

GASB STATEMENT 34 IMPLEMENTATION ISSUES

Colleges and Universities Reporting

Issue

To determine the most appropriate method of reporting for colleges and universities from the alternatives available under GASB Statements 34 and 35.

Discussion of Alternatives

The following 3 basic reporting models are available as alternatives for colleges and universities reporting under GASB Statements 34 and 35. The financial reports follow the guidance established in GASB Statement 34 for special-purpose governmental entities in paragraphs 134-138:

1. Reporting only Business-Type Activities (BTA) or Enterprise Fund Model:

This alternative would allow colleges and universities to present the financial statements required for enterprise funds per GASB 34 paragraphs 91-105. The required financial statements for BTA's are Statement of Net Assets or Balance Sheet, Statement of Revenues, Expenses and Changes in Fund Net Assets or Fund Equity, and Statement of Cash Flows. These should be presented using the economic resources measurement focus and the accrual basis of accounting. Using this model entails preparation of Direct Method Cash Flow Statements, MD&A, RSI and capitalization of capital assets and infrastructure and related depreciation.

2. Reporting both Governmental and Business-Type Activities:

This alternative would require observing all of the standards established by GASB 34, specifically paragraphs 8-131. These paragraphs are the standards for Management Discussion and Analysis (MD&A), entity-wide financial statements, fund financial statements, notes to the financial statements, and Required Supplementary Information (RSI) other than MD&A. This method would require both modified and full accrual basis of accounting which would entail two sets of financial reports, much like the requirements for the CAFR for the State of Louisiana.

3. Reporting only Governmental Activities:

This alternative would require following the guidance to report as special-purpose governments engaged only in governmental activities. This alternative would also require observing all of the standards established by GASB 34, specifically paragraphs 8-131 as mentioned in 2 above. Financial statements for governmental funds should be presented using the current financial resources measurement focus and the modified accrual basis of accounting, while the institutional-wide statements would require full accrual basis of accounting.

Recommendation

We recommend that colleges and universities follow the “Enterprise Fund Model” alternative by reporting only as a business-type activity. There are several reasons why we chose this alternative and feel that this model is most appropriate.

1. First, the National Association of College and Universities Business Officers (NACUBO) recommends that this model be chosen. NACUBO is the organization that guides the management and financial reporting by colleges and universities across the country. Therefore, most colleges and universities are opting to use this model.
2. Secondly, this model provides the advantage of comparability with other colleges and universities, both public and private. GASB Statement 35 paragraph 42 states that the environment in which most public colleges and universities operate has changed significantly since the current model was adopted, and that comparability between public and private colleges’ and universities’ financial reporting has diminished. GASB believes that users have indicated a need for more comparable information for public and private institutions. We feel that choosing the Enterprise Fund Model for Louisiana’s colleges and universities will enhance the comparability between public and private colleges and universities.
3. Generally, colleges and universities use the full accrual basis of accounting in recording transactions, which is the same method used in private accounting/businesses. Since the BTA requires the full accrual basis, it will facilitate transition from the way colleges and universities currently report to the Enterprise Fund Model.
4. The Enterprise Fund Model would be easier for colleges and universities to implement compared to reporting only governmental activities or reporting both governmental and business-type activities. Reporting as only governmental activities or a combination of governmental and business-type activities would create a burden for colleges and universities and would be more time consuming. The GASB considered limiting the reporting requirements to the Enterprise Fund Model for colleges and universities, but ultimately allowed the other two alternatives for those that wanted to report governmental activities. Following this model does not require reconciliations from modified accrual to full accrual that is required for the governmental activities model. Also, this model is in a one-column format which makes it user friendly.

Concerns

Although it is our recommendation that the colleges and universities use the Enterprise Fund Model of reporting, there are some issues that need to be resolved.

1. The GASB 34 requires a Statement of Revenues, Expenses and Changes in Net Assets for enterprise fund accounting. This statement does not roll up into the government-wide Statement of Activities which presents a major issue. Therefore, it is recommended that the colleges and universities provide a Statement of Activities in the

Supplemental Information as suggested by the GASB in paragraph 123 of Statement 34 and GASB 35 paragraph 45.

2. As part of the reporting requirements, a direct method cash flow statement must now be prepared. The issue this may present would be determining whether or not the systems are set up to capture the information needed to complete the statement.

3. The use of enterprise fund accounting requires segment information for activities with revenue-backed debt to be presented in the notes to the financial statements. Each activity requires condensed financial statements which will increase the volume of required disclosures and will place an onerous burden on preparers. This reporting requirement is also in excess of reporting obligations to bondholders.