Current and Future Accounting Challenges

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Controller
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Welcome Back-First In-Person Workshop Since the Pandemic Began

• We are back in person
• Meeting to discuss prior year AFR, new year requirements, AFR module reminders, upcoming reporting changes
• This year focus on GASB impacts, CARES Act audits
• SAO Audits
  o 2022 SAO asked for estimates of our Capital Assets
Agenda

Day 1
Current and Future Accounting Challenges
Tax Update...Cliff Ussery/Edward Zavodny
Financial Reporting Update
Treasury/Wells Fargo Update
TAMUS Financial Systems Overview and OneStream AFR Project Update...Mark Schulz
Research Reporting-NSF/HERD Survey...Janet Killion/Keely Dunn
Capital Asset Reporting...Todd Gregory
Tuition Discounting Calculation

Day 2
Welcome Back
Financial Statement Tools
Improving Accounts Payable and Travel Payment/Audit Processes and Software Solutions...Clint Merritt/Kyle Metcalf
Changing Structures during Economic Challenges
GASB 96/94 Leases, Software, and P3’s
AFR Replacement Module Moving to OneStream 2023
Enrollment Impacts in Texas
Closing Comments

TAMUS Structure

TAMUS Board of Regents

Twelve Institutions
TAMU
TAMUG
TSU
TAMUT
PVAMU
WTAMU
TAMUCT
TAMUCC
TAMIU
TAMUC
TAMUK
TAMUSA

Eight Agencies
AgriLife Extension
AgriLife Research
TVMDL
TTI
TFS
TEEX
TEES
TDEM

Health Institution
HSC

System Office & SSC

The central management and coordination of TAMUS, issues Policies and Regulations for all A&M members

Blended Component Unit-Research Foundation

SSC=shared services center
Tax Update
Cliff Ussery, CPA and Edward Zavodny, CPA
Managers, Tax Compliance and Payroll
Texas A&M System Office

Topics
• Overview of 2021 AFR
• Upcoming Audits
• 2021 Financial Highlights
• Preparing for future GASB Standards
  o Compensated Leave
  o New Reporting Model
• HEERF/GEERS/COVID Funding
• Comptroller’s Office Disbursement of Funds Audits
SOBA – 2022 Accounting Team

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Monica Poehl
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Halli Falke
Construction & Analytics

2021 AFR

• Excellent AFR Submissions
• Fiduciary Statements improving each year, this is our 3rd year
  o Here at the System Office we are still working through the pooled cash challenges with our Treasury team and our workpapers
  o Endowments easier to separate; they match the investment reports
• Appreciate every one’s continued help and goal to issue quality financial statements
• Tracy will cover member performance which was excellent this year
Audits/Reviews

• SAO Audits
  o TAMUCC Accounts Receivable Management Processes
  o Follow-up Federal Financial Aid Cluster-TAMU & TAMUCC
  o Follow-up Federal R&D Cluster-TAMU
  o SEFA - TDEM Coronavirus State and Local Fiscal Recovery Funds
  o Net Capital Assets...TAMU numbers will be reviewed

• Internal Audit
  o HEERF funding
  o FY 2022 APS011

• SACS Review
  o None for 2022
  o TAMUC coming up in 2023

Upcoming Comptroller’s Office Disbursement of Funds

• TFS
• AgriLife Extension Service
• AgriLife Research
• System Office
• TAMUCC
• TTI
2021 Consolidated AFR-Balance Sheet

- Recurring Material Impacts
  - TAMUS Non-General Revenue OPEB liability increased $367 million to 2021 reported liability of $2.390 billion from 2020 $2.023 billion
  - State Appropriations increased by $200 million totaling $1.4 billion..slight increase
  - Pension liability increased by $26 million to $712 million based upon TRS actuary reports with decrease in investment returns and change in pension assumptions
  - Bonds payable, notes/loans payable and notes from direct borrowings increased by 4.06% or $202 million in 2021, totaling $5.3 billion

2021 Consolidated AFR-Balance Sheet

- A&M System’s net position totaled $8.49 billion, which is a $1.148 billion increase from 2020, which was $7.342 billion
  - An increase in Noncurrent Investments of $1.159 billion
  - An increase in Liabilities and Deferred Inflows of $875 million, OPEB increased by $367 million, and Due to Other Agencies increased $357 million mostly related to TDEM
  - An increase in Cash and Cash Equivalents of $544 million
  - An increase in Capital Assets, net, of $176 million

- A decrease in Interfund Receivables of $56 million, related to PUF debt
2021 Consolidated AFR-Dramatic Performance On Investments

• Recurring Material Impacts
  o Investment income was $1.01 billion which was a $427 million increase from 2020...dramatic increase equity markets strong returns while COVID vaccines and therapies became more widely available
    ▪ Unrealized gain/loss which increased by $349 million, realized gains which increased by $107 million offset with interest income which decreased by $29 million
  o Equity markets posted strong returns, as investors grew more optimistic about global growth while concerns about COVID began to subside
  o Inflation and supply bottlenecks continue to be areas of concern, especially as commodity prices have also risen sharply during 2021
  o US consumer continued to be in good shape, with strong wage gains and low unemployment helping to maintain consumer-spending levels

2021 Consolidated AFR-Operating Statement

• Material Items in 2021
  o Continued Impacts due COVID-19
    ▪ Federal Revenue increased by $7 billion, due to COVID funding from Department of Education, Federal Emergency Management Agency, Department of Defense
    ▪ Institutions received HEERF funding $319 million to help aid students and improve campuses
    ▪ Slight increase in Auxiliary Enterprise revenue of $3 million as students begin to return to on campus activities
    ▪ Total Deductions $60.4 million ($33.5 P3 deductions)
  o TDEM second AFR with us...significant impact
    ▪ Received $8 billion Federal Non-Operating Revenue
    ▪ Received $87 million State PT Non-Operating Revenue
2021 Consolidated AFR-Operating Stmt

• Operating and Non-Operating revenues increased
  o Investment income increased by $427 million
  o Federal Revenue and State Non Operating Revenue increased by $7 billion
  o Net tuition and fees increased by $94 million
• Operating expenses increased significantly (TDEM)
  o Operating federal pass-through expenses increased by over $5 billion where TDEM passed through funds to other state agencies
  o Other Operating Expenses increased by over $1.2 billion mostly attributable to grants to students and Texas Division of Emergency Management who sent funds to state agencies, cities, counties and other governmental entities
  o Professional fees and services increased by $979 million, mostly related to TDEM

2021 Consolidated AFR-Operating Stmt

• Operating expense increases
  o Salaries & Wages remained consistent with prior years increasing by only 1% or $11 million
  o Student scholarships was $326 million, which increased by $24.6 million or by 8% from the prior year
  o OPEB increase of $38 million
  o Pension expense increase of $29 million
  o Depreciation increase of $46 million
2021 Consolidated AFR-Fiduciary Statements

- Investments were $539 million, which was an increase of $92.6 million from the prior year’s total of $446.4 million
  - Investment income included a $33.4 million increase in unrealized net increase in fair value, $11 million increase in realized gain on sale of investments and $1.2 million increase in interest income
- Ending Restricted for Other Individuals, Organizations and Other Entities net position of $603 million which was an increase of $102.5 million
- Contributions from various entities accounted for $7 million and the investment earnings increased by $45 million
- Reductions in Receipts and Payments from Public Private Partnerships was impacted by over $30 million in additions and deductions
  - Several A&M institutions dissolved their contracts and began to manage the dorms with internal staff

2021 Revenues and Transfers (excluding TDEM) $6.5 Billion
Onto the 2022 AFR Season

- GASB 87 Leases
- Preparing for future GASB Standards
  - Compensated Leave
  - New Reporting Model
- HEERF/GEERS/COVID Funding
- Comptroller’s Office Disbursement of Funds Audits
FY 2022 GASB 87 Implementation

• Reducing our Lease Expense
• Reducing our Net Position in Current Funds for the increase in the liability
• Increasing our Net Position in Plant funds for the increase in RTU Assets
• NonOperating Interest Expense Increases
• NonOperating Interest Revenue Increases
  o Credits will be higher than the Cash received in the first few years for revenue and interest revenue due to amortization of the Accounts Receivable over time
• LeaseQuery Implementation
• Tracy will walk us through these details

Texas A&M System Lease Implementation

<table>
<thead>
<tr>
<th>Type of Lease</th>
<th>Number of Leases</th>
<th>Total Amounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lessee (expense)</td>
<td>53</td>
<td>$143,307,826</td>
</tr>
<tr>
<td>Lessor (revenues)</td>
<td>22</td>
<td>106,334,386</td>
</tr>
<tr>
<td>Total</td>
<td>75</td>
<td>$249,642,212</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Most Significant Leases</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of Lease</strong></td>
</tr>
<tr>
<td>Lessee – parking garage</td>
</tr>
<tr>
<td>Lessor – development shopping center</td>
</tr>
</tbody>
</table>
FY 2023 GASB Standard 94 P3s and APA and GASB 96 SBITA

- GASB 94 Public-Private, Public-Public Partnerships (PPPs) and Availability Payment Arrangement (APA)
- GASB 96 Subscription-Based Information Technology Arrangements (SBITA)

Tracy will talk us through these items tomorrow

Preparing for Future GASB Standards

- Retire?...Run Away?
- OneStream software modernization
- GASB 101-Compensated Absences
- New Reporting Model
  - Calling these the ‘Big Three’, inter-related standards
    - Financial Reporting Model
    - Revenue and Expense Recognition
    - Note Disclosures
GASB 101-Compensated Absences Implementation-FY 2025

• A compensated absence is leave for which employees receive
  (a) cash payment when the leave is used for time off,
  (b) other cash payment during employment or upon termination of employment, or
  (c) settlement through noncash means, such as conversion to postemployment benefits.

• Sick leave and sabbatical leave probably need to be calculated

• Record with “more likely than not to be paid” criteria...sabbatical leave

• Sick leave paid out to beneficiaries when employee passes away?

• Some exceptions allowed
  o No liability required for leave related to an event: parental, military, jury duty, etc.
  o Holidays

GASB 101-Compensated Absences Implementation

• Considerations for calculating liability
  o Sick hours multiplied by salary rate per employee
    ▪ Consider benefit costs
  o Consider how many hours employee can keep annually?
    ▪ Not to calculate how many possible, but what is reasonable to be paid out
  o Actuary or Three-year average
    ▪ GASB not expecting an actuary to calculate for us
  o Add benefit expenses to salary portion
NACUBO Modifying Tuition Discounting

• The System Office will be putting together workgroup to research this topic

• Eliminating the alternative method, there was no weighting of the discounts to place in the correct column
  o Tuition and Fee discounts are understated
  o Auxiliary discounts are overstated

• Concerns related to the GASB Revenue/Exp Recognition standard

HEERF/GEERS/COVID Funding

• HEERF spending will continue through 2023

• Starting to see audits being completed on HEERF funding
  o TAMU, TAMIU and TAMUC audited by our internal audit team
  o Audits are going very well
  o Documentation is important, if management changed the way they were spending the funds; document the change and prove out the methodology selected with documentation
  o Internal audit is asking really good questions and helping us be prepared for federal audits or State audits
Governor’s Emergency Relief Funding (GEERs)

- Draw federal funds in Restricted fund group
- We have UB authority; however retains its federal fiscal year end date of 9/30/22
- Need to read the contract and work with the departments to determine if the fiscal offices needs to encumber and/or accrue for the AFR by 8/31
- Provided in Fund 0325
  - if have remaining Cash in the State Treasury, then this fund will need to be reported on the AFR
- Some provided in local funds
- Check with THECB on how to report on the AFR, we are seeing variances

Comprehensive Regional University (CRU) Funding

- $7 million allocated to TAMUS institutions
- Funding from THECB into local funds
- Record as stimulus funding, Change per THECB: Not 0302 federal non-operating pass through revenue from THECB..vendor relationship
- Recommend to Setup in Restricted fund group for this contract
- We have until November, 2023 to spend
- Next year, this funding could be funded from GR...then need to consider whether the fund group should be E&G/Designated
GASB New Reporting Model

• The “Big Three” inter-related concepts and standards
  2. Financial Reporting Model
  3. Revenue and Expense Recognition

• The Rumor is GASB is trying to reflect what is happening in operations...hoping to not change current accounting standards

1 – Conceptual Framework: Disclosure Framework and Recognition

• Sets foundation for the rest of the Big Three. Two core issues:
  o Disclosure framework
    ▪ Issued date Concept Statement No. 7 June 2022
    ▪ Non-authoritative
    ▪ Provides structure, defines essential
  
  o Recognition-measurement focus, statement of cash flows, entity
    ▪ Exposure Draft issued June 2020
    ▪ Expected issue date of December 2023
Conceptual Framework: Disclosure Framework

- Stakeholders provided concern on the length, usefulness, usability while other users, auditors provided contrasting concerns the details are needed
- Decisions
  - Clarify essentiality
  - Include professional judgment
  - Reporting units should be listed
  - Benefit vs. cost should be considered

Conceptual Framework: Recognition

- Determine what should be reported and when to recognize in financial statements
- Tentative decisions
  - Governmental fund
    - Measurement focus: “short-term financial resources measurement focus”
    - Basis of accounting: “modified accrual”
  - Proprietary fund
    - Measurement focus: “economic resources measurement focus”
    - Basis of accounting: “accrual”
  - Items recognized in financial statements when they meet definition of an element and measurement of the items sufficiently reflects the qualitative characteristics described in Concepts Statement No. 1
2 – Financial Reporting Model

• So far, changes predominantly on SNP and SRECNP
  o The layout of statement changed

• Exposure Draft analysis occurring now
  o Comments being reviewed by GASB...so far only decisions for governmental funds
  o Proprietary fund financial statements reviewed May and June 2022
  o Expected issue date of December 2023
    ▪ Implementation dates based upon annual revenue, fiscal years beginning after June 2024 ($75M or more) or June 2025

3 – Revenue and Expense Recognition

• GASB is reviewing concerns raised during field test and public hearings, discussing following topics
  o Mutual assent
  o Rights and obligations
  o Interdependence and grants
  o Assumptions and the expense model

• Will impact tuition discounting calculation

• Exposure draft planned for Mar 2025
• Final statement planned for June 2027
• Effective date – in the future?
Reminders for APS011 Benefits Proportional by MOF

• System Office has issued a White Paper, no material changes for 2022
  o Updated the legal cites only
• Any prior year payroll corrections should be reviewed for AY 2021
  o If there have been any changes
• APS011 is AY driven vs. FY driven
• We are posting known corrections in the correct FY

Reminders for APS011 System Office White Paper Updates

• TRS expenses for fund 02xx, must post an entry to match expenses even if we have not received the credit from TRS yet
• Any time we amend APS011, send copies to all of the oversight agencies, SAO, LBB and the Comptroller’s Office
• Deadline to Comptroller’s Office Nov. 19th
Comptroller’s Office
Post Payment Audits

• HRIS audit findings on salary action reason codes and appropriated funds only vs. all salaries
• Service dates for prior service not being accounted for longevity
• Vendor Compliance Verifications
  o Need to show proof verification occurred before signing contract
  o Types of Verifications
    ▪ Warrant/Payment Hold Check (reviewing if funding in USAS then N/A per CPA legal)
    ▪ SAM Check
    ▪ Iran, Sudan, Foreign Terrorist Organization Check
    ▪ Boycott Israel Check (contract provision)

Comptroller’s Office Post Payment Audits

• Failure to Report Vendor Performance Tracking System (exempt)
• Generic vendor used on pcards
  o We had approval for current processes where Citibank was the vendor until audits commenced on 2021...interpretation is 2020 is included
  o FAMIS enhancement started in 2020
• Challenge..we send W-9 to vendors and they do not reply
  o Written up for using vendor 12 times and still no W-9
• What are other members doing to help correct the Vendor?
  ▪ Repetitive vendors are being listed, CPA analyzing
  ▪ We send out a W-9 once, how many times do we send? New process needed?
Comptroller’s Office Post Payment Audits

- Sales tax cannot be paid from state funds
- **Appropriation Year** needs match the year incurred—New Item for the audit team to review
  - Travel
  - Pcard purchase
- **Out of State** travel needs to be pre-approved
- Travel voucher form not approved by the Comptroller’s Office…working on this item with Clint Merritt

Questions

- AFR season is now
- Next few presentations preparing us
- Reminders
- Hot topics
- Questions are welcome