UNIVERSITY FINANCIAL REPORTING for PUBLIC INSTITUTIONS

Presented by
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What to Expect!

- Introduction
- Overview
- Current activities i.e., operations
- Financial aid & investments
- Plant – assets and borrowing
- Financial reporting
- Wrap-up
What makes us different?

• How is an NFP different from a for-profit entity?
  ▫ Mission statements?
  ▫ Exist for the public good?
  ▫ People (and governments) give us money because they like us without expecting anything in return!!!

• So a system was created to track the money…
MISSION and OVERVIEW

- Education
  - Undergraduate
  - Graduate and professional education
- Research
- Public service
- Enterprise Activities
  - Services to students, faculty and others
  - Intercollegiate sports (if NCAA)
- Health care provider
- Other -
CAPTURING FINANCIAL DATA

• Online – checks and balances [internal controls - security]
  • Real time-
  • Balances & information available immediately (some may have overnight update provisions)
  • Lots of software available – some better than others (most very expensive – updates escalate the investment)
• Paper – lots of hands-on and signatures
  • Probably batch
  • Uses lots of time & information is slow
Common Fund Titles

- Current – unrestricted, restricted, auxiliary, internally designated
- Loan – restricted, unrestricted
- Endowment – true, term, function as, split interest
- Plant – construction, maintenance, debt service, capital asset equity
- Agency
Concept Statements

• Both governing boards (FASB and GASB) have issued concept statements that provide the rationale for reporting and recognition decisions imbedded in their respective standards
Key GASB Pronouncements

- **Statement No. 31** Accounting and Financial Reporting for Certain Investments and for External Investment Pools
- **Statement No. 33** Accounting and Financial Reporting for Nonexchange Transactions
- **Statement No. 34** Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments (currently under review)
- **Statement No. 35** Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities—an amendment of GASB Statement No. 34
- **Statement No. 37** Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34

- More Standards are reviewed later this afternoon.
GASB Net Positions (equity)

• **Invested in Capital Assets Net of Related Debt** - the difference between the amount shown for capital assets and the outstanding debt incurred to finance those capital assets.

• **Restricted non-expendable** – resources that must be maintained in perpetuity by donor agreement or other legal requirement.

• **Restricted expendable** - resources that are constrained to a particular purpose from the provider of the resources, such as a higher level of government or a donor, or from a law or regulation imposed on a government by another government.

• **Unrestricted** - Net assets that are not invested in capital assets, restricted non-expendable, or restricted expendable.
<table>
<thead>
<tr>
<th>Category</th>
<th>Unrestricted</th>
<th>Expendable</th>
<th>Nonexpendable</th>
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<td>Current Unrestricted</td>
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<tr>
<td>Current Restricted</td>
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<td>X</td>
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</table>
CURRENT Activities

Sometimes referred to as operating
Day to day operation of the enterprise
Directly related to the institution’s
mission
OPERATING ACTIVITIES

- Economic Resources (full accrual)
  - Received
  - Expended
- Institution’s Primary Missions (three foundations)
  - Instruction
  - Research
  - Public Service
- Support services
  - All other functions
OPERATING ACTIVITIES

INCLUDE

- Related supporting services such as
  - Academic support
  - Student support
  - Institutional support
  - Operation and maintenance of plant (IPEDS allocations)
  - Auxiliary services
  - Depreciation (IPEDS reallocation)
  - Internal service departments
OPERATING ACTIVITIES

• Unrestricted resources presumed available for operations
• Restricted resources
  ▫ Depend on nature of constraint imposed by funding source
  ▫ If constraint does not preclude use for operating purposes, recorded as current operating resources
  ▫ If nonoperating purpose is specified, recorded as nonoperating resources
RESTRICTED VERSUS UNRESTRICTED

- Who can restrict?
- Identifying purposes for which resources are made available requires
  - Examination of contractual terms
  - Seek legal advice, if in doubt about terms and/or conditions
PROBLEM

• Identify if restricted or unrestricted
  ▫ Research grant revenue
  ▫ New endowment gift to support English Dept.
  ▫ Bookstore revenue
  ▫ Funds held by bond trustee
  ▫ Financial aid grant
  ▫ Gift for general institutional use
OPERATING VERSUS NONOPERATING

• Definition

  ▫ Operating – directly related

  ▫ Nonoperating – passive/transfers (more on this)
OPERATING REVENUE

• Reported by source
• Within a source, further division
  ▫ Grants and contracts--specific federal agencies
  ▫ Gifts--alumni, foundations, etc.
• Management may want to analyze trends in revenues
REVENUE RECOGNITION

• Recognized when earned – full accrual accounting
  ▫ Accrual accounting records revenue when earned and expenses as when legal liability/obligation is incurred
  ▫ Purchase order is not legal obligation

• Eligibility concern
  ▫ Can the resources be used?
  ▫ Program in place?
  ▫ Time or purpose restriction?
Traditional Sources of Revenue

- Tuition/Fees
- Contributions
- Grants/Contracts
- Appropriations (state, federal or local)
- Sales/Services Education Related
- Investment Income (this one is tricky)
- Auxiliary Enterprises
Revenue Issues

- Scholarships – Tuition discounts & Allowances
- Pell Grants
- Summer School – When to Record?
- Funds held by others
OPERATING EXPENSES

- Variety of information needed – used accounting codes to achieve needed data array
  - College
  - School
  - Division
  - Department
  - Project or grant
  - Major institutional function
  - Major natural expense classifications
EXPENSES

• Identified by unrestricted and restricted
• Level and extent of detail depends
  ▫ Reporting criteria needs
  ▫ Institutional needs
  ▫ Management
  ▫ Level of controls
CLASSIFICATIONS / DISPLAY

• GAAP allows functional or natural display
• Examples follow
  ▫ Natural classes
  ▫ Functional classes
• Exception - IPEDS
Natural Classification of Expenses

• Salaries, Wages and Benefits (can be individually presented)
• Supplies
• Travel
• Utilities
• Interest
• Depreciation
• Other as appropriate for institution
• Etc.
Functional Classification

- Instruction
- Research
- Public Service
- Academic Support
- Institutional Support
- Operation and maintenance of plant (publics only)
- Scholarships & Fellowships
- Auxiliaries
- Hospital
- Depreciation (publics only)
- Independent Operations
EXCHANGE VERSUS NONEXCHANGE

- Exchange transactions
  - Quid pro quo
  - Arm’s length – not forced

- Nonexchange transactions
  - receives value (benefit) from another party without directly giving equal value in exchange
  - donations, contributions, some grants, promises to give (pledges) or other such as contributed services
RECOGNITION

- Nonexchange transactions recognized when all eligibility requirements (i.e., can be used) met
- Recognition is net of estimated uncollectable amount
MATCHING RESOURCES

- Required for some grants and contracts and other programs such as college work-study
- Normally provided from current unrestricted resources
- Accounting problem-how to identify
- Solved by chart of accounts
Recognition Question

On June 1, the Physics Dept. receives a notice of award from the National Science Foundation (NSF) of a $700,000 grant to do laser research – work to begin immediately. The institution’s facility and administrative (F&A) cost rate is 40%. The award represents $500,000 in direct charges and $200,000 in F&A costs. The Physics Dept. has not accomplished any pre-award reimbursable work on the project. Prepare journal entries to record this award.
Question Answer

• Journal entry?

• No journal entry?
Recognition Question No. 2

At June 30, the end of the institution’s fiscal year, the Physics Dept. has incurred the following expenses:

- $10,000 in salary and fringe benefits
- $28,000 in equipment lease costs
- $2,000 in travel
- $16,000 in F&A cost expenses

The institution invoices after the month is closed. Thus, while these expenses have been recorded in the official accounting records, no invoice has been prepared or sent to NSF on June 30.

What are the journal entries, if any, to the books of the institution, to record the project’s transactions as of June 30?
Question Answer

Current Operations – Unrestricted

Accts Receivable – NSF Laser Project
Fed. Grant/Contracts – NSF
to record facility and admin. cost recovery for June

Current Operations – Restricted

Accts. Receivable – NSF Laser Project
Fed. Grant/Contracts – NSF
to record grant activity for June
What do you think?

Would your journal entries be different if, instead of a cost reimbursable award, NSF provided the $700,000 award as a cash advance on June 1?

If so, prepare the journal entries.
Answer

Current Operations – Unrestricted

Cash

to record deferred revenue associated with the F&A cost portion of the NSF Laser Proj.

Current Operations – Restricted

Cash

to record deferred revenue associated with the direct cost portion of the NSF Laser Proj.
Exchange Transactions

- Reciprocal transfers in which each party receives and sacrifices something of approximately equal value.
  - Educational sales/services
  - Grants/contracts if a specific deliverable such as a report, product, results of research, etc. is required. If no deliverable is required, the grant or contract may be a contribution (this is a major concern with revenue recognition).
  - Auxiliary Enterprise revenues.
Appropriations

- Appropriations are transfers from the sponsoring entity; i.e. government, church, foundation, etc.
- GASB guidelines require state appropriations to be reported as non-operating revenues.
- April 2013 - APC suggest to the GASB that appropriations be displayed as operating revenue – now part of the consideration as part of GASB 34 review.
New Revenue Opportunities

- Cut costs or contain costs
- New programs
- Revise programs
  - Identify losers for deletion or consolidation
  - Encourage productivity
  - Merged activities
  - Reorganization
Legislative Issues

- Funding – how budget/appropriation determined
- ‘Pet’ projects
- Supported activities – could be pass through
- Governance
  - Policies
  - Key decisions
Auxiliary Enterprises

• Exist to furnish goods or services primarily to students with some benefit to faculty and staff; AND charges a fee directly related to (although not necessarily equal to) the cost of the goods or services.

• Examples are residence halls, food services, intercollegiate athletics (NCAA), bookstores, parking services, health services, etc.
Auxiliary Enterprise Activities

- Managed as essentially a self-supporting business
- Full-costing employed (direct and indirect)
- General public may be served incidentally
Interdepartmental Eliminations

• Financial statements should reflect elimination of “internal” transactions as no economic inflow or outflow transpired
• Subset of transactions offered primarily to students, faculty, or staff – that are “exchange” transactions between the Auxiliary and an internal academic or administrative department on campus – example copy centers or central purchasing transactions.
• Should also include service enterprise “internal” transactions.
Agency Fund Transactions

• Resources received in which a not-for-profit organization acts as an agent, trustee, or intermediary for a resource provider.
  ▫ Assets & liabilities are reported on the Statement of Financial Position/Statement of Net Position
  ▫ Agency transactions are not reported on the Statement of Activity/Statement of Revenue Expenses and Changes in Net Assets.
  ▫ Reported on Statement of Cash Flows
    • Both inflow and outflow displayed
• New GAAP fiduciary reporting under consideration
GAAP Related To Expenses

- Accruals, Prepaid & Deferrals (Matching Revenue and Expenses)
- Depreciation/Amortization
- Pension and Benefits
- Other Post-Employment Benefits
- Capitalization Policies
- Inventories
- Reserve for uncollectible
Payables vs. Encumbrances

- Expenses are accrued and payables established based on delivery date and invoice.
- Encumbrances represent a memo entry committing funds based on an estimate of costs. Encumbrances have no impact on the financial statements but if significant may be disclosed in the notes.
Issue - Compensated Absences

- Compensated absences
  - Public and privates very similar requirements
  - Paid absences
    - Vacation
    - Sabbatical  ONLY if an entitlement
    - Sick leave ONLY if paid at termination
  - Accrue liability as earned
    - Based on prior service
    - Payment must be probably
Issue - Pension and Other Post Employment Benefits (OPEB)

• Reported using the same general approach
• Accrue expenses/liabilities as earned from state of employment until full eligibility
• Actuarial computation
  ▫ Pension
    • Defined contribution plan puts burden on employee – only report $ contributed
    • Defined benefit plan puts burden on employer – must report service, yield and unfunded liability
• REPORTING IN FY 17 more extended discussion the in financial reporting and case sections
Issue - Pension and Other Post Employment Benefits (OPEB)

- OPEB includes:
  - Health insurance, hospital coverage, drug, dental, etc.
  - Life insurance/long term care/ free tickets/ parking/consulting, etc.
- Computation and funding concerns
  - Of the employees who start work, how many will reach eligibility?
  - How long will retiree or dependents receive benefits?
  - What will be the cost of future OPEB benefits (present value)?
  - Cost share with retirees?
  - Fully fund liability or pay as you go?
  - Hold assets, use third party or create trust fund?
Other Expense Issues

- Intra College charges
- Service center (recharge units)
- Allocation of centralized costs
  - Postage, telephone, furniture, etc.
- Institutional overhead
- Allocation of income/expenses to restricted gifts
- Employee vs. independent contractor
Program Loans vs. Transfers

• Loans or Advances
  ▫ Repayment Intended
  ▫ Liability and receivable are recorded
  ▫ No Impact on Net Positions between funds

• Transfers from other accounts
  ▫ No Intent to Repay
  ▫ Net Positions between funds are increased or decreased to reflect the transfer

• More on this in the Financing Activity Section
Audit Issues

- Independence
- Segregation of duties
- Reconciliations
- Internal controls
- Timeliness
- Documentation (records control)
- Legal vs. GAAP compliance
Loan Activities
LENDING ACTIVITIES

• Resources available for loans
  ▫ Students
  ▫ Faculty
  ▫ Staff
INTERNAL CONTROL

- Separation of duties
- Financial aid office responsible for
  - Determines need (needs specific training)
  - Makes award
  - Documentation and reporting
- Business office
  - Disburses funds
LOAN SOURCES

- Gifts and contributions
- Endowment income
- Perkins loan program – historical records
- Institutional funds
- Loan fund interest and penalty fees
STUDENT AWARDS

• Package based on student’s need
• Grants and part-time wages
• Various sources
  ▫ Federal
  ▫ State
  ▫ Institutional
  ▫ Gifts
  ▫ Pass through
DONOR RESTRICTIONS

- Recipients
- Rates of interest
- Loan amounts
- Repayment terms
- Standardization of terms
INTEREST FACTORS

- Institutional policy
- Governmental regulations
- Donor requirements
BAD DEBT EXPENSE

• Determined by aging all loans
  ▫ Current
  ▫ In collection

• Procedure
  ▫ Debit expense
  ▫ Credit allowance contra

• Expense closed to equity (net position) account to reduce available resources
LOAN NET POSITION ACCOUNT

- Decreases result from
  - Loan collection losses
  - Administration expenses
  - Collection costs
  - Refund to donors
  - Refund of institutional sources
Loans are Revolving Accounts

Loans
Available $$$
More Cash
Repayment
FEDERAL LOAN PROGRAMS

- Programs has specific guidance and reporting requirements
- Changes result from Higher Education Reauthorization
  - Perkins loans – historical records
FEDERAL REPORTING

• Manual provides guidance
  ▫ Provides details for accounting
  ▫ Record keeping requirements
  ▫ Reporting instructions
• Institutions must
  ▫ Comply with due diligence
  ▫ Submit
    • Annual application and fiscal operations report
FEDERAL REPORTING

• Requires
  ▫ *Cumulative since program inception*
  ▫ *Collection information*
  ▫ *Cancellation information*
  ▫ *Interest and other revenue data*
  ▫ *Various cost classifications*

• Rather specialized
GASB Statement No. 33

Accounting and Financial Reporting for Nonexchange Transactions

Established standards for
- Derived tax revenues,
- Imposed nonexchange revenues,
- Government-mandated nonexchange transactions, and

- **Voluntary nonexchange transactions**, which result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement (for example, certain grants and private donations).
Definition of a Contribution

- A contribution is an **unconditional** transfer of cash or other assets...a **voluntary nonreciprocal** transfer by another entity acting other than as an owner. Other assets include securities, land, buildings,...and unconditional promises to give those items in the future.
What is a condition?

- Donor imposed conditions = future uncertain events that give the promisor a right to a return of the assets given.

- Conditional $$ received in advance of condition being met = refundable advance

- Restrictions do not equal conditions
Conditions vs. Restrictions

- Conditions – affects the passage of ownership.
- Restrictions – ownership has passed but the contributor has placed limitations on how and/or when the assets can be used.
Contributions must be…

• Unconditional
  and
• Nonreciprocal
Nonreciprocal Vs. Exchange

- contributions are *nonreciprocal* (the recipient does not give up an asset or incur a liability of commensurate value).

- earned revenues are *reciprocal* transactions, because they involve an exchange of goods or services of approximately equal value.
Contribution Revenue Recognition - GASB

• On the accrual basis, contribution revenues should be recognized when all applicable eligibility requirements are met and the resources are available.
Non-Reciprocal - Example

- A donor contributes $100,000 for scholarships

  Cash $100,000
  Gift Rev $100,000

- A donor commits $100,000 to the Science Building Capital Campaign - ? Planning stage or under construction?

  Pledge Rcvble $100,000
  Gift Rev $100,000
Unconditional Promise to Give GASB

• Recognize when
  ▫ Verifiable
  ▫ Measurable and probable of collection (net of estimated uncollectable amount)
  ▫ Eligible to use
• Installment pledge discounting optional
• If cannot be used until future period – no recognition until funds can be used
  ▫ Promise to give an endowment is not recorded until funds are available for investing as endowment restricted nonexpendable
True or False?

1. Your institution has a “huge” endowment so you have no budget worries?
2. You need to construct a building and can take the $$’s out of endowment?
3. You can spend only the income?
Endowment Funds

- Governing Law
- Fund Types:
  - True
  - Quasi
  - Term
- Disclosures
- Endowment Examples
- Underwater Endowments
TRUE ENDOWMENT

• Held in perpetuity
• Only earnings used
  ▫ **Ordinary**
  ▫ **Unrealized gains and losses**
  ▫ **May be either**
    • restricted
    • unrestricted
TERM ENDOWMENTS

• Not many of these anymore
• Same as true EXCEPT
  ▫ Has maturity
• Upon maturity principal may be expended or returned to donor
• May be
  ▫ Restricted
  ▫ Unrestricted
FUNDS FUNCTIONING AS ENDOWMENTS

• Governing board creates
• Board my reverse decision
• May be
  ▫ Restricted
  ▫ Unrestricted
• Aka ‘quasi endowments’
SPLIT INTEREST AGREEMENTS

- Resources given to institution
  - Life income – donor and/or beneficiary receive investment earnings
  - Annuity – donor and/or beneficiary receive prescribed amount
- Resources = assets
- PV of annuity due = liability
- Residual = gift income or deferred (GASB No. 81 FY18)
- Bad guess in PV may result in claim against operation
- Often needs professional help
  - Fund raising
  - Resource management
GIFT REGISTER

• Typically maintained by Institutional Advancement
• A MUST
  ▫ **Name**
  ▫ Gift date and amount [may also want to record type of resource – cash, stock, bond, real estate, etc.]
  ▫ Restrictions, if any
  ▫ Type – endowment, split interest, etc.
  ▫ Limitations
Governing Law

- Originally, Endowments were governed by Trust Laws with a “spend only the income” tradition of investment management, thus investments tended to be debt instruments.
- In 1972, the National Conference of Commissioners on Uniform State Laws approved the Uniform Management of Intuitional Funds Act (UMIFA) – allowed the utilization of appreciations.
- In 2006, UMIFA was revised and renamed the Uniform Prudent Management of Intuitional Funds Act (UPMIFA) – introduced the prudent man guidance.
UPMIFA

- Adopted as state law to become applicable
- Applies to all types of not-for profit organizations
- Applies to donor-restricted endowment funds
  - Not to board designated funds
  - Many institutions embrace the guidance for all endowment funds
UPMIFA – Key Provisions

• Elimination of the concept of historic dollar value for “prudent” endowment spending
  ▫ More short-term flexibility to handle declining investment markets
  ▫ Emphasis on preservation of the fund
  ▫ Addresses under-water gifts
  ▫ Allows utilization sustainability
UPMIFA - Investments

• Requires investment “in good faith and with the care an ordinary prudent person in a like position would exercise under similar circumstances.”

• Exercise prudence in incurring investment costs

• When investing, consider the effects of inflation…maintain purchasing power
INVESTMENT ACCOUNTING

- Internally or externally managed
- Record at FV
- Report FV on financial reports
- May disclose cost value with gains/losses as note disclosure
- Accumulate gains/losses in separate account
INVESTMENT ACCOUNTING

• May invest in (unless specified by policy)
  ▫ Equities
  ▫ Debt instruments
  ▫ Real estate
  ▫ Joint venture
  ▫ Oil wells, forest,
  ▫ Foreign holdings including currency

• Should be diversified
INVESTMENT ACCOUNTING

• Investment may be grouped into pools
  ▫ *Permits greater diversification*
  ▫ *Promotes stability*
  ▫ *Permits some management economies*
• Depreciation, amortization or depletion reduces investment earnings
• Management fees reduce investment earnings
What do you think?

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
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<tbody>
<tr>
<td>Gift</td>
<td>$10,000</td>
</tr>
<tr>
<td>Later Gift</td>
<td>2,000</td>
</tr>
<tr>
<td>Investment Income</td>
<td>1,000</td>
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<tr>
<td>Market Value</td>
<td>$15,000</td>
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What is the historic $ value?

What is the appreciation?
Investment Goals

- Total Return Approach
- Spending Rules
- Accounting
- Examples
Total Return Approach

- Total Return = Yield (Interest, dividends) PLUS Gains/Losses
- Real Return = ???
Total Return Approach

1. Total Return = 11%
   Inflation = 4%
   Real Return = ? %

2. Total Return = 3%
   Inflation = 4%
   Real Return = ? %
Typical Spending Formula

“The University utilizes the total return concept in allocating endowment income. In accordance with the University's total return objective, 5% of a twelve-quarter moving average of the market value of endowment investments is available each year for expenditure in the form of endowment payout.”
Spending Rules

• Balance Current Income Vs. Protection of Purchasing Power
• Estimate Expected Long-Term Real (Inflation Adjusted) Return
  • Total return 14% - inflation 3% = Real Return of 11%..Spending Rule 5%..Impact ??
  • Total return 9% - inflation 3% = Real Return of 6%...Spending Rule 5%..Impact ??
  • Total return 7% less inflation 3% = Real Return of 4%...Spending Rule 5%..Impact ??
• Types:
  • All Income
  • % of Moving Market Value
  • % Increase Over Prior Year
  • Establish Rate Each Year
Plant Activities
PLANT ACTIVITIES

• Four typical activities
  ▫ Repair and maintenance
  ▫ Construction
  ▫ Debt service
  ▫ Capital asset and long-term related debt
• Can be maintained in separate account groups
• Can be combined into a common plant account group
RESOURCES

- Internal budget
- State appropriations
- Gifts
- New long-term debt
CAPITAL ASSETS

- Land
- Equipment
- Buildings
- Improvements
- Leased capital assets – new GAAP pending
- Library books ??
- Collections ??
- Historical treasures ?
CAPITAL ASSET RECOGNITION

• Capitalization
  ▫ **Equipment**
    • Years of estimated life (more than 2) and
    • $5,000 value (CASB recommendation) – depends on institutional policy
  ▫ **Buildings and infrastructure**
    • Adds to life
    • $100,000 value – depends on policy
  ▫ **Intangible Assets**
    • Estimated life – institutional policy
    • Value – institutional policy
    • Some interesting GAAP guidance for intangibles (GASB No. 51)
UTILIZATION RECOGNITION

• Depreciation
  ▫ Typically uses straight line
    • Acquisition value less estimated salvage divided by estimated life
  ▫ Can use any method
    • Check with Accounting 101 book
  ▫ Composite method typically used for library books not in accounting books
  ▫ Accumulated depreciation balance reported as contra asset
DEBT SERVICE

- Sinking fund
  - May be administered by institution
  - May be administered by external trustee
    - Bond resolution may require external trustee
    - Trustee invests funds, makes principal and interest payments
- Funds transferred to external trustee reported as asset
DEBT SERVICE

- Effective interest method must be used when bonds issued other than at par.
  - **Premium decreases interest expense NOT amount paid**
  - **Discount increases interest expense NOT amount paid**
- Full accrual accounting used to calculate
INVESTMENT IN CAPITAL ASSETS

- Plant equity - Value of capital assets less outstanding debt
- Sometimes referred to as ‘brick and mortar’
- Reported as part of net position
Related Issues

- Asset replacement strategy
- Deferred maintenance
- Privatizing facilities
- Lease vs. buy decisions
- Refinancing debt
- Service concession agreements
Questions?

Operating issues?
Lending issues?
Investing issues?
Plant issues?
FINANCIAL REPORTING
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 – lots of differences
  - Initially addressed state and local government guidance
  - GAAP hierarchy outlined per GASB No. 55
- Compensated Absences GASB No. 16
  - Vacation, sick and other costs - sabbatical?
- Grant revenue recognition GASB No. 24
  - Resulted in reporting tuition discounting
  - Pell grant reporting under review by GASB
Recognition continued

• Investments and investment pools reported using fair value GASB No. 31 and GASB No. 72
  ▫ GASB differs little from FASB FV and ASU 2011-04 FV transfers between levels 1, 2 and 3. GASB did not adopt investment categories
  ▫ More discussion in the note disclosure section
  ▫ 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 at FV
  ▫ Measurable and probable of collection

• No condition? record at FV
  ▫ Unrestricted
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 (issues as outlined in audit guide pertaining to GASB no. 33)
More Recognition Issues – items included I GASB No. 34

- **Works of Art ¶27 and 28**
  - Asset, treasure or insurance item
  - Donation of art = Contribution & expense
- **Contributed service**
  - Unlike FASB, no guidance
  - Use old GAAP if material amount
    - Employee/employer relationship
    - Service can be measured
    - Would be acquired if not contributed
Other Recognition Concerns

• Impaired capital assets GASB No. 42
  • Evidence – damage, law changes, technology, use change & construction stoppage
  • Permanent losses measured and recognized

• Postemployment benefits other than pensions GASB Nos. 67 & 68
  • Recognize expense but not well funded
  • Accrued liabilities disclosed on face of statement

• 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
  • Contamination, land fill etc.
  • Outlays capitalized and amortized

• Intangible assets – easements, water rights, patents, computer software, etc. GASB No. 51
  • Identifiable development and incurred costs accumulated
  • Capitalized and amortization recognized
More Recognition

• Service concession arrangements GASB No. 60
  • Parking garage, dormitory, bookstore, athletic facility operated by third party
  • Recognize long-term receipts or disbursements as deferred (neither an asset nor liability)
• Omnibus GASB No. 61 amends GASB 14 and 34
  • Component unit reporting
    • Legally separate but are financially dependent
    • Exclusion would cause financial statement to be misleading
    • Two tests – 1) able to impose will or is a burden and 2) organization is fiscally dependent
  • No new disclosure
GASB No. 62

- Old FASB guidance converted to GASB GAAP
- Statement 20 is superseded
  - All applicable pre-11/30/89 standards are contained in the GASB’s codification
  - All potentially applicable post-11/30/89 non-GASB standards will be “other accounting literature”
- Guidance on 29 topics brought into the GASB literature including …. 
GASB No. 62 Significant Topics

- Special and extraordinary items (APB Opinion 30)
- Comparative financial statements (ARB 43)
- Related parties (FASB Statement 57)
- Prior-period adjustments (FASB Statement 16 and APB Opinion 9)
- Accounting changes and error corrections (APB Opinion 20 and FASB Interpretation 20)
- Contingencies (FASB No. 5 and Interpretation 14)
- Extinguishments of debt (APB Opinion 26 and FASB Statement 76)
- Inventory (Accounting Research Bulletin 43)
- Leases (FASB Statements 13, 22, and 98 and FASB Interpretations 23, 26, and 27 – GASB new project)
GASB No 62 Specialized Topics – cont’d

- Sales of real estate (FASB Statement 66)
- Real estate projects (FASB Statement 67)
- Research and development arrangements (FASB Statement 68)
- Broadcasters (FASB Statement 63)
- Cable television systems (FASB Statement 51)
- Insurance enterprises (FASB Statement 60)
- Lending activities (FASB Statement 91)
- Mortgage banking activities (FASB Statement 65)
- Regulated operations (FASB Statements 71, 90, and 101)
Implementation of GASB New Standards Time Table

- Reported in FY 2015
  - Statement 68—Pension Accounting for Employer and Nonemployer Contributing Entities
  - Statement 69—Government Combinations and Disposals of Government Operations
  - Statement 71—Pension Transition for Contributions Made Subsequent to the Measurement Date
Pension Accounting and Financial Reporting Changes

- Moves from a funding approach to an accounting approach - Remember the ARC?
- Requires immediate recognition of overall pension obligation
- Net pension liability = overall pension obligation – pension assets
- Measurement of liability will be determined on funding status. Discount rate? Measure as a debt or investment?
- New footnotes and required supplementary information
• Implementation Issues

• Audited allocation schedules
• Coordination with Pension Plan administrator
• Coordination with Auditor
• Pension Communication Resource Group
### Proforma Statement of Net Position
6/30/20XX

<table>
<thead>
<tr>
<th>($ in millions)</th>
<th>As Reported</th>
<th>Effect of GASB 68</th>
<th>As Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets</strong></td>
<td>$ 2,069</td>
<td>$ 2,069</td>
<td></td>
</tr>
<tr>
<td><strong>Noncurrent assets</strong></td>
<td>6,225</td>
<td></td>
<td>6,225</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>8,293</td>
<td>8,293</td>
<td></td>
</tr>
<tr>
<td><strong>Deferred outflows</strong></td>
<td>-</td>
<td>493</td>
<td>493</td>
</tr>
<tr>
<td><strong>Total assets and deferred outflows</strong></td>
<td>$ 8,293</td>
<td>$ 8,787</td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td>$ 1,224</td>
<td>$ 1,224</td>
<td></td>
</tr>
<tr>
<td><strong>Noncurrent liabilities</strong></td>
<td>1,819</td>
<td>2,875</td>
<td>4,693</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>3,043</td>
<td>5,917</td>
<td></td>
</tr>
<tr>
<td><strong>Deferred inflows</strong></td>
<td>-</td>
<td>220</td>
<td>220</td>
</tr>
<tr>
<td><strong>Net position:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net invested in capital assets</td>
<td>1,979</td>
<td>1,979</td>
<td></td>
</tr>
<tr>
<td>Restricted - nonexpendable</td>
<td>1,217</td>
<td>1,217</td>
<td></td>
</tr>
<tr>
<td>Restricted - expendable</td>
<td>592</td>
<td>592</td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>1,462</td>
<td>(2,601)</td>
<td>(1,139)</td>
</tr>
<tr>
<td><strong>Total net position</strong></td>
<td>5,251</td>
<td></td>
<td>2,650</td>
</tr>
<tr>
<td><strong>Total liabilities, deferred inflows and net position</strong></td>
<td>$ 8,293</td>
<td>$ 8,787</td>
<td></td>
</tr>
</tbody>
</table>
• Footnote Disclosures

- Information on the plan and participants
- Contribution requirements
- Significant assumptions
- Information on the discount rate and long-term expected rate of return including sensitivity analysis
- Information on plan net assets
- Other information – including proportion and the basis for its determination
- Details of deferred inflows/outflows and when they will be recognized
Reporting

• Old model known as the NACUBO or AICPA model (used until 2003 – still used by institutions that are required to produce/submit 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: Managements Discussion and Analysis MD&A
- Three required statements
- Note disclosures
  - Identify and discuss later
AFFILIATED ORGANIZATIONS

• GASB 39 Three Criteria – All must be met
  ▫ Recourses are entirely or almost entirely for the direct benefit of the primary gov’t, component unit or institution
  ▫ Primary gov’t or component unit (institution) is entitled to or has ability to otherwise access
  ▫ Are significant to primary government
Reporting Affiliated Organizations

• Must discretely report balance sheet and statement of activity
  ▫ Reporting display choices
    • Discrete column
    • Separate page
Reporting 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, nonoperating, capital or extraordinary
    - Cash flow
      - Operating, noncapital financing, financing and investing
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

• **Issue** – presentation becoming condensed and less useful. Readers want more descriptive information.
Other MD&A Issues

- Describes known facts typically
  - Mandates 8 items and element disclosures
- Comparative
  - Discusses institution
  - Discusses each of the statement
- Review
# M D & A Check list

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Discuss relationship of statements to one another</td>
</tr>
<tr>
<td></td>
<td>Statement of Net Assets</td>
</tr>
<tr>
<td></td>
<td>Statement of Revenues, Expenses and Changes in Net Assets</td>
</tr>
<tr>
<td></td>
<td>Statement of Cash Flows</td>
</tr>
<tr>
<td>B</td>
<td>Financial data discussion <strong>comparative</strong></td>
</tr>
<tr>
<td>1</td>
<td>Total assets capital vs other</td>
</tr>
<tr>
<td>2</td>
<td>Total liabilities capital vs other</td>
</tr>
<tr>
<td>3</td>
<td>Total net assets capital vs other</td>
</tr>
<tr>
<td>4</td>
<td>Program revenues by major sources</td>
</tr>
<tr>
<td>5</td>
<td>General revenues by major sources</td>
</tr>
<tr>
<td>6</td>
<td>Total revenues</td>
</tr>
<tr>
<td>7</td>
<td>Program expenses by function</td>
</tr>
<tr>
<td>8</td>
<td>Total expenses</td>
</tr>
<tr>
<td>9</td>
<td>Excess revenue over expenses</td>
</tr>
<tr>
<td>10</td>
<td>Contribution</td>
</tr>
<tr>
<td>11</td>
<td>Special or extraordinary items</td>
</tr>
<tr>
<td>12</td>
<td>Transfers</td>
</tr>
<tr>
<td>13</td>
<td>Change in net assets</td>
</tr>
<tr>
<td>14</td>
<td>Net assets at end of year</td>
</tr>
<tr>
<td>C</td>
<td>Analysis of overall financial position and results of operation</td>
</tr>
<tr>
<td>F</td>
<td>Description of significant capital assets and debt activity during year</td>
</tr>
<tr>
<td>H</td>
<td>Discussion of known facts, decisions or conditions that will affect C&amp;U</td>
</tr>
</tbody>
</table>
Financial Statement Display

• Required financial statements are (GASB 34, p. 33, ¶91):

  • Statement of Net Position  [amended by GASB 63
effective FY 13]

  • Statement of Revenues, Expenses, and Changes in
Fund Net Position [Fund Equity]

  • Statement of Cash Flows
Statement Of Net Position
Statement Highlights

• Classified assets – current and noncurrent with total assets
  • Deferred outflow (hedging, service concession agreements [SCA]) and items identified in GASB No. 65)
• Classified liabilities – current and noncurrent with total liabilities
• Deferred inflow (hedging, SCA and GASB No. 65 items)
• Net position rather than fund balance of net assets
  ▫ Invested in capital assets net of related debt
  ▫ Restricted
    • Nonexpendable - may be detailed by type or presented as total
    • Expendable – may be detailed by type or presented as total
  ▫ Unrestricted [must be presented as a single number]
• May be comparative over time – restatement of prior years becomes an issue
• Affiliated organizations presented as single column on face of the statement
Assets reported as Deferred Outflow

- Reclassify as deferred outflows (previously reported as assets – prepaid restricted for S/T)
  - Grants paid in advance of meeting timing requirements
  - Deferred amounts from refunding debt (debts)
  - 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
Liabilities reported as Deferred Inflow

• Reclassify as deferred inflows (previously reported as liabilities – prepaid title restricted for S/T)
  • Grants received in advance of meeting timing requirement
  • Taxes received in advance
  • Deferred amounts from refunding debt (credit)
  • Proceeds from sales if future revenue
  • Deferred gain from sale-lease-back
  • ‘Regulatory’ credits (gains or other reductions)
  • Loan origination fees (excluding points)
  • Commitment fees (after exercise or expiration)
  • Fees received for sale of loans
### Public University

**Statement of Net Position**  
June 30, xx15

<table>
<thead>
<tr>
<th>ASSETS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents $10,516,820</td>
<td></td>
</tr>
<tr>
<td>Investments 64,575</td>
<td></td>
</tr>
<tr>
<td>Receivables (net) 3,305,847</td>
<td></td>
</tr>
<tr>
<td>Inventories 126,674</td>
<td></td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>14,013,916</td>
</tr>
<tr>
<td><strong>Noncurrent Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Capital assets:</td>
<td></td>
</tr>
<tr>
<td>Land, improvements, and construction in progress 6,408,150</td>
<td></td>
</tr>
<tr>
<td>Other capital assets, net of depreciation 146,513,065</td>
<td></td>
</tr>
<tr>
<td><strong>Total Noncurrent Assets</strong></td>
<td>152,921,215</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>166,925,131</td>
</tr>
</tbody>
</table>

| DEFERRED OUTFLOWS                           |               |
| See Note Disclosure XX                      | 127,520       |

| LIABILITIES                                 |               |
| **Current Liabilities**                     |               |
| Accounts payable and accrued expenses 659,592 |               |
| Debt due within one-year 4,426,286           |               |
| Unearned revenue 127,520                    |               |
| **Total Current Liabilities**               | 5,213,398     |
| **Noncurrent Liabilities**                  |               |
| Due in more than one year 74,482,273        |               |
| **Total Noncurrent Liabilities**            | 74,482,273    |
| **TOTAL LIABILITIES**                       | 79,695,671    |

| DEFERRED INFLOWS                            |               |
| See Note Disclosures XXa                    | 10,000        |

| NET POSITION                                |               |
| Net investment in capital assets 79,088,574 |               |
| Restricted                                  |               |
| Nonexpendable 64,575                        |               |
| Expendable - Debt service 1,451,996         |               |
| Unrestricted Amounts 6,741,835              |               |
| **TOTAL NEW POSITION**                      | $87,356,980   |
Statement Of Revenues, Expenses, And Changes In Net Position
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
• May be comparative over time – restatement of prior years becomes an issue
Unique C&U Issue

- Scholarship discounts and allowances – little consistency across institutions
- Releasing of restrictions
  - That is, the expiration of imposed restrictions
  - Specific identification
  - Public institutions record transactions within restricted account (Private institutions reclassify I.e., increase one class of net assets and decrease another reported as a separate item on financial statement)
<table>
<thead>
<tr>
<th>Operating Revenue</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition and Fees net of Discount</td>
<td>$21,830</td>
</tr>
<tr>
<td>Federal Grants and Contracts</td>
<td>4,250</td>
</tr>
<tr>
<td>State Grants and Contracts</td>
<td>1,690</td>
</tr>
<tr>
<td>Auxiliary Enterprises</td>
<td>15,200</td>
</tr>
<tr>
<td>Total Operating Revenue</td>
<td>42,970</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating Expenses</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Wages</td>
<td>40,829</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>5,613</td>
</tr>
<tr>
<td>Scholarships and Fellowships</td>
<td>5,500</td>
</tr>
<tr>
<td>Utilities</td>
<td>5,768</td>
</tr>
<tr>
<td>Supplies and other vendor payments</td>
<td>4,895</td>
</tr>
<tr>
<td>Depreciation</td>
<td>5,142</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>67,747</td>
</tr>
<tr>
<td>Operating Income Loss</td>
<td>(24,777)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Nonoperating Revenues (Expenses)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>State Appropriations</td>
<td>22,500</td>
</tr>
<tr>
<td>Gifts</td>
<td>1,990</td>
</tr>
<tr>
<td>Investment Income</td>
<td>2,816</td>
</tr>
<tr>
<td>Interest paid on Debt</td>
<td>(1,500)</td>
</tr>
<tr>
<td>Total Nonoperating Revenues</td>
<td>25,806</td>
</tr>
<tr>
<td>Income before Other revenue and gains</td>
<td>1,029</td>
</tr>
</tbody>
</table>

| Capital Appropriations | 1,300 |
| Capital Gifts and Grants | 600 |
| Endowments Gifts | 1,200 |
| Increase to Net Position | 4,129 |

| Net Position at Beginning of the Year | 58,995 |
| Net Position at End of the Year | $63,124 |
Statement Of Cash Flows
GAAP Basis

• GASB No. 9 required SCF for gov’t proprietary funds
• GASB No. 34 modified GASB No. 9 to require direct method and reconciliation (more on this later)
Cash Flow Information

- Identifies the ability to meet obligations when they are due
- Used to determine if the institution needs external financing
- Can be used to project future cash flows
Public C & U Concerns

• Four categories per GASB # 9
  ▫ Operating activities
  ▫ Noncapital financing activities
  ▫ Capital financing activities
  ▫ Investing activities

• Operating activities must be presented using direct method
  ▫ Required reconciliation presents the indirect operating activities

• Gross data no netting of ins and outs
• Significant differences from FASB model
Definition of Cash

- Cash on hand and in banks
- “Near cash” – investments with maturities of 90 days or less
- Can exclude deposits with debt service trustee
- Can exclude cash on hand in investment portfolio
- Include definition in Significant Accounting Policies note disclosures
Required Presentation Format

- Cash flows from ‘various’ activities
  - Operating
  - Noncapital financing
  - Capital financing
  - Investing
- Net increase (decrease) in cash
- + Cash and equivalents Beg of Year
- = Cash and equivalents End of Year
Cash Flows from Operations – The Direct Method

• Shows cash inflows by major source (tuition, research activities, auxiliaries, etc.)
• Cash outflows by natural object (salaries, payments to vendors, etc.)
• Required reconciliation of net income to net cash flows from operating activities is also required (indirect method)
Cash Flows from Operations – The Direct Method

• Shows cash inflows by major source (tuition, research activities, auxiliaries, etc.
• Cash outflows by natural object (salaries, payments to vendors, etc.)
• Required reconciliation of net income to net cash flows from operating activities is also required (indirect method)
Cash Flows from Operations – The Direct Method

- Shows cash inflows by major source (tuition, research activities, auxiliaries, etc.)
- Cash outflows by natural object (salaries, payments to vendors, etc.)
- Required reconciliation of net income to net cash flows from operating activities is also required (indirect method)
Cash Flows from Operations – Reconciliation (Indirect Method)

- Required by GASB No. 34
- Much easier to prepare, but obscures information about cash inflow and outflow
- Less useful to statement readers
- Cannot be used to project future cash flows
- Most privates use the indirect method although the direct method is an option
Cash Flows from Noncapital Financing Activities

- Transactions that are neither operating, capital financing nor investing activities
- Includes the following:
  - State appropriations [GASB considering change]
  - New endowment gifts
  - Annuity gift transactions inflow and outflows
  - Transfers to & from others
  - Agency transactions inflows and outflows
  - Noncapital debt proceeds and payments [including interest expense]
  - Direct student loan transactions
Cash Flow from Financing

- Inflows include new debt proceeds, contributions restricted to capital acquisitions and state appropriations for capital acquisitions
- Outflows include capital bond, mortgage and note principal payments, capitalized lease payment, capital debt interest payments, capital acquisitions and capital item sale proceeds
Cash Flows from Investing

- Includes transaction related to traditional financial investments
- Investment portfolio transactions must be displayed gross – purchases cannot be offset against sales/maturities
- Interest income part of this activity rather than operating
**Public University**  
**Statement of Cash Flow**  
**For the Year Ended June 30, 2015**  
(in thousands)

<table>
<thead>
<tr>
<th>Cash Flow from Operating Activities</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition and fees</td>
<td>20,250</td>
</tr>
<tr>
<td>Federal grants and contracts</td>
<td>4,250</td>
</tr>
<tr>
<td>State grants and contracts</td>
<td>1,690</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>15,200</td>
</tr>
<tr>
<td>Wage and benefit payments to employees</td>
<td>(46,030)</td>
</tr>
<tr>
<td>Supplier payments</td>
<td>(10,922)</td>
</tr>
<tr>
<td>Student scholarships paid</td>
<td>(4,000)</td>
</tr>
<tr>
<td><strong>Net cash flow from operating activities</strong></td>
<td>(19,562)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Flow from Noncapital Financing Activities</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>State appropriations</td>
<td>22,500</td>
</tr>
<tr>
<td>Contributions</td>
<td>1,990</td>
</tr>
<tr>
<td>Endowment gifts</td>
<td>1,200</td>
</tr>
<tr>
<td><strong>Net cash flow from noncapital financing activities</strong></td>
<td>25,690</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Flow from Capital and Related Financing Activities</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital appropriations</td>
<td>1,300</td>
</tr>
<tr>
<td>Capital gifts and grants</td>
<td>600</td>
</tr>
<tr>
<td>Capital assets purchased</td>
<td>(6,425)</td>
</tr>
<tr>
<td>Capital debt principal paid</td>
<td>(1,725)</td>
</tr>
<tr>
<td>Interest on capital debt</td>
<td>(1,380)</td>
</tr>
<tr>
<td><strong>Net cash flows from capital and related financing activities</strong></td>
<td>(7,630)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Flow from Investing Activities</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments purchased</td>
<td>(14,750)</td>
</tr>
<tr>
<td>Investments sold or matured</td>
<td>12,770</td>
</tr>
<tr>
<td>Investment interest</td>
<td>2,380</td>
</tr>
<tr>
<td><strong>Net cash flows from investing activities</strong></td>
<td>400</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net increase in cash</th>
<th>(1,102)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents - Beginning of the year</td>
<td>2,635</td>
</tr>
<tr>
<td>Cash and cash equivalents - End of the year</td>
<td>$ 1,533</td>
</tr>
</tbody>
</table>

**Reconciliation:**  
Operating income (loss) $ (24,777)  
Depreciation 5,142  
Change in working capital accounts:  
Accounts receivable - net (100)  
Inventories 205  
Deposit with bond trustee (200)  
Accounts payable 148  
Deferred revenue 20  
**Net cash provided used by operating activities** $ (19,562)
Cash Flows from Investing

- For purposes of this statement, short-term investments that are not cash equivalents are considered investments.
- Institutions may wish to make the same distinction in the Statement of Position / Net Assets to facilitate articulation between the statements.
Notes to the Financial Statement
Disclosures

- Significant policies  Note 1 Definition of net asset classes  Note 1  (GASB No. 34)
- Definition of cash and equivalents Note 1  (GASB No. 9)
- Capital assets definition Note 1  (GASB No. 18)
- Deposits and Investment  (GASB No. 40)
  - Policies
  - Credit risks
  - Custodial credit risk
  - Concentration credit risk
  - Interest rate risk
  - Foreign currency risk
- Notes, loans and accounts receivable  (GASB No. 37)
- Capital assets by type and amount  (GASB No. 34)
Disclosures continued

- Accounts receivable and liabilities  (GASB No. 37)
- Long-term liabilities  (GASB No. 34)
- Segments  (GASB No. 34)
  - Let’s discuss more on this later
- Funds held by others  (old GAAP)
- Pension and OPEB  (typically in separate notes – GASB 67, 68, 74 and 75)
- Natural Classification of expenses  (optional suggested by NACUBO)
- RSI – Summary Statement of Net Assets and Statement of Revenues an Expense for entity and its affiliated organizations  (required for CAFR presentation – GASB no. 44, not required for AFR)
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
### Condensed Statement of Net Assets

**ASSETS**
- Current assets: $3,201,921, $1,454,575
- Capital assets: 16,295,113, 5,720,136
- **Total assets**: 19,497,034, 7,174,711

**LIABILITIES**
- Current liabilities: 363,000, 211,281
- Long-term liabilities: 7,935,444, 2,487,178
- **Total liabilities**: 8,298,444, 2,698,459

**NET ASSETS**
- Invested in capital assets, net of related debt: 8,185,113, 3,114,876
- Restricted
  - Expendable
    - Capital projects: 625,889, 335,000
    - Debt service: 343,864, 147,483
  - Unrestricted: 2,043,724, 878,893
- **Total net assets**: $11,198,590, $4,476,252
### Condensed Statement of Revenues, Expenses, and Changes in Net Assets

#### REVENUES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount 1</th>
<th>Amount 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues</td>
<td>$28,079,274</td>
<td>$9,092,363</td>
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</table>

#### EXPENSES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount 1</th>
<th>Amount 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Expenses</td>
<td>27,027,330</td>
<td>8,647,298</td>
</tr>
<tr>
<td>Net operating revenues</td>
<td>1,051,944</td>
<td>445,065</td>
</tr>
</tbody>
</table>

#### NONOPERATING REVENUES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount 1</th>
<th>Amount 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net assets</td>
<td>79,310</td>
<td>38,144</td>
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</table>

#### NET ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount 1</th>
<th>Amount 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets—beginning of year</td>
<td>10,067,336</td>
<td>3,993,043</td>
</tr>
<tr>
<td>Net assets—end of year</td>
<td>$11,198,590</td>
<td>$4,476,252</td>
</tr>
</tbody>
</table>

### Condensed Statement of Cash Flows

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount 1</th>
<th>Amount 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash flows provided by operating activities</td>
<td>$2,132,227</td>
<td>$543,214</td>
</tr>
<tr>
<td>Net cash flows used by capital and related financing activities</td>
<td>(911,600)</td>
<td>(250,625)</td>
</tr>
<tr>
<td>Net cash flows used by investing activities</td>
<td>(1,155,764)</td>
<td>(233,849)</td>
</tr>
<tr>
<td>Net increase in cash</td>
<td>64,863</td>
<td>58,740</td>
</tr>
<tr>
<td>Cash—beginning of year</td>
<td>199,448</td>
<td>46,885</td>
</tr>
<tr>
<td>Cash—end of year</td>
<td>$264,311</td>
<td>$105,625</td>
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</tbody>
</table>
Recognition and Reporting Pensions
GASB No. 67 FY 14 and 68 FY 15

- Amended GASB no. 25 and 27
- Pension benefits originate from exchanges between the employer and employees of salaries and benefits for employee services and are part of the total compensation for employee services
- Obligations for pensions meet the definition of a liability in Concepts Statement 4
  - Liabilities are present obligations to sacrifice resources that the government has little or no discretion to avoid
- Compensation expense should be recognized in the period employee services are provided
Pensions—Issues presented earlier

- Full liability being brought on the face of the financial statements
  - Move away from the funding approach (APB Opinion 8, NCGA Statement 6, GASB Statement 27)
- Career-long relationship between employer and employee and interperiod equity—liability calculation
  - Discount rate
  - Entry-age cost method
  - Level percentage of projected pay
- Interperiod equity—expense recognition
  - Changes in fair value
  - Certain actuarial gains and losses
Statement 69 Merger & Consolidations

• Mergers and transfers—role of interperiod equity and cost of services
  ▫ Assets, liabilities, and deferrals should be reported at carrying values
  ▫ Recognized like a marriage

• Acquisitions
  ▫ Assets, liabilities and deferrals generally should be reported at acquisition value—a market-based entry price (not fair value)
Statement 72 - Fair Value Measurement and Application

- Issued February, 2015, Effective FY 2016
- Defines fair value (based on exit price not entry price)
  - The price that would be received **to sell** an asset or paid to
    - transfer a liability in an orderly transaction between market
    - participants at a measurement date
  - Measurement date is the point in time when fair value of an
    - asset or liability is determined
- Fair value hierarchy (comparable to FASB determinations)
  - Level 1 - Quoted prices in active markets for identical assets or liabilities
  - Level 2 Significant other observable inputs
  - Level 3 Significant unobservable inputs
Statement 72 - Fair Value Measurement and Application

- Guidance limited to investments, life insurance and other current fair value requirements

- Definition – A security or other asset that a government holds primary for the purpose of income or profit and its present service capacity is based solely on its ability to generate cash, to be sold to generate cash or procure service for its citizens

- Impacts Endowments and Pension Plan investments
<table>
<thead>
<tr>
<th>Level</th>
<th>Sources</th>
<th>Due Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>GASB Statements</td>
<td>Formally approved by the Board for the purpose of creating, amending,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>superseding, or interpreting standards, <strong>AND</strong> exposed for a period of public</td>
</tr>
<tr>
<td></td>
<td></td>
<td>comment</td>
</tr>
<tr>
<td>B</td>
<td>GASB Technical Bulletins and Implementation Guides; AICPA</td>
<td>Cleared by the Board, specifically made applicable to state and local</td>
</tr>
<tr>
<td></td>
<td>literature specifically cleared by GASB</td>
<td>governmental entities, <strong>AND</strong> exposed for a period of public comment</td>
</tr>
</tbody>
</table>
Comprehensive Implementation Guide

- Classified as Category B authoritative
- Revised due process
  - Public exposure of guidance in the existing CIG and updates to the CIG going forward
  - Board clearance of the final document
- Evaluation of individual Q&As prior to exposure
  - Remove or improve Q&As that only restate guidance directly from related statements
  - Move illustrations to the nonauthoritative appendixes
Current GASB Technical Agenda

- Leases – following FASB lead  ED expected early 16
- Reviewing GASB 34  PV expected late 16
- FAF reviewing GASB 33  (this could be an issue as it pertains to fiduciary holdings)
- NACUBO asked FAF to review GASB 24 to resolve the Pell Grant discount issue – still pending
Questions?
Thank you!