General

1. What is the effective date for implementation of GASB Statement 35?

June 30, 2002

“Public institutions that are a component unit or a department of another entity (e.g., a state) must adopt GASB Statement 34-35 no later than the same year as the primary government. Likewise, component units and departments of the public institution, e.g., foundations, academic medical centers, hospitals, etc., must adopt GASB Statement 34-35 no later than the same year as the public institution.”

2. Will institutions be required to restate prior-period financial statements in the year of adoption?

No

The TBR GASB 34/35 subcommittee has ruled that the restatement of the financial statements for prior periods is not practical except for analyzing data for the Statement of Cash Flows and for the calculation of accumulated depreciation. The cumulative effect of applying GASB Statement 35 should be reported as a restatement of beginning net assets.

3. What are the reporting requirements for public institutions under GASB Statement 34-35?

All TBR institutions will be reporting as special purpose governments engaged only in business type activities (BTA) since each institution regularly receives state appropriations, and also covers a major portion of costs through external user charges for services (ex: tuition and fees).

4. What are the minimum reporting requirements for public institutions reporting as BTA’s?

The general-purpose external financial statements should include:

- Management’s Discussion and Analysis (MD&A);
- Statement of Net Assets (SNA);
- Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA);
- Statement of Cash Flows (using the direct method);
• Notes to the Financial Statements (including segment reporting, if applicable)---APSU and TTU for 6-30-2002; and
• Required Supplementary Information other than MD&A.
• A Statement of Activities must also be prepared for State of Tennessee reporting purposes

5. How are capital assets capitalized and depreciated?

• Must be capitalized at their actual or estimated historic costs;
• Are depreciated in most cases over their estimated useful life---except for---noncapitalized collections of works of art, historical treasures, and similar assets, and inexhaustible assets such as land;
• Include ancillary costs. In accordance with GASB 37, construction period interest will no longer be capitalized as a part of the project.
• Should provide detail in the notes to the financial statements about capital assets reported on the Statement of Net Assets. This information should be divided into major classes of capital assets. Capital assets that are not being depreciated should be shown separately from those that are being depreciated. (This requirement also applies to discretely presented component units.)

6. Should the equipment use charge for service centers change?

No---however an eliminating entry should be made removing amounts from the books since this is essentially a move of monies between funds.

7. Are liabilities for compensated absences current or non-current?

Compensated absence liabilities that are expected to be paid within one year are current. The compensated absence liability calculated for the periods thereafter would be non-current.

See TBR GASB Website for the prescribed methodology to be used to calculate the current and non-current portion of the compensated absence liability. The TBR will be distributing a program that will calculate the current portion of compensated absence liability in accordance with the prescribed methodology.

Management’s Discussion & Analysis (MD&A)

1. What are some of the key points that should be presented?

• See template provided by TBR. This template has been provided as a guide only. Each institution should review the requirements of GASB 34 and develop their MD&A to meet the needs of their institution.
Certain information will be collected by TBR to assist in the
development of the MD&A section for the system.

- Must be limited to items listed in paragraph 11(b) of GASB 34 consisting
  of 14 requirements of which 11 are applicable to universities.
- Must be included as require supplementary information (RSI);
- Precedes the basic financial statements;
- Provides an objective and easily readable analysis of the institution’s
  financial statements based on currently known facts, decisions, or
  conditions;
- Discuss current year results in comparison with the prior year, with
  emphasis on the current year;
- Discusses positive and negative trends;
- May use charts, graphs, and tables to enhance understandability of the
  information;
- Should avoid “boilerplate” discussion;
- Should be focused on the institution---not component units (foundations)--
  -although discussion of component units may be necessary if they are
    material;
- In the first year of implementation, restatement of prior periods for
  purposes of providing comparative data is not required, but presentation of
  a comparative analysis of key elements is encouraged.

2. What are the differences between the auditing requirements for the MD&A
   and the financial statements?

MD&A provides an objective and easily readable analysis of the
government’s financial activities based on currently known facts, decisions, or
conditions. The financial managers of public institutions are knowledgeable
about the transactions, events, and conditions that are reflected in their
financial report and of the fiscal policies that govern its operations. MD&A
provides financial managers with the opportunity to present both a short and
long-term analysis of the public institution’s activities.

Even though MD&A precedes the financial statements, it is required
supplementary information subject to auditor review to ensure that the
information included there is consistent with the information in the financial
statements. The auditor’s requirements are found in SAS 52, Codification
558.07. The primary focus of the auditor’s review is the requirements of AU
558.07, not the consistency of RSI with the financial statements, which is only
part of the AU 558.07 requirements. While the auditor must report situations
where MD&A does not meet certain conditions specified in SAS 52, that
report generally has no effect on the auditor’s opinion on the financial
statements. Conversely, financial statement issues will always affect the
auditor’s opinion on the financial statements.

3. Can a public institution include non-financial data in its MD&A?
Yes. However, the non-financial data should be relevant to the [Omnibus] requirements of MD&A that are supported by individually verifiable information. For example, data such as full-time equivalent student information, student/faculty or other ratios, and so on, having an effect on the financial position or results of operations of the institution, may be appropriate for reference in MD&A. Other non-financial data that is not relevant to the requirements for MD&A could be included outside the financial statements and MD&A as other (optional) supplementary information.

Statement of Net Assets (SNA)

1. What are some of the key points that should be presented?

- Uses classified format—current versus non-current format;
- Requires separation of restricted assets
- Has three net asset categories----
  ----unrestricted,
  ----restricted (nonexpendable and expendable);
  ----invested in capital assets, net of related debt;
- Need to use the net asset format (Assets – Liabilities = Net Assets)
- Does not display internal designations of unrestricted net assets on the face of the statement of net assets (may disclose them in the notes to the financial statements).
- See the TBR template (included on the TBR GASB website).

2. How does one determine the difference between current and non-current assets and liabilities?

In general, current liabilities are those that will be paid within one year of the date of the statement of net assets. Current assets are those that are available to satisfy current liabilities. They include assets that will be converted to cash within one year of the date of the statement of net assets. Typically other assets and liabilities expected to become due beyond one year are considered non-current.

Additionally, it is important to understand the differences between short-term and long-term debt and current and non-current assets. For example, an institution may have long-term debt that matures over 20 years. The principal portion due within one year of the date of the statement of net assets should be classified as a current liability.

3. How should quasi-endowments be classified?
Resources used to create quasi-endowments may be either restricted or unrestricted. Quasi-endowments created with restricted resources must be reported as expendable restricted net assets. Those created with unrestricted resources must be reported with unrestricted net assets.

4. Are the LGIP investments in Quasi-endowments current or non-current?

Depends. Cash and short-term investments normally are classified as current assets. On the statement of net assets, restricted cash and cash equivalents that can be used to pay current liabilities (in keeping with restrictions) are classified as current assets; cash and cash equivalents that cannot be used to pay current liabilities (in keeping with restrictions) are classified as non-current liabilities.

5. How do you determine what is current/non-current for Loans Receivable?

Look at the length of the loan. As a general rule, most institutional loans are short-term (current) and are normally made from unrestricted resources; however, external funds restricted for loan purposes such as, Federal Perkins loans are generally long-term (non-current). In addition, since Federal Perkins loan funds are not available to pay current liabilities, all assets will generally be classified as non-current.

6. What about plant funds?

ARB 43, Chapter 3, Section A, Paragraph 6 states that “This concept of the nature of current assets contemplates the exclusion from the classification of such resources as … are designated for expenditure in the acquisition or construction of non-current assets, or are segregated (1) for the liquidation of long-term debts…” Therefore all plant funds, except to the extent there are current liabilities, will be classified as non-current.

Statement of Revenues, Expenses and Changes in Net Assets (SRECNA)

1. What are some of the key points that should be presented?

- Distinguishes between operating/non-operating;
- Considers state appropriations as non-operating;
- TBR institutions must use the natural expense classification;
- Provides reporting of capital contributions and additions to permanent and term endowments.
- See the TBR template (included on TBR GASB website).

2. How should “Refunds to Grantors” be treated?
Depends on whether the grant for which a refund exists is an exchange or a non-exchange transaction. If it is an exchange transaction, the refunds should be a reduction of the deferred revenue since it has not yet been earned. If it is a non-exchange transaction, the refunds will be recorded as a reduction to gift revenue if returned in the year of receipt or as an operating expense if returned in a subsequent year. The Refund to Grantor category should be used rarely as a gift can only be recorded as such once the institution has met all applicable eligibility requirements, including time requirements. A refund would indicate that the institution once met all requirements but no longer does so. An example would be the acceptance of a gift to help implement a new program that has already been approved by THEC. Since the institution meets all the eligibility requirements, gift income should be recorded. If subsequently the institution decides not to implement the new program due to budgetary constraints, the return would be considered a Refund to Grantor and recorded as an operating expense if made in a year subsequent to receipt.

In the case of Pell grants, any returns in subsequent years should be classified as a refund of expense in the current year.

3. What items are required to be eliminated from the SRECNA?

Any items in which there are duplications or revenue or expense should be eliminated from the SRECNA. Examples of such items are, but is not limited to:

- Service center usage charges
- Indirect costs
- Complimentary athletic tickets
- Plant fund duplications such as TSSBA Revenue in Unexpended Plant and Increase in Indebtedness in Investment in Plant
- Departmental revenues such as service centers and physical plant work orders
- Camps and conferences revenue if also recorded as Auxiliary or Rental of Institutional Property.

4. Should private gifts be shown separately from private grants and contracts (previously combined on one revenue line)?

Yes. All gifts should be reclassified as non-operating.

5. How are “Cost of Issuance of Bonds” to be treated?

As non-operating expenses.

6. How are Pell and SEOG to be reported?
As non-operating revenues and as operating expenses.

7. How should interest from student loans be reported?
   As operating revenues.

8. How should other interest and investment income be reported
   As non-operating revenues.

**Depreciation Issues:**

9. What methods are to be used for calculating depreciation?

   The straight-line method should be used for all depreciation using useful lives as determined by TBR. For library books, the tenth year that will be fully depreciated, will be written off from both the asset and accumulated depreciation categories.

10. What are the useful lives for calculating depreciation on equipment and buildings?

    See TBR policy “Asset Classification and Corresponding Useful Life”.

11. When do you begin calculating depreciation?

    Equipment - from the month of acquisition forward.
    Buildings/Land Improvements and Library Books – calculate a full-year in the first year of acquisition.

12. What is considered a useful life extension for renovations to buildings/land improvements?

    No definitive answer. Each item should be analyzed as to purpose and costs. General guidelines regarding useful life extensions are as follows:

    - $100,000 - $500,000 – no useful life extension
    - $500,000 - $1 million – 10 year useful life extension
    - $>1 million – 20 year useful life extension.

13. Should capitalized equipment that are component units of buildings be depreciated such as HVAC units, etc.?

    Yes.

14. Are fully depreciated items written off (as is done with Library Holdings)?
No. These items are only written off when disposed of, razed, demolished, sold, etc.

**Statement of Cash Flows**

1. What are some of the key points that should be presented?

   - Requires the direct method and must include the reconciliation of net operating income (loss) to cash flows from (used in) operating activities; and
   - Has four categories---
     - operating,
     - non-capital financing (e.g., state appropriations and gifts)
     - capital and related financing and
     - investing
   - Shows significant non-cash activity.

2. How should agency funds be reported on the Statement of Cash Flows?

   Net change in agency funds should be reported in the non-capital financing activities.

3. How are federal direct loans handled on the cash flow?

   Federal direct loans should be shown as gross inflow and outflow in the non-capital financing activities.

4. Can other university loans be netted?

   No—they must be shown as a gross inflow and outflow.

**Notes to the Financial Statements**

1. Will the TBR provide example standardized notes as in the past?

   Yes. For FY 2002, due to the numerous changes, the normal strikethrough method will not be used.