GASB II / IPEDS Update

FOCUS

Staunton

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Session Agenda

- GASB 53—Derivatives
- IPEDS Finance Survey changes
- Questions, comments, and reactions
GASB 53
Derivatives
Derivatives

Examples

– Interest rate swaps
  - Variable rate to fixed rate
  - Fixed rate to variable rate
– Swaption gives the purchaser the right to enter into an interest rate swap
– Commodity swap reduces exposure to a commodity’s price risk
Derivatives

Basic approach

– Fair value with hedge accounting
  Derivatives reported on statement of net assets at fair value
  Fair value changes reported on SRECNA as investment income

Exception for effective hedges

– Changes in fair value reported on statement of net assets using deferrals (i.e., charges or credits)
Derivatives

Measuring effectiveness
- Effectiveness determined by using specified methods
- Qualitative method
  - Consistent critical terms
- Quantitative methods
  - Synthetic instrument
  - Linear regression
  - Dollar offset
  - Other comparable method at your option
Derivatives

- Note disclosures—voluminous
  - Summary of derivative instrument activity
    sorted by
      - Fair value hedges
      - Cash flow hedges
      - Investment derivatives…
Derivatives

Within the three categories, segregate by type providing

- Notional amount
- Fair values and changes in fair value and where reported (i.e., statement of net assets or SRECNA)
- Identify fair values of amounts reclassified from hedge to investment…
Derivatives

– Disclosures for *hedging* derivatives
  - Extensive disclosures carried forward from Technical Bulletin 2003-1
  - Significant terms
  - Risks including credit, interest rate, basis, termination, rollover, market access, and foreign currency
  - Identification of “other” effectiveness assessment method if applicable, including its critical values...
Derivatives

- Disclosures for investment derivatives
  - Risks including credit, interest rate, and foreign currency

Disclosures of contingent features
  - Description of features
  - Aggregate fair value of instruments containing the features
  - Aggregate fair value of assets to be posted or transferred
  - Amounts posted or transferred…
Derivatives

Disclosures for synthetic guaranteed investment contracts
– Description and nature
– Fair values of Wrap contract
  Underlying investments…
Derivatives

Four key points

1. Derivative instruments are reported on the statement of net assets and measured at fair value

2. Changes in fair value are reported on the SRECNA, unless instrument is a hedging derivative…
Derivatives

3. Change in fair value of derivatives qualifying for hedge accounting are deferred and reported on the statement of net assets until termination (i.e., the hedged transaction occurs)

4. Massive disclosures are required for derivatives!!!
Derivatives

Effective date is June 30, 2010

– Implementation effort for those affected will be substantial

– Start now by coordinating with treasury staff, investment advisors, and external auditors •
Questions?
IPEDS Changes

- Changes are optional for FY 2009 and FY 2010
- Mandatory beginning with FY 2011
- Overall objective is enhanced comparability between public and private institutions
  - Over the objections of many…
IPEDS Changes

Balance sheet item changes (Part A)

- Eliminate need to show capital assets and depreciation separately
- Ending capital assets, net of depreciation will replace reconciliation of beginning, additions, and deletions
- Equipment will be combined with art and library collections...
IPEDS Changes

– Remove separate reference to capital leases

  Improved instructions will guide you to include them with appropriate asset category

– Add line for other capital assets

– Add line for intangible assets, net of accumulated amortization...
IPEDS Changes

Activity statement item changes

– Revenues (Part B)
  - Segregate local grants and contracts from private grants and contracts
  - Add educational sales and services

– Expenses (Part C)
  - O&M and depreciation must be allocated to remaining functions…
IPEDS Changes

- Parts F & G for component units will be eliminated
  - No longer necessary to provide information about component units
- Instruction clarifying that endowment assets held by foundations and affiliated entities should be included in endowment details in Part H
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Questions, Comments, and Reactions

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