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PRESENTATION TO THOSE CHARGED WITH GOVERNANCE

2021 Annual Audit Results Presentation

Nevada System of Higher Education

February 2022

Audit timeline & scope

Spring 2021	Client continuance	• Client reacceptance • Issue engagement letter • Conduct internal client service planning meeting, including coordination with IT audit support team
May-August 2021	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 2021	Preliminary risk assessment procedures	• Develop audit plan that addresses risk areas • Update understanding of internal control environment
May-September 2021	Interim fieldwork	• Perform walk-throughs of business processes and controls • Performed compliance procedures specific to federal major programs
September 2021 – February 2022	Final fieldwork and deliverables	• Perform final phase of audit and year-end fieldwork procedures • Issue our report on the financial statements • Uniform Guidance audit of federal major programs – issue reports on major programs, schedule of findings and other reporting • Present results to the Audit Committee

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 consistent 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 your 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 (18 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

Significant risks

The following provides an overview of significant risks based on our risk assessments.

Significant risk area	Results
Management override of controls (presumed fraud risk)	• We obtained a complete population of journal entries from management and included the entire journal entries population for JE testing. We used Whole Ledger Analytics (Transactional Scoring and Account Combinations) to identify entries for testing. Transactional scoring analytics process every journal entry through a series of extractions designed to identify specific characteristics of potential fraud or management override of controls. The approach analyzes every journal entry line to determine whether it meets the selection criteria of each extraction. The analytics then score each journal entry based on the summation of the scores of every journal entry line across all extractions. Journal entries that exhibit elevated scores may represent entries with heightened risk of material misstatement due to fraud or entries with a risk of management override of controls. Entries that were identified as having a higher fraud risk were selected for testing. Nothing was noted that indicated that journal entries were used to override internal controls. • 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.

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 (tuition revenue represents as a significant risk, whereas the related receivables/deferred revenue represent the “other area of focus”)	• 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 stratified sample for each of the in-scope schools. Verified charges per student accounts and receipt of payment to support revenue being recorded.
OPEB and PERS liability; deferred outflows/inflows	• Reviewed the analysis of PERS and OPEB balances based on the underlying audited financials statements and allocations schedules prepared by the actuary. • Assessed the reasonableness of actuarial assumptions: discount factor, trend rates and cash flows, amongst others. • Tested participant census data. • Reviewed the financial statement disclosures.

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.

Significant risk	Results
Federal, local, and other grants and contracts revenues – operating and non-operating	• Performed detailed testing of grant revenue by selecting a stratified sample and testing grant contract, request for reimbursement, receipt of payment and reasonableness of expenses to revenue recorded. We ensured the underlying expense was allowable. • Selected a random sample of grant revenue receivable and tested balance to ensure appropriately recorded.
Other revenue (Sales and Services of educational departments; Sales and services of auxiliary enterprises; Other)	• We tested a sample of revenue transactions via vouching to source documentation and contracts to ensure proper revenue recognition in line with the criteria outlined in the applicable guidance. We verified charges and receipt of payment to support revenue recorded. • Preformed analytical review and substantive testing on receivables and deferred amounts to ensure proper cutoff.
Valuation of alternative investments	• Confirmed existence of investment holdings directly with custodians. • Tested reasonableness of investment-related income, including unrealized gain and losses • Tested management's process of valuing custodied investments • Tested management's process of valuing alternative investments • Reviewed completeness and accuracy of footnote disclosures

Major Programs for Uniform Guidance Audit

The following provides an overview of the major programs tested for fiscal year 2021

Major program	2021 Expenditures	Audit results
Dept of Educ: *Student financial assistance cluster*	$374 million	Unmodified opinion. Six internal control findings.
Dept of Educ: *Adult Education*	$3.6 million	Unmodified opinion. No findings reported.
Dept of Educ: *Education Stabilization Fund/ Higher Education Emergency Relief Fund (HEERF)*	$121 million	Unmodified opinion. One internal control finding reported.
Dept of Treasury: *Coronavirus Relief Fund (CRF) (COVID-19)*	$36 million	Unmodified opinion. No findings reported.
Research and Development Cluster	$120 million	Unmodified opinion. No findings reported.

Areas of focus for Uniform Guidance Audit

Area of focus	Procedures
Compliance with 2 CFR 200 Uniform Guidance	Perform compliance and controls procedures in accordance with the guidance of US Office of Management and Budget's *2021 Compliance Supplement* including: • Planning, identification of major federal programs and risk assessment. • Review the respective federal compliance supplements and, as applicable, the specific grant/award agreements and identify compliance requirements which are either subject to audit or applicable. • Understand design of internal controls over compliance for each of the respective major federal programs or clusters. • Test compliance and internal controls over compliance for each direct and material compliance requirement over each major federal program. • There are 12 compliance requirements for each major program. Of these, typically 6-8 have been direct and material to each major program or cluster. • Test the reconciliation of the schedule of expenditures of federal awards to the respective amounts included within the financial statements.

Areas of focus for Single Audit(continued)

Area of focus	Procedures
Compliance with 2 CFR 200 Uniform Guidance (continued)	• Communicate compliance/control findings to management and Audit Committee. • Render respective independent auditor opinions for each major program • Prepare the appropriate sections of the federal Data Collection Form submitted to the Federal Audit Clearinghouse.

Technology support as part of the audit process

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

An important component of our audit approach is to understand how IT is used and deployed 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. should be considered.
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 uncorrected misstatements

	Increase (Decrease) to:			
Description	**Assets**	**Liabilities**	**Equity**	**Net Income**
Uncorrected misstatements				
1 Cash	(1,879,645)			
Other assets	(23,188)			
Total Liabilities		(270,287)		
Fiduciary Net Position			(1,632,546)	
To remove the fiduciary activity from NSHE's books and create a new fiduciary fund.				
2 Endowment investments	3,594,108			
Gain (realized and unrealized)				3,594,108
To adjust investments balance to FV - Common Fund				
3 US grant revenue				(6,218,000)
Unrestricted net position			(6,218,000)	
To reverse the impact of the PY PAJE related to the revenue that was not recorded in relation to the Cares Act Higher Education Emergency Relief Funds.				
4 Benefit Expense				(432,000)
Unrestricted net position			432,000	
To reverse the impact of the PY PAJErelated to the implicit subsidy study				

SRO - Summary of uncorrected misstatements

	Increase (Decrease) to:			
Description	**Assets**	**Liabilities**	**Equity**	**Net Income**
Uncorrected misstatements				
1 Cash	(532,229)			
Accounts Receivable - Client Trust	(150,000)			
Client Trust Receivable	(97,061)			
Accounts Payable		(150,000)		
Client Trust Suspense		(629,290)		
To remove the fiduciary activity from UNLV Med's books and create a new fiduciary fund.				

Summary of corrected misstatements on the Schedule of Expenditures of Federal Awards (SEFA)

SEFA - recorded adjustments

To reclassify Coronavirus Relief Fund awards that meet the definition of research and development (R&D), and awards from the National Science Foundation to the R&D cluster – $7,254,185.

To remove fee-for-service contracts reported as Assistance Listing 93.323 in the SEFA which did not meet the definition of federal awards – $1,786,808.

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
- Significant unusual transactions
- 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 appropriate. NSHE adopted GASB 84 and 97 in FY 2021.
Accounting estimates	Significant accounting estimates include the fair value of alternative investments, OPEB and PERS liability, as well as OPEB and PERS deferred inflows/outflows. Management has informed us that in determining the appropriateness of the fair value of alternative investments, they evaluated all significant information from investment fund managers, including audited financial statements for all funds invested in, as well as the ownership information. Management also evaluated all significant information from the actuarial reports and allocation schedules for the purposes of management analysis of the net pension and OPEB liabilities, as well as deferred inflows/outflows.
Disclosures	Financial statement and related disclosures appear to be clear and complete. Disclosures are presented with overall neutrality, consistency and clarity

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.

Use of the work of other auditors

Component	Other auditors	Benchmark	Response
Grant Thornton International Ltd Member Firms			
Integrated Clinical Services, Inc.	Grant Thornton	1%, 9%	Comprehensive
UNLV Medicine	Grant Thornton	2%, 42%	Comprehensive
Other Unaffiliated Auditors			
UNLV Rebel Football Foundation	Other	0%, 0%	Analytical
UNLV Rebel Soccer Foundation	Other	0%, 0%	Analytical
UNR WPAA	Other	1%, 0%	Analytical
UNLV Research Foundation	Other	1%, 0%	Analytical
DRI Foundation	Other	0%, 1%	Analytical
DRI Research Park	Other	0%, 0%	Analytical
TMCC Foundation	Other	0%, 2%	Analytical
CSN Foundation	Other	1%, 1%	Analytical
NSC Foundation	Other	1%, 1%	Analytical
UNR Foundation	Other	40%, 27%	Analytical
UNLV Foundation	Other	48%, 13%	Analytical
GBC Foundation	Other	2%, 2%	Analytical
UNLV Singapore	Other	1%, 0%	Analytical
WNC Foundation	Review	1%, 1%	Analytical
Rebel Golf Foundation	Review	1%, 0%	Analytical
UNLV Alumni Association	Review	0%, 1%	Analytical

The benchmark is based on the percentage of the System Related Organization's consolidated assets and revenues, respectively. Our firm audited approximately 3% and 51%, 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.

User 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 OPEB actuarial assumptions used to arrive at the net other post-employment benefit liability and the other post-employment benefit related deferred inflows and outflows of resources. GT utilized our internal valuation group to determine the reasonableness of the actuarial assumptions used by PERS and OPEB actuarial specialists.

Management also relied on the work of STRATA Fund Services to assist in the valuation of certain alternative investments. GT used Harvest Investments to assist with testing of the valuation of investments performed by STRATA.

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 company's "whistleblower" obligations.

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Technical updates - GASB

Selected pronouncements effective for the year ending June 30, 2021, or subsequent periods - GASB

Title	Effective date
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*

* Effective dates vary by topic.

** Reflective of effective date deferrals under GASB 95.

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 continue to report the leased asset
  • The receivable will be reduced 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, 2020, 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.

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

Summary

- 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, 2019. Changes to adopt this standard should be applied retroactively, with certain exceptions.

Actual Impact

- 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.

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, 2021, 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 that 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 (subsequently updated to periods beginning after June 15, 2021 with GASB 95)
    - 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 and reinsurance recoveries.
- Effective for periods beginning after June 15, 2021, for all other topics, with early adoption encouraged and permitted by topic.

Potential Impact

- The practice issues addressed within this Omnibus are very narrow. Universities should review the clarifications provided for applicability, and update presentation and disclosures, as needed.

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.

Potential Impact

- LIBOR has historically been a common benchmark for debt, hedging and other agreements with some fashion of variable rate. Universities should inventory agreements to identify which, if any, include current references to LIBOR.
- For agreements with current LIBOR references, universities should coordinate with lenders and other counterparties to identify a replacement benchmark interest rate, and update agreements and footnote disclosures as needed.

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 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.

Potential Impact

- Universities often engage in these type of arrangements to expand student housing, parking, retail space, or some combination of these types of revenue-generating spaces. This new guidance clarifies the accounting for these types of arrangements, as compared to service concession arrangements, lease agreements or other types of transfers. Management should identify which agreements are currently in place for which accounting may need to restated. Management should also consider these updated definitions for any new transactions that may be in process, to ensure those arrangements are structured and reported in accordance with these new provisions.

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.

Potential Impact

- For those universities using subscription-based IT arrangements, this standard could have a significant impact on the financial statements of the university upon adoption. As with the new lease standard, management should consider the impact on financial covenants, as well as ensuring a complete inventory of existing agreements that will be subject to the new accounting and disclosures.