Accounting and Reporting for Public Colleges and Universities

2012-2013
NACUBO Intermediate Accounting

Objectives

- Upon completion of these materials, you will be able to
  - Comprehend the reporting and recognition guidance for information included in public C&U financial reports
  - Identify the primary financial statement in public C & U financial reports
  - Describe the characteristics and purposes of public C&U financial statements and related information
  - Identify how to read and understand public C&U financial reports
Format

- Recognition
  - Specific GAAP guidance
- Reporting
  - Requirements for information
- Display
  - Review and discuss financial statements
- Disclosure
  - Overview of required discussion/presentation

Recognition

- GASB organized 1984
  - Companion to FASB
  - Initially addressed state and local government guidance
  - GAAP hierarchy outlined GASB No. 55
- Reporting entity GASB No. 14
  - First to address C&U display
- Compensated Absences GASB No. 16
  - Vacation, sick and other costs - sabbatical?
- Grant revenue recognition GASB No. 24
Recognition continued

- Investments and investment pools reported using fair value GASB No. 31
- Nonexchange transactions GASB No. 33
  - Derived tax revenues i.e., sales tax or income tax
  - Imposed tax revenues i.e., property tax
  - Government mandated i.e., gov’t grants
  - **Voluntary nonexchange transactions** i.e., gifts, contributions, pledges

Voluntary Nonexchange

- **Gifts**
  - Includes donations, contributions, some grants, promises to give, pledges and any other term used to define a private gift i.e., non pro quo
- **Recognized when**
  - Verifiable
  - Measurable and probable of collection
  - Eligibility requirements met (more on this later)
- **No condition** (what is this?) record at Fv
  - Unrestricted
Other Recognition Concerns

• Restricted
  – Program in place
  – Time period for resources to be provided has begun
  – Reimbursement basis – allowable expenditures are made!

• Condition

• Pledge
  – Unconditional
  – Installment payment

Eligibility

• Eligibility criteria
  – Time creates condition
  – Purpose
  – Funds in hand – deferred
  – Pledge – not recorded but may be disclosed in notes
Eligibility Example

• The History Department received $5,000 CASH to support faculty travel
  – To attend academic meetings this fiscal year
    Debit ??? Credit ???
  – To attend academic meetings next year
    Debit ??? Credit ???

How would these entries change if a pledge was received rather than cash?

Eligibility Example

• The University receives an endowment pledge of $2,500,000
  Debit ??? Credit ???

• The University receives a capital building campaign [record all or record FV]
  – $ gift Debit ??? Credit ???
  – Pledge Debit ??? Credit ???
More Recognition Issues

- Items included in GASB No. 34
- Infrastructure included in capital assets
  - Capital assets with long lives
  - Examples?
- Works of Art
  - Asset or treasure
- Contributed service
  - Unlike FASB, no new guidance

Other Recognition Concerns

- Impaired capital assets GASB No. 42
  - Losses measured and recognized
- Postemployment benefits other than pensions GASB Nos. 43 & 45
  - Recognized but not well funded
- Termination benefits and plans GASB No. 47
- Sale or pledge of receivables GASB No. 48
  - Criteria re sale (revenue) or collateralized borrowing (liability)
- Pollution remediation GASB No. 49
  - Outlays capitalized and amortized
- Intangible assets - patents, computer software GASB No. 51
  - Identifiable incurred costs
More Recognition

• Service concession arrangements GASB No. 60
  – Parking garage operated by third party
• Old FASB guidance converted to GASB GAAP GASB No. 62
  – Major areas include leases, contingencies, construction-type contracts, related parties, etc.

Reporting

• Model known as the NACUBO or AICPA model (used until 2003 – still used by institutions that are required to produce fund statements)
• Fund accounting
  – Transactions segregated into separate set of self-balancing funds that included assets, liability, equity, revenue and expenditures
  – Equity also referred to as ‘fund balance’
Financial Reporting Model

- Colleges and Universities report as a Business-Type Activity (GASB No. 35 amended GASB No. 34)
  - Charge fee for service
  - Full accrual accounting – depreciation and effective interest recognition
- Required supplemental: Management Discussion and Analysis MD&A
- Three required statements
- Note disclosures
  - Identify and discuss later

Observations

- Reporting model DOES NOT change institution’s financial management
- ONLY changes reporting of results
- All statements use classified format
  - Classification based on old GAAP ARB 43
    - Assets and liabilities
      - Current or noncurrent NOT long-term
    - Revenue and expenses
      - Operating, non-operating, capital or extraordinary
Fund balances are NOT USED
Net Assets ARE

- Fund balance categories – budget categories!
  - Current funds unrestricted
  - Current funds restricted
  - Loan
  - Endowment
  - Similar Funds (Investments)
  - Plant

- Net asset categories – financial reports
  - Capital assets net of related debt
  - Restricted
    - Nonexpendable
    - Expendable
  - Unrestricted

MD&A

- REQUIRED COMPONENTS
  - Provides objective and easily readable analysis
    - not boiler plate
  - Brief discussion of basic financial statements
  - How the statements relate to one another
  - Significant differences in data statements provide
  - Reinforces analysis and result of operations
Other MD&A Issues

- Describes known facts typically
  - Mandates 8 items and element disclosures (see MD&A checklist)
- Comparative
  - Discusses institution
  - Discusses each of the statement
- Review University of Kentucky’s MD&A in posted material

Financial Statement Display

- Required financial statements for proprietary funds (GASB 34, p. 33, ¶91) are:
  - Statement of Net Assets [amended by GASB 63 for FY 13 Statement of Net Position]
  - Statement of Revenues, Expenses, and Changes in Fund Net Assets [Fund Equity]
  - Statement of Cash Flows
Statement Of Net Assets

University of Kentucky

Statement Highlights

• Balanced format
• Classified assets and liabilities
  – Presented in order of liquidity
• Net assets rather than fund balance
  – Invested in capital assets net of related debt
  – Restricted
    • Nonexpendable - detailed by type
    • Expendable – detailed by type
  – Unrestricted [presented as a single number]
Statement Of Revenues, Expenses, And Changes In Net Assets

University of Kentucky

Statement Highlights

• Classified format
• Operating section
  – Revenues displayed net of discount
  – Expenses displayed
    • Function or natural class
• Nonoperating revenues, gains or losses
• Capital revenues, gains or losses
Unique C&U Issue

- Scholarship discounts and allowances (ask Dr. Farley about this!)
- Releasing of restrictions
  - That is, the expiration of imposed restrictions
  - Specific identification
  - Public institutions record transactions within restricted account (Private institutions must reclassify, i.e., increase one class of net assets and decrease another reported as a separate item on financial statement)

The third required statement is the Statement Of Cash Flows
Statement of Cash Flows

- Recognition and reporting details discussed in the Cash Flow session
  - Including:
    - How the information is displayed in the statement
    - An explanation of how the information is used
    - The various concerns and required disclosures

Reporting Amendment for FY 13

- GASB No. 63
  - Changes the Statement of Net Assets to Statement of Position
  - Creates deferred outflows and inflows
    - New asset and liability category presented following the noncurrent categories
    - Deferred are neither assets nor liabilities
    - Typically noncurrent in nature
  - Deferred items attributable to capital assets included in capital asset portion of net position
Disclosures

- Significant policies Note 1 p 19 - 24
- Definition of net asset classes Note 1 p 19 (GASB No. 34)
- Definition of cash and equivalents Note 1 p 20 (GASB No. 9)
- Capital assets definition Note 1 p 22 (GASB No. 18)
- Deposits and Investment Note 2 p 24 – 28 (GASB No. 40)
  - Policies
  - Credit risks
  - Custodial credit risk
  - Concentration credit risk
  - Interest rate risk
  - Foreign currency risk
- Notes, loans and accounts receivable Note 3 p 29 (GASB No. 37)
- Capital assets by type and amount Note 4 p 30 – 32 (GASB No. 34)

Disclosures continued

- Accounts receivable and liabilities Note 5 p 32 (GASB No. 37)
- Long-term liabilities Note 7 p 33 – 35 (GASB No. 34)
- Segments University of Kentucky has none
  - Lets discuss more on this later
- Funds held by others Note 12 p 37 (old GAAP)
- Pension and OPEB Notes 15 – 18 p 38 - 42
- Natural Classification of expenses Note 23 p 45 (optional)
- RSI – Summary Statement of Net Assets and Statement of Revenues an Expense for UK and its affiliated organizations p 48 - 49 (optional)
Segment Definition

- An identifiable activity with a specific identifiable **revenue stream** pledged in support of revenue bonds or other revenue-backed debt  
  GASB 34 ¶134
- Has identifiable related expenses, gains and/or losses, assets and liabilities
- Disclosure required if debt covenant requires financial statements (GASB 37 amendment)

Segment General Rule

- Can have debt without a segment
- Can not have segment without debt
  - Identifiable revenue stream pledged to debt
  - Identifiable revenues, expenses, assets and liabilities
  - Debt covenant requires financial statement
Other Items of Interest

• Pension Accounting and Financial Reporting revision GASB Nos. 67 and 68 effective FY 14 and FY 15
• Bankruptcy guidance GASB No. 58 (only about 8 per year)
• Public Combinations – guidance expected in early 2013
• Statement 61 – Statement 14 (Reporting Entity) Reexamination
• Recognition and Measurement Attributes – Conceptual Framework
• Statement 59 – Financial Instruments Omnibus

Learning Assessment

• What sections do public colleges include in their annual financial report?
• Are all sections audited?
• What is the difference between exchange and nonexchange transactions?
• What are net assets? What is included in each type of net asset?
• Why did University of Kentucky not recognize any endowment pledges?
Questions?

Thank you!