legally separate organizations and evaluate whether such equity interests meet the definition of an investment. Depending on the nature of the equity interest and the intent for holding such interests, Universities may find themselves reclassifying holdings between presentation as investments and component units.

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GASB Statement 91, *Conduit Debt Obligations*

Summary	Potential Impact
• Eliminates the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. • Defines conduit debt obligations as a debt instrument issued in the name of a state or local government (the issuer) that is for the benefit of a third party primarily liable for the repayment of the debt instrument (the third-party obligor), that includes specific characteristics. • An issuer should not recognize a conduit debt obligation as a liability. • To the extent the issuer has made a limited commitment with respect to the conduit debt obligation, the issuer should recognize a lability associate with the additional commitment if qualitative factors indicate it is more likely than not that the issuer will support one or more debt service payments. • The issuer of conduit debt obligations should not report arrangements as leases, regardless of whether the arrangement is labeled or otherwise referred to as a lease. If the arrangement meets the definition of a Service Concession Arrangement, however, the SCA should be reported in accordance with the relevant guidance. • Effective for periods beginning after December 15, 2020, with early adoption encouraged. Changes to adopt this standard should be applied retroactively.	• Universities should inventory outstanding conduit debt obligations, including related commitments and arrangements, and compare the associated terms against the new definitions within this Standard.

GASB Statement 92, *Omnibus 2020*

Summary

- Addresses practice issues tat have been identified during implementation and application of certain GASB Statements
  - Effective date of GASB 87 and Implementation Guide 2019-3 clarified as fiscal years beginning after December 15, 2019, and all reporting periods thereafter
  - Presentation of transfers of capital or financial assets under GASB 48 updated to be consistent with the provisions of GASB 67 and 74, as applicable
  - Modifies the requirements of Statements 73 and 74 to remove the liability recognition provisions
  - Provides exception to the use of acquisition value for AROs in a government acquisition
  - Clarifies that recoveries from reinsurers may, but are not required to be, reported as a reduction of expenses
  - The terms derivative and derivatives in National Council on Government Accounting and GASB pronouncements are replaced with derivative instrument and derivative instruments, respectively
- Effective upon issuance for requirements related to the effective date of GASB 87, reinsurance recoveries, and terminology used to refer to derivative instruments.
- Effective for periods beginning after June 15, 2020 for all other topics, with early adoption encouraged and permitted by topic.

GASB Statement 93, *Replacement of Interbank Offered Rates*

Summary

- Addresses accounting and financial reporting implications that result from the replacement of LIBOR
    - Provides exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
    - Clarifies the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
    - Clarifies that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
    - Removes LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
    - Identifies a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
    - Provides an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contractions that are amended solely to replace an IBOR as the rate upon which variable rates depend
- The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021.
- All other requirements are effective for periods beginning after June 15, 2021, with early adoption encouraged.

GASB Statement 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

Summary

- Defines a PPP as an arrangement in which a government (the transferor)
  - contracts with an operator (a governmental or nongovernmental entity) to provide public services
  - by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time
  - in an exchange or exchange-like transaction.
- Transferor records the underlying PPP asset and/or a receivable for installment payments to be received from operator, with a related deferred inflow of resources.
- Defines an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.
  - In an APA with multiple components, each component shall be recognized as a separate arrangement.
- Effective for fiscal years beginning after June 15, 2022, with early adoption encouraged.

GASB Statement 96, *Subscription-Based Information Technology Arrangements*

Summary

- Defines subscription-based information technology arrangements (SBITA) as a contract that conveys control of the right to use another party's IT software,
    - alone or with underlying tangible IT assets,
    - For a period of time (noncancelable period, plus options to extend),
    - In an exchange or exchange-like transaction.
- Government should recognize a right-to-use subscription asset and a corresponding subscription liability
    - Measured as the present value of expected subscription payments
    - Discounted using the rate the SBITA vendor charges, or the incremental borrowing rate
- Subscription asset to be amortized over the subscription term
- Activities associated with a SBITA, other than subscription payments, should be grouped into the following three stages and costs accounted for accordingly:
    - Preliminary project stage – expensed as incurred
    - Initial implementation stage – capitalized as an addition to the subscription asset
    - Operation and additional implementation stage – expensed as incurred, unless they meet specific capitalization criteria
- Effective for fiscal years beginning after June 15, 2022, with early adoption encouraged.

GASB Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for IRC Section 457 Deferred Compensation Plans*

Summary

- Clarifies, for purposes of determining whether a primary government is financially accountable for a potential component unit, if the primary government performs the duties that a governing board would typically perform, the absence of a governing board should be treated the same as the appointment of a voting majority
    - Exceptions for defined contribution pension and OPEB plans, or certain other employee benefit plans.
- Modifies the applicability of financial burden criteria to be limited to defined benefit pension and OPEB plans administered through trusts.
- Calls for Section 457 Plans to be classified as a pension plan if it meets the definition of a pension plan in paragraph 51 of Statement No. 67 or paragraph 128 of Statement No. 73 for accounting and financial reporting purposes.
    - Otherwise, classified as other employee benefit plan.
    - GASB 84 should be applied to determine whether a 457 Plan should be reported as a fiduciary activity in a government's fiduciary fund financial statements.
- Effective immediately for provisions related to component unit evaluation criteria.
- Effective for fiscal years beginning after June 15, 2021 for provisions related to Section 457 Plans.

GASB projects

Project	Timing
Recognition (conceptual framework)	Final Concepts Statement expected 2022
Financial Reporting Model - Reexamination of Statements 34, 35, 37, 41 and 46, and Interpretation 6	Exposure draft issued June 2020
Compensated absences – reexamination of Statement 16	Exposure draft expected February 2021
Prior-period adjustments, accounting changes, and error corrections – a reexamination of Statement 62	Exposure draft expected March 2021
Disclosure framework (conceptual framework)	Final Concepts Statement expected Spring 2021
Revenue and expense recognition	Preliminary Views issued June 2020
Risks and Uncertainties Disclosures	Exposure draft expected January 2021

GASB major project – Financial Reporting Model

Summary

- GASB is revisiting its reporting model established in GASB 34 and 35, as well as other GASB standards, following the FASB project to revisit the reporting model of NFP entities.
- Although there is general consensus that most of the components of the financial reporting model are effective, the Board determined that there is a need to update guidance related to several categories, focusing on the following:
  - MD&A
  - Government-wide financial statements
  - Major funds
  - Governmental fund financial statements
  - Proprietary fund and business-type activity financial statements
  - Fiduciary fund financial statements
  - Budgetary comparisons
- Preliminary Views of note for colleges and universities (Preliminary Views was issued in September 2018):
  - Definition of non-operating activities includes i) subsidies received and provided, ii) revenues and expenses of financing, iii) resources from the disposal of capital assets and inventory and iv) investment income and expenses
  - A subtotal for "operating income/(loss) and noncapital subsidies"
  - Government-wide schedule of natural classification of expenses would be presented as supplementary information (BTA activities by segment)

GASB major project – Financial Reporting Model, continued

Potential impact

- Proposed guidance could have sweeping effects on the reporting and disclosures by public colleges and universities.
- There could be an increase in comparability between the two types of entities that currently use very different reporting models.
- Three of the business type activities issues that the GASB is considering that are particularly relevant to public universities are:
    - Guidance on the operating indicator
    - MD&A
    - Extraordinary and special items
- Depending on the ultimate guidance, Colleges and Universities may want to think about how the reporting of these expenses will be captured to be accurately reported in the financial statements.

GASB major project – Revenue and Expense Recognition

Summary	Potential Impact
• Three primary areas of focus of the project are as follows: 1. Common exchange transactions not specifically addressed in existing GASB guidance ➢ Project plans to develop guidance or improve existing guidance regarding 1. Exchange and exchange-like transactions having single elements 2. Exchange and exchange-like transactions having multiple elements 3. The differentiation between exchange-like and non-exchange transactions 2. Post-implementation review of GASB 33 and 36 ➢ Areas to be considered include: 1. Distinguishing between eligibility requirements and purpose restrictions 2. Determining when a transaction is an exchange or a non-exchange transaction 3. Using the availability period concept consistently across governments 4. Applying time and contingency requirements 3. Development of GASB conceptual framework ➢ GASB 33 and 36 were developed prior to key parts of the conceptual framework, such as defining deferred inflows and outflows ➢ An evaluation of the recognition of non-exchange transactions against the conceptual framework is necessary • Currently in redeliberations, with Preliminary Views expected in June 2020.	• As it relates to recognition of exchange and non-exchange transactions such as grants vs gifts vs contracts, there continues to be an element of judgment and interpretation of existing GASB and FASB guidance. This project could impact the current practices of higher education institutions as it relates to revenue recognition.

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Audit Wrap Up Presentation

Industry Updates

Moody's outlook went from "stable" in November 2019 to "negative" in April 2020, with recent sector updates reporting more negatives than positives

Positives:

- Projecting Fall 2020 enrollment gains due to high unemployment from pandemic
- Endowment investments rebounded during FY 2020 after short term large declines
- Largest Institutions are projected as well positioned to weather coronavirus shocks and maintain strong credit quality

Negatives:

- Projecting decreases in average revenue per student combining net tuition revenue and net auxiliary revenue
- Projecting around 10% of Institutions to be more heavily exposed to substantial financial challenges made worse by the coronavirus pandemic
- Unfavorable demographics worrisome in East and Midwest continue to cause enrollment concerns
- Uncertainty on state budgets and impact of lower tax revenues from coronavirus recession

Moody's Sector Comment (May 2020)

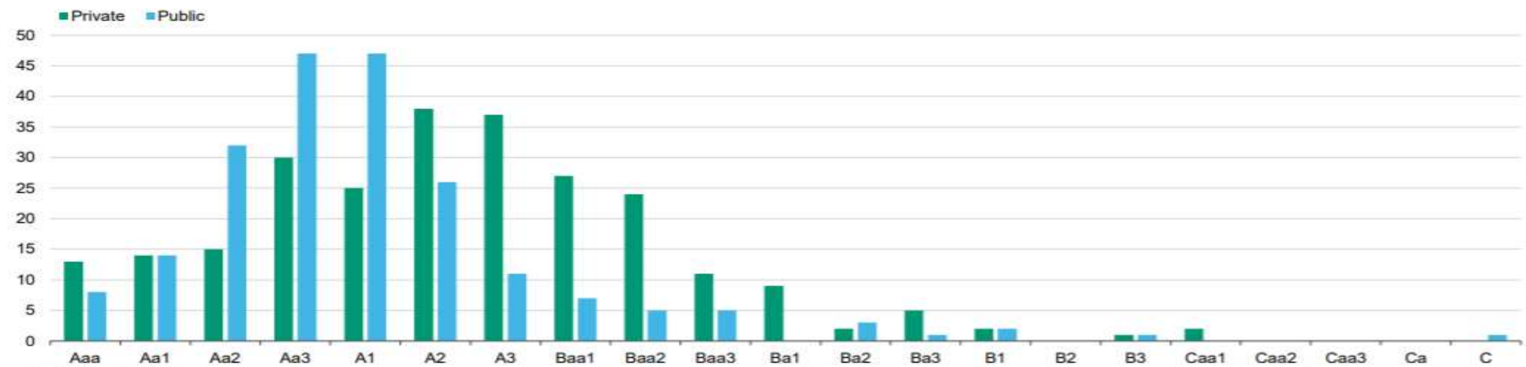
"Largest debt issuers are well positioned to weather coronavirus shocks"

- Largest Institutions are projected as well positioned to weather coronavirus shocks and maintain strong credit quality and this group accounts for nearly 90% of debt outstanding for Institutions Moody's has rated.
- Approximately 50% of Moody's rated issuers have sound credit quality but face challenges

Exhibit 4

Most higher education issuers will sustain investment-grade credit quality despite challenges from the coronavirus

Number of issuers by type and rating category



As of May 11, 2020

Exhibit covers approximately 465 four-year public and private colleges and universities that we rate.

Source: Moody's Investors Service

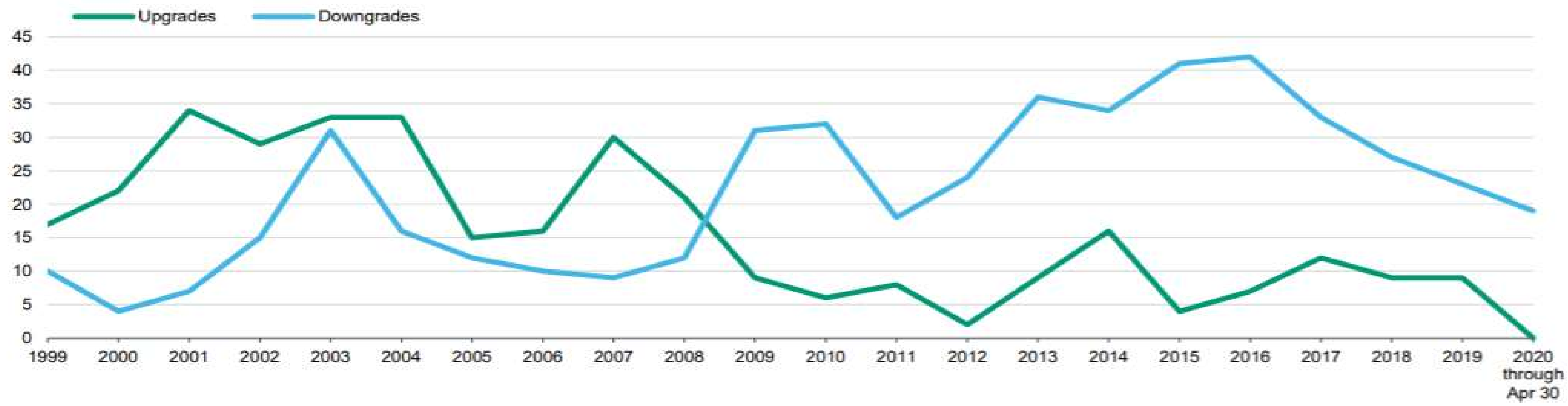
Moody's Sector Comment (May 2020)
(continued)

MOODY'S

- Moody's projects approximately 10% of colleges and universities will face major fiscal challenges that have been made greater by the coronavirus pandemic and its economic impact
  - However, these 10% account for less than 3% of sector debt in total
- Moody's has had more downgrades in the past decade than upgrades, as shown below

Exhibit 5

Beginning in 2008, downgrades have outpaced upgrades, highlighting pre-coronavirus sector challenges



Source: Moody's Investors Service

Moody's Sector Comment (June 2020)

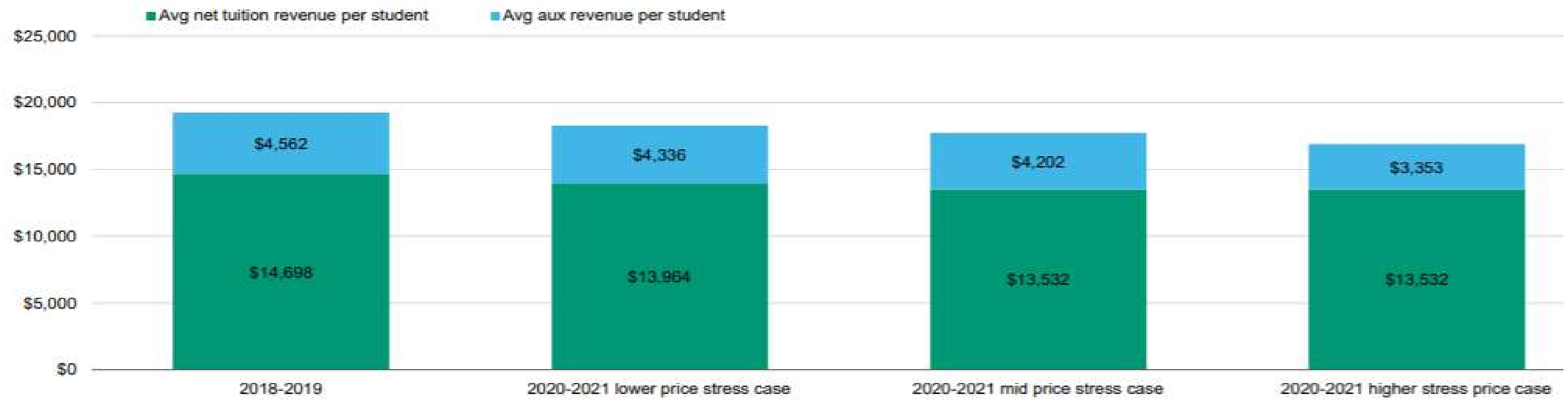
Moody's

"Even with potential enrollment gains, colleges face drop in tuition revenue"

- Moody's projecting 2% - 4% Fall 2020 enrollment gains on average due to high unemployment from pandemic, partially offsetting decreases in revenue per student (see chart below)
- Moody's projecting 5% - 13% FY 2021 decreases in average revenue per student from combined net tuition and net auxiliary (primarily housing and dining) driven by declines in household income, driving students to demand and choose lower cost options

Exhibit 3

Average net tuition and net auxiliary revenue per student under three scenarios show declines versus 2018-19 academic year



Source: Moody's Investors Service

S&P Mid-Year Sector Outlook remains "Negative" (August 2020)

S&P Global Ratings

"A Fall unlike any we have ever seen before"

- Impacts from current recession will vary state by state, bringing reductions in state funding for higher education while at the same time, most public colleges and universities have eliminated any tuition increases for fiscal 2021
- Somewhat dissimilar to public university peers, private institutions vary with respect to tuition costs for 2021- overall S&P expects net tuition revenue down for the sector
- Immigration issues continue to put pressure on revenue from "full-pay" international student populations
- Auxiliary revenue will suffer due to many institutions choosing remote instruction; Average FY19 revenue from auxiliary enterprises is 11% for private and 10% for public
- More expense cuts are likely, such as hiring freezes, furloughs and layoffs, as well as functional consolidations

S&P Global Ratings

U.S. Projected High School Graduation Rates

- 2025-2029 shows declining high school graduates which is expected to translate to decreased enrollment in higher education
- Shorter term - small increases (except in Midwest and Northeast)

Projected High School Graduation Rates

Source: Falkenstern, C., "Big Change with High School Graduates Through the 2030s." Presented at IPEDS SHEEO Data Conference, May 1, 2017; via WICHE.

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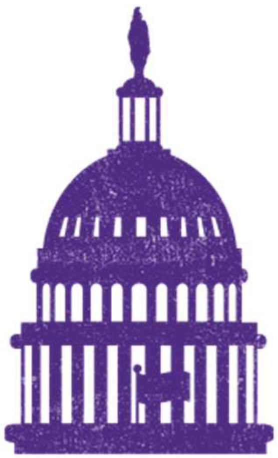
Washington Update



- To date, there have been several options offered to higher education in terms of relief due to impacts of pandemic:
  - CARES Act/HEERF, tax credits/deferrals, SBA PPP, Main Street Lending Program, etc.
- Washington is debating a “phase 4” relief package with additional requests
  - pandemic liability protections, supplemental emergency funding, suspension of taxability on scholarship aid and investment income excise tax, among other requests
- New Borrower Defense rules in place, including new financial responsibility requirements
- DACA- Supreme Court decision did little to end Dreamers sense of uncertainty, with further action unlikely until after the election

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What presidents are saying:

"Confident my institution will be financially **stable**"

Over five years…

69% — **All** institutions "agree or "strongly agree"

69% — **Public** universities "agree or "strongly agree"

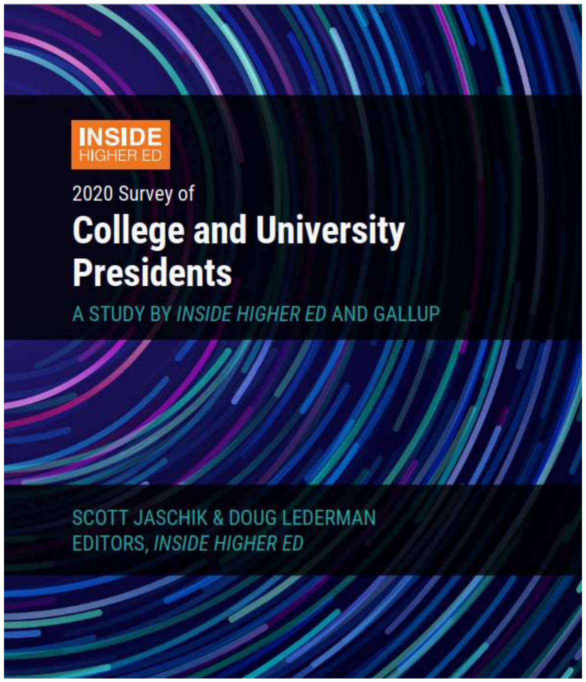
69% — **Nonprofit private** colleges "agree or "strongly agree"

Over ten years…

57% — **All** institutions "agree or "strongly agree"

53% — **Public** universities "agree or "strongly agree"

59% — **Nonprofit private** colleges "agree or "strongly agree"



This survey was taken in **February 2020**

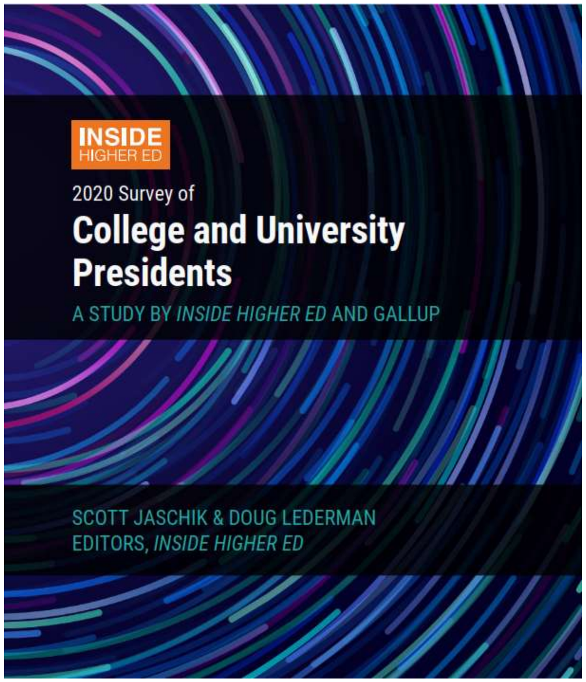
What presidents are saying:

"Confident my institution will be financially **sustainable over ten years**"

57% Overall response

59% Private four-year colleges

46% Public master's & baccalaureate colleges



Private four-year colleges had the most confidence while public masters & baccalaureate colleges had the lowest.

9% (67) of the 746 Presidents in the survey expect their institution **to close or merge** in the next five years.

What chief business officers say overall:

"Confident my institution will be financially **stable over ten years**"

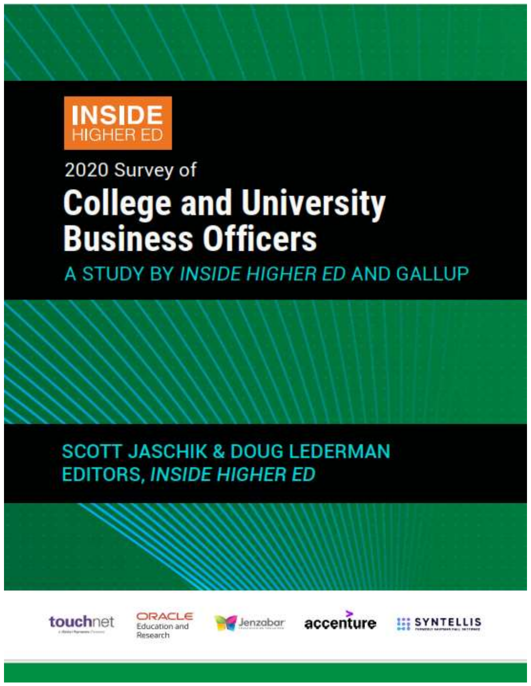
53% in 2020

50% in 2019

50% in 2018

Confidence has increased slightly with an growing split between public (51%) and private (41%) with private baccalaureate colleges having the least ten year confidence at 38% while public doctoral is the highest at 74%.

For the first time in the survey's history the short term outlook is more negative than the long term outlook (52% stable five year outlook overall)



This survey was taken in **June 2020**

At private nonprofit colleges:

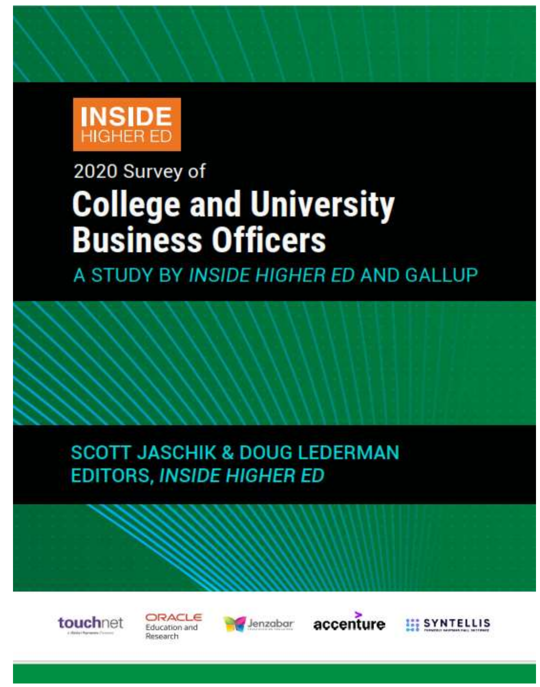
"Confident my institution will be financially **stable over ten years**"

41% in 2020

49% in 2019

52% in 2018

Confidence is declining sharply among private nonprofit colleges.



What chief business officers say overall

On mergers (next five years)…

5%
Institution had serious talks with another

22%
Believe their institution should merge with another

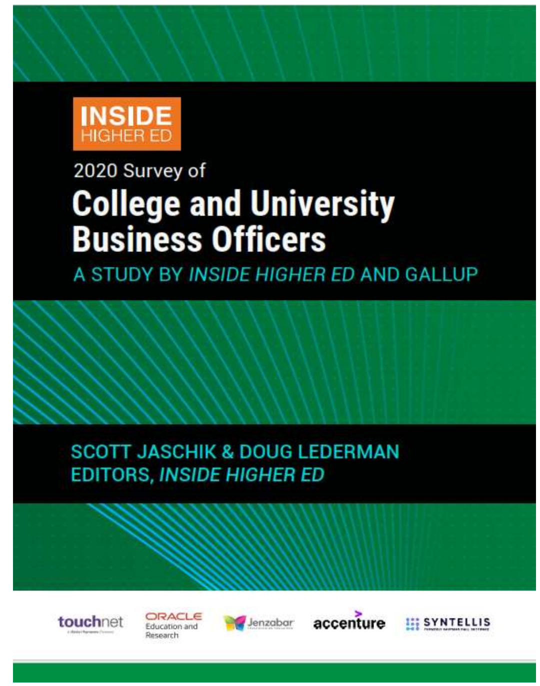
6%
Institution likely to merge with another

On shared services or programs (next 12 months)…

19%
Seriously contemplating sharing administrative services with another institution(s)

61%
Revamping our academic calendar to provide more flexibility

52%
Increasing the number of employees who permanently work remotely



Recent headlines covering closure projections in higher education

One Third Of Private 4-Year Colleges Are At High Risk Financially, Model Predicts

Coronavirus May Mark The End For Many Small Liberal Arts Colleges

Who Will Thrive, Survive, Struggle, or Face Significant Challenges?

Amid coronavirus pandemic, a growing list of colleges in financial peril

How Much Did Coronavirus Disruptions Affect 2 Closing Colleges?

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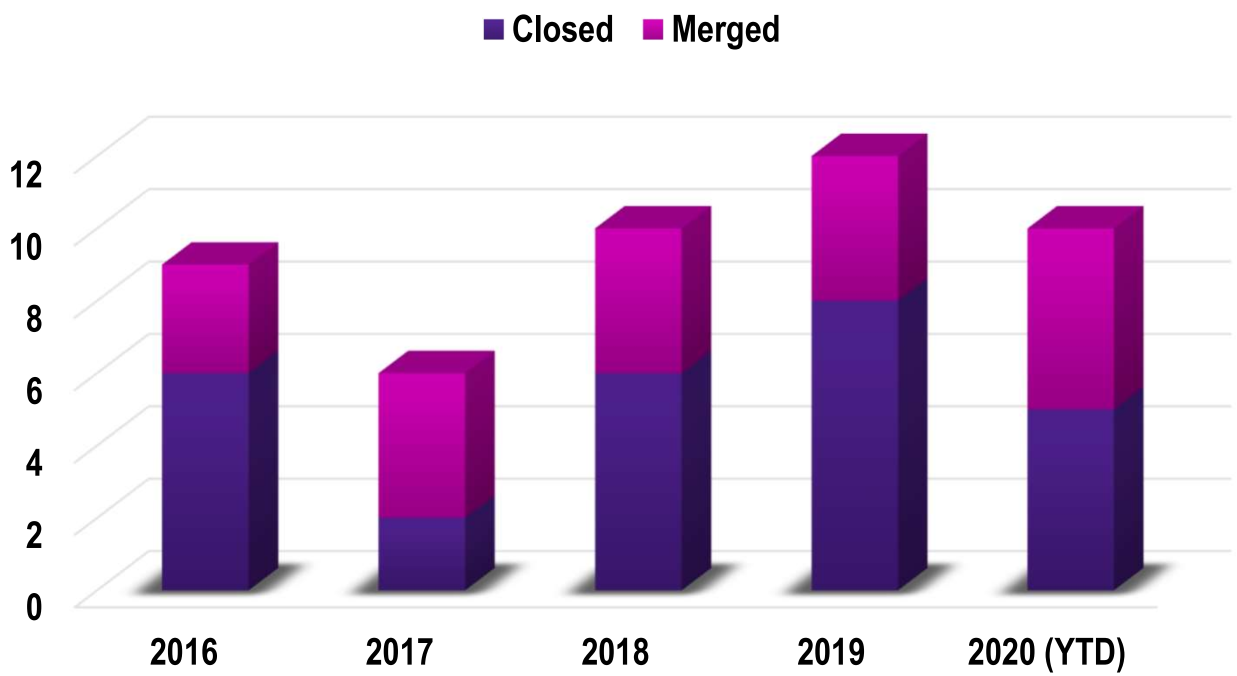
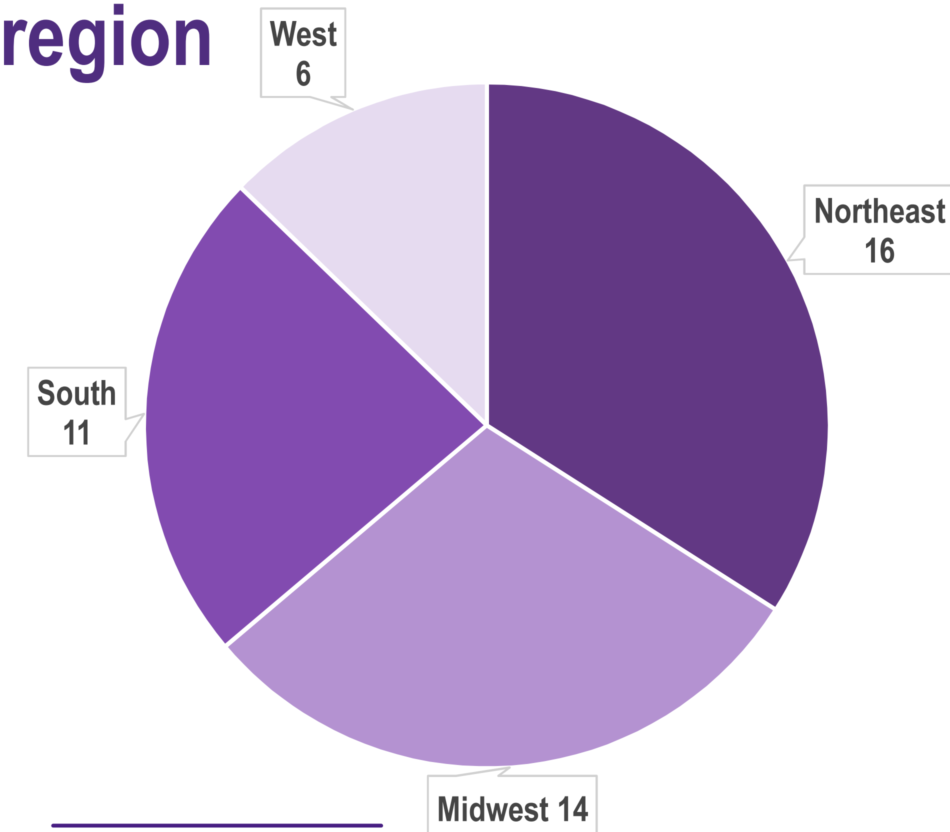
Closed or merged since 2016-2020 (to date)



- **47 closings and mergers 2016-2020 (YTD)**
- **Moody's projects closures and mergers to continue at approximately 10-12 a year (pre-COVID19 prediction)**

Closed or merged in 2016-2020 (year to date) by region



2020 Closings (YTD):

- Holy Family College (WI)
- Urbana University (OH)
- Nebraska Christian College (NE)
- MacMurray College (IL)
- Robert Morris University (IL)
- Concordia University – Portland (OR)

2020 Mergers (YTD):

- Wesley College (MA)
- School of Architecture at Taliesin (AZ)
- Pine Manor College (MA)
- Robert Morris University (IL)
- Watkins College of Art (TN)

10 Predictions for Higher Education's Future

"Rough Times"

1) Colleges and universities will try to open, but it will be challenging
2) Revenue will go way down, and costs way up
3) Colleges will maintain major online presence
4) The nation will debate the value of in-person education
5) There will be massive online competition and consolidation
6) There will be an existential crisis and many closures
7) No federal bailout
8) More corporations will enter the market
9) Greater inequality will result
10) A new ubiquitous learning platform will result

INSIDE HIGHER ED

Source: InsideHigherEd- May 26, 2020

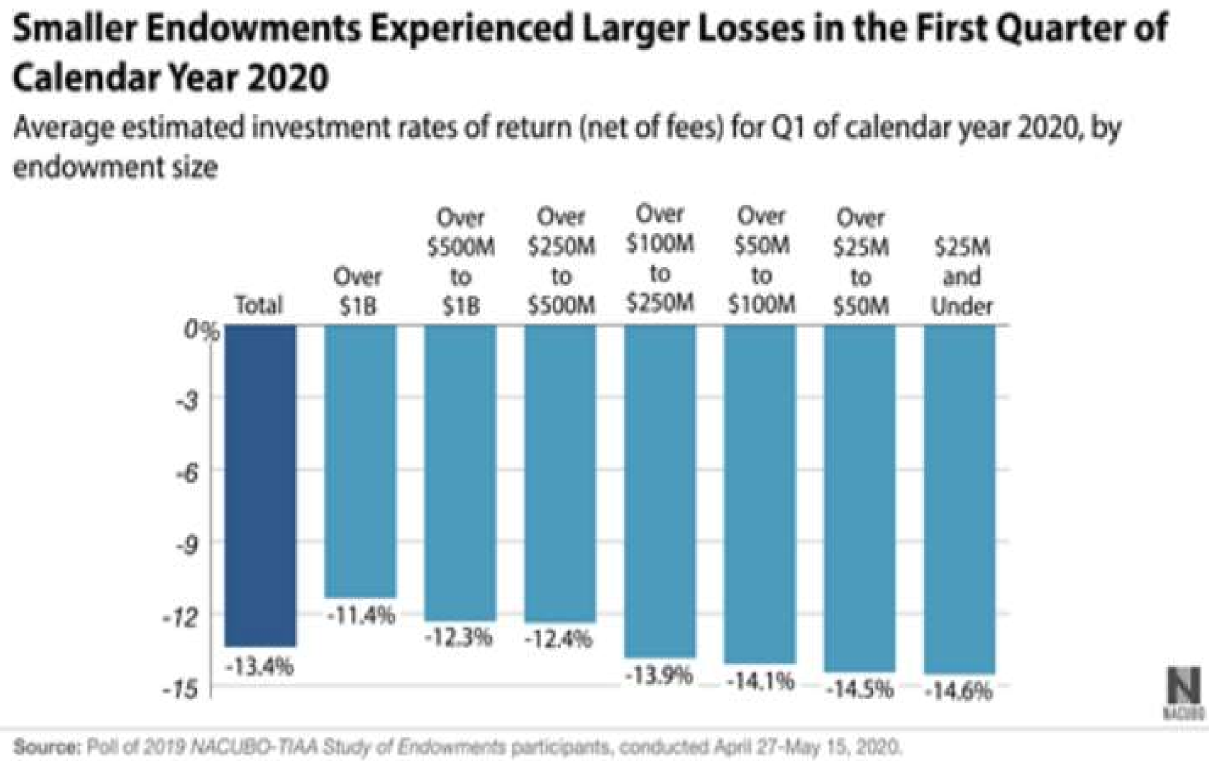
Endowment returns in the pandemic

Study of 774 endowments FY2019:

- The ten year annualized return was 8.4%

Survey of 333 endowments in April 2020:

- Respondents experienced an average first quarter (calendar) return of -13.4%
- Larger endowments are typically weighted less towards US Equities, resulting in less downside exposure
- With smaller endowments, the upside is that those institutions rely less heavily on endowment return to fund operations



Source: May 2020 NACUBO-TIAA Survey of Endowments

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Endowment spending – reactions to pandemic

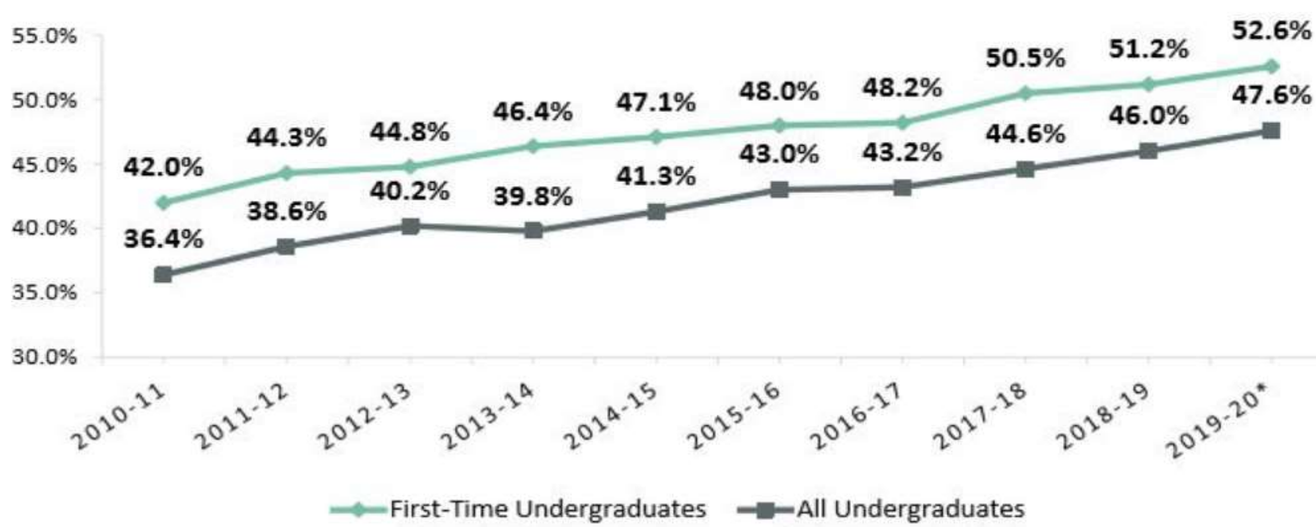
- FY19 study indicated an average effective spending rate of 4.5%
- FY20 survey indicates 72% of institutions expect to maintain current spending rate, 8% expect to increase and 7% to decrease (with the remaining “unsure”)
- In FY09 (Great Recession), about half of institutions reported increasing spending rates
- The decisions to change or maintain spending rate varies by endowment size (those with larger endowments are more likely to maintain current spending rates)
- Some institutions are planning to continue to spend on underwater endowments, while others will not, and 5% of institutions plan to “borrow” from the endowment due to COVID-19 pandemic

NACUBO

Trends in tuition discounting

"Before COVID-19, Private College Tuition discount Rates Reached Record Highs"- 2019 NACUBO Tuition Discounting Study

FIGURE 1: AVERAGE INSTITUTIONAL TUITION DISCOUNT RATE, BY STUDENT CATEGORY



Source: NACUBO Tuition Discounting Study, 2010 to 2019; data are as of the fall of each academic year.
***Note:** Preliminary estimates.

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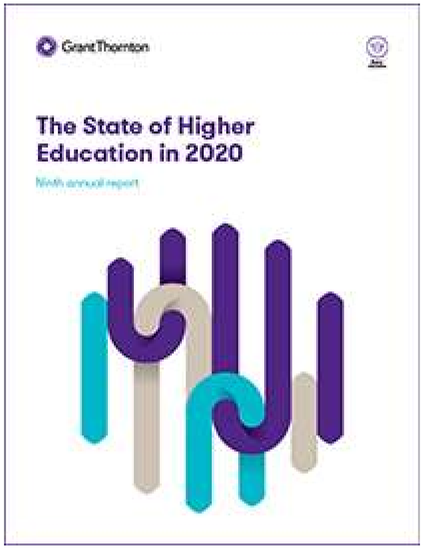
Guidance on important emerging developments and challenges

Articles in the 2020 report

- Charting a future course: A new operating model
- Effectively navigating campus crises
- A new role for the president: Chief innovator
- Gen Z is coming: Is your institution ready?
- The evolving impact of data privacy regulations
- Creative necessity: The need for new revenue streams
- Changing tuition models: Tuition resetting and ISAs
- The expanding influence of CFIs



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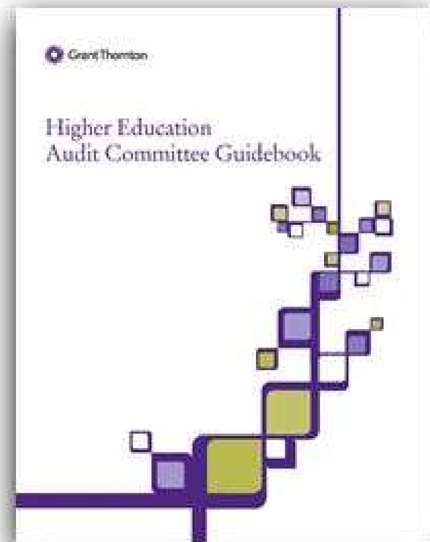

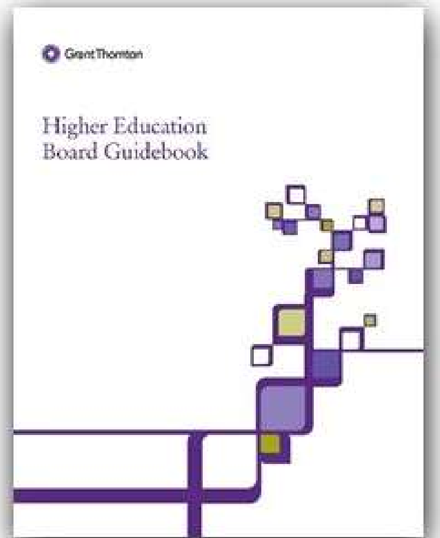

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