



Accounting and Reporting for Public Colleges and Universities

2013-2014
NACUBO Intermediate
Accounting

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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

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Format

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

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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

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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**

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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



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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



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Eligibility

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

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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?

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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 ???

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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

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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

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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.

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More Recognition

- Deferred outflows and Deferred inflows GASB 63 and GASB 65
 - New category neither asset nor liability
- Pension liability for employee and employers GASB 67 and GASB 68
- GAAP Hierarchy GASB 70
 - Authoritative vs nonauthoritative

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Financial Reporting Model

- Colleges and Universities report as a Business-Type Activity (GASB No. 35 amended GASB No. 34 amended by GASB 63)
 - Charge fee for service
 - Full accrual accounting – depreciation and effective interest recognition
- Required supplemental: Managements Discussion and Analysis MD&A
- Three required statements
- Note disclosures
 - Identify and discuss later

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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
 - Deferred outflows and Deferred inflows
 - Revenue and expenses
 - Operating, nonoperating, capital or extraordinary

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Fund balances are NOT USED Net Position IS

- Fund balance categories – budget categories!
 - Current funds unrestricted
 - Current funds restricted
 - Loan
 - Endowment
 - Similar Funds (Investments)
 - Plant
- Net Position categories – financial reports
 - Capital assets net of related debt and depreciation
 - Restricted
 - Nonexpendable
 - Expendable
 - Unrestricted



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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

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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

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Financial Statement Display

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

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Statement Of Net Position

University of Kentucky

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Statement Highlights

- **Balanced format**
- **Classified assets and liabilities**
 - Presented in order of liquidity
- **Deferred outflow and Deferred inflow**
- **Net Position 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]

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Deferred Categories

- GASB No. 63
 - Creates deferred outflows and inflows
 - new asset and liability category presented following the noncurrent categories
 - Deferred are neither assets nor liabilities
 - Typically long-term noncurrent in nature
 - Deferred items attributable to capital assets included in capital asset portion of net position

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Deferred Outflow Items

- Grants paid in advance of meeting timing requirements
- Deferred amounts from refunding debt (debits)
- Cost to acquire rights to future revenues
- Deferred loss from sale-leaseback
- Debt issuance costs (other than insurance)
- Acquisition costs for risk pools
- Loan origination costs
- Costs to acquire loans

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Deferred Inflow Items

- Grants received in advance of meeting timing requirements
- Taxes received in advance
- Deferred amounts from refunding debt (credit)
- Proceeds from sales of future revenue
- Deferred gain from sale-leaseback
- 'Regulatory' credits (gains on other reductions)
- Loan origination fees (excluding points)
- Commitment fees (after exercise of expiration)
- Fees received for sale of loans

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Statement Of Revenues, Expenses, And Changes In Net Position

University of Kentucky

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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

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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 reclass I.e., increase one class of net assets and decrease another reported as a separate item on financial statement)

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The third required statement is the
Statement Of Cash Flows

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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

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Disclosures

- Significant policies Note 1 p 19 - 24
- Definition of net asset classes Note 1 p 20 (GASB No. 34 and 63)
- 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 25 – 31 (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 32 (GASB No. 37)
- Capital assets by type and amount Note 4 p 33 – 35 (GASB No. 34)

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Disclosures continued

- Accounts receivable and liabilities Note 5 p 35 (GASB No. 37)
- Long-term liabilities Note 7 p 36 – 38 (GASB No. 34)
- Segments University of Kentucky has none
 - Lets discuss more on this later
- Funds held by others Note 12 p 40 (GASB No. 62)
- Pension and OPEB Notes 15 – 18 p 41 - 46
- Natural Classification of expenses Note 24 p 49 (optional)
- RSI – Summary Statement of Net Assets and Statement of Revenues an Expense for UK and its affiliated organizations p 50 - 55 (optional)

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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)

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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

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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 – GASB 69
- Statement No. 61 (Reporting Entity) Reexamination amended GASB No. 14
- Recognition and Measurement Attributes – Conceptual Framework
- Financial Instruments Omnibus GASB No. 59

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35



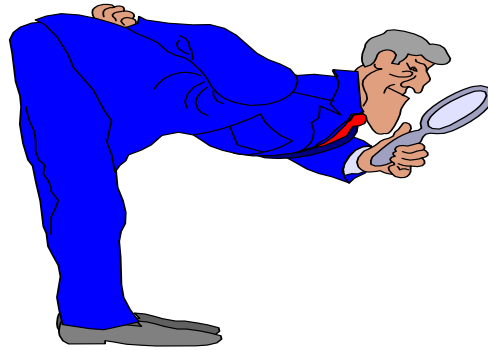
Learning Assessment

- 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?

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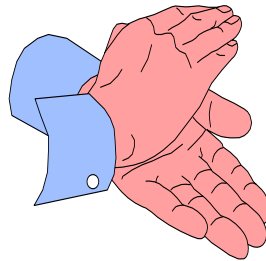
Questions?



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Thank you !



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