Financial Reporting Problems

FOCUS
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Acknowledgement

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Session Goals

- Improve the overall value of your financial statements to readers
- Identify common financial statement errors
Session Agenda

- Balance sheet differentiating FASB & GASB
- Management’s Discussion & Analysis
- Activities statement differentiating FASB & GASB
- Cash flows statement combined
- Notes differentiating FASB & GASB
- Questions, comments, and reactions
Statement of Financial Position

What to look for
- Does it balance and articulate?
- Review each line item
  - Are the descriptions still appropriate?
  - Should any of the items be broken out into more detail or consolidated?
  - Are there any new items that need to be included?
Statement of Financial Position

- Is there a corresponding footnote for each line item?

Common errors
- Noncash equivalents included in cash
- Including conditional pledges as receivables
- Incorrect calculation of discount on pledges
Statement of Financial Position

- Formula or other errors on spreadsheets used to calculate key amounts (depreciation, bad debts, net pledges, etc.)
- Netting assets and liabilities when no right of offset exists
Tips for preventing common errors

- Maintain a schedule of cash equivalents with purchase date and maturity date to determine whether they qualify as cash equivalents
- Discuss terms of pledges with Development staff
  - Are any contingent on matching?
Statement of Financial Position

– Implement appropriate spreadsheet controls to ensure errors in formulas caught and that all input cells are updated
  
  Lock key cells to ensure they cannot inadvertently be modified

– Err on the side of presenting amounts gross, rather than net
Management’s Discussion & Analysis

- Areas of interest
  - Years of comparison based on audited status
  - Inclusion of coverage of statement of cash flows
  - Excessive forecasting regarding future economic challenges

- Statistical section (trend information)
Statement of Net Assets

Areas of interest

– Is it classified properly?
– Does cash & cash equivalents reconcile with amounts reported in the cash flows statement?
– Misclassifying cash as restricted
Statement of Net Assets

– Are there appropriate levels of aggregation / disaggregation?
– Are there references to the notes for specific items when required?
Statement of Activities

Review each line item

– Are the descriptions still appropriate?
– Should any of the items be broken out into more detail or consolidated?
– Are there any new items that need to be included?
– Are items properly classified as operating or nonoperating?
Statement of Activities

– Do reclassifications between net asset classes net to zero?
– What’s in other?
  Should anything be broken out separately?
Statement of Activities

Common errors

– Failure to release net assets when restrictions satisfied
– Proper net asset classification of gifts and pledges
Statement of Activities

Tips for avoiding common errors

– Review amounts in temporarily restricted

  Look for balances that have not changed

– Review amounts related to capital projects to ensure they are not released until the asset is placed in service
Statement of Activities

– Review the terms of large gifts and pledges to ensure that they are properly classified

  Don’t assume that Development has properly classified them
SRECNA

Areas of interest

– Is it properly classified?
– Capital contributions / endowment additions not included with nonoperating revenues
– Continuing to identify pledged revenues on face of statement
SRECNA

– Distinction between operating and nonoperating revenues
  • Federal appropriations
  • Pell grants
  • Other grants
    – Research
    – Non-research
Questions?
Statement of Cash Flows

What to look for

– Are noncash items properly excluded?
– Are amounts reported gross, if required?
– Are amounts included in the proper category?
– Is required supplemental information disclosed?
Statement of Cash Flows

Common errors

– Noncash items not excluded
– Fixed assets purchases not reduced by amounts in Accounts Payable
– Proceeds from sale of fixed assets excluded or netted against purchases
– Student financial aid reported in cash flows not nearly equal to amount in SRECNCA
Statement of Cash Flows

– Payables / receivables related to investment purchases included in operating activities
– Agency transactions included in other than operating activities
– Securities lending activity not included as a financing activity
Statement of Cash Flows

– Maintain an inventory of noncash items
  □ Create a checklist to ensure that all have been considered
– Create a template that breaks out balance sheet amounts in detail to ensure proper classification in cash flows statement
– Ensure that amounts are reported gross when required
Notes to Financial Statements

What to look for—FASB

– Are they still relevant?
– Should information be added or removed to make the disclosures more meaningful?
– Are all required disclosures included?
Notes to Financial Statements

Common errors
– Description of accounting policy not GAAP-compliant
– Disclosures not in required format—textual versus tabular
– Related party transactions not properly disclosed
– Failure to disclose new pronouncements
Notes to Financial Statements

Tips for avoiding common errors

- Review every disclosure every year
- Obtain a disclosure checklist and fill it out completely and thoroughly
- Maintain a list of related parties
  - Review any transactions associated with them that may require disclosure
Notes to Financial Statements

– Discuss new standards with your auditors to ensure you understand all required disclosures
– Once disclosures are updated, have them reviewed by legal office, development, sponsored programs, treasurer, etc. to ensure they are complete
Notes to Financial Statements

Areas of interest—GASB

- Option to present some information on statement or in notes
  - Nature of restrictions for both restricted expendable and restricted nonexpendable
  - Scholarship discounts and allowances
  - Other discounts and allowances
Notes to Financial Statements

– Policy regarding restricted resources
– Reference to policy regarding post-November 30, 1989 FASB pronouncements
– Collections
  □ Reasons for not capitalizing
  □ Capital asset disclosures
Notes to Financial Statements

– Endowments

- Net appreciation available for authorization for expenditure and where reported
- State law regarding ability to spend appreciation
- Policy for spending (e.g., spending rate, or total return)
Notes to Financial Statements

– Derivatives
  Disclosures required by TB 2003-1
– Component units
  Including extraneous disclosures
  Description of transactions between institution and component unit
– Other related party transactions
Notes to Financial Statements

– Significant violations of finance-related legal or contractual provisions
– Termination benefits
Financial Reporting Problems

Questions, Comments, and Reactions

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