Assignment 2 acc 410

Finance

GASB standard and their implications A) GASB 50 provides for pension liability reporting. The section includes information for Defined Benefit; defined contribution and cost-sharing benefits. The basic law provides that these disclosures be made in financial reports as notes and required supplementary obligations. These should include, but not restricted to, plan description, actuarial value, assets, actuarial accrued liability, and the related actuarial method employed in valuation. The valuation date needs to be included the case the fund is managed by a trust or multiple employers. The multiple year trend data is also quoted in the RSI.

Current GASB standards place pension expense as Annual Required Contribution (ARC) that stipulates unfunded liability be amortized over a period not more than 30 years. In addition, the funded status is not recorded in the financial statements, only explained in the footnotes.

The University of Georgia is a state university, and thereby reports its financials in accordance to the GASB standard. We observe the financial records for 2011, reported in June.

The disclosures are made under note 11: retirement Plans (p 19-23) under basic financial statements. The university participates in two cost-sharing multiple employer defined benefit pension plans, and two single employer defined contribution plans; both through two systems. Under the Employees Retirement System of Georgia, ERS the contribution rate is stipulated by law at 4% of annual compensation up to $4200 and 6% in Excess of $4200. The University of Georgia contributes in excess of 1. 25% for each member in this scheme. A new plan for those hired after July 2009 exist, where members contribute 1. 25% of annual compensation. The actuarial valuations for the old and new plan are 10. 41%.

The other system is the Teachers Retirement System of Georgia, TRS. Normal retirement benefits are equal to 2% of the member's two highest subsequent years of service multiplied by the number of years of service. The member's contribution is regulated by law to between 5-6%of his deductable salary. The contribution rate for 2011 is recorded as 5. 53%, while the employer contribution for the same period is 10. 28%. The monetary contributed for 2011 for the two models by the University for its Employees is $ 123, 062 for ERS and 35, 124, 704 for TRS.

As of June 2011, GASB exposure draft comes into effect. Major implications include:

1. The immediate recognition of liability changes as a result of plan amendments and accelerated change in liability as a result of actuarial gains and losses together with the underlying actuarial assumptions mystifies pension expense and pension funding, as the ARC set the standard for funding in the current approach.

2. Furthermore, delinking pension expense and pension funding creates two different sets of cost numbers namely: the funding determined by the plan that remains unchanged from previous practice and pension expense value, causing the conflict on which is the true cost value. The unfunded pension obligations are made to be a balance sheet liability in the basic financial statements.

3. Projections will also be affected. The draft states that an institution will need to value their pension obligations no greater than 24 months. This would affect the net pension liability. It further replaces most of the current note disclosures and RSI with information based on new standard. It also deletes the disclosures showing actuarial funded status of the benefits of the

employees.

B) Revenue: operating revenue is a variable determined by the University and can be optimized. This include increased enrolment, lobbying for more state grants, increased investment and leveraging are all tools the university can use to increase its success. The increased tuition from $3035 to $3535 and reduced school/college budget by 2% frees up cash for expansion.

Staffing: the benefit paid to staff in absence compensation and salaries is high. The university moves to reduce this value by cutting down on hiring and restructuring less funded schools.

C) University of Georgia has grants in forms of grants, contracts and gifts (revenue statement). The university also runs scholarships and fellowship program (expense statement). The university has capital grants for building and equipment, $16. 8m and equipment, $2m. Pell grants are funds provided by the state to aid to a needy student to help them acquire their first degree. Supplementary grants like bursaries and tuition aids are included under non operating revenue as they are revenue restricted funds.

State funded capital grants and gifts decreased from fiscal year 2010 to fiscal year 2011 by $37, 005, 774 as a result of decreased funding for capital improvements and additions through the Georgia State Financing and Investment Commission (GSFIC).

D) Endowments are financial rants made to an institution to facilitate its operations the endowment is a fund that is run by a Board that ensures that need is addressed while the fund is not depleted since the principal is not to be spent. University of Georgia has endowments for grants and contracts, federal appropriations, sales and educational departments and the federal appropriation. Endowments run as independent projects are to generate revenue and there funds are not only for the current financial period. This are reported in the statement of revenue (P IV)

Restricted funds are current funds made available for financial activities, but their spending is limited by the donor or state to specific projects. These could be permanent or temporary, where temporary means they are purpose and/time tied. The main distinction is in that they are handled in separate fund group for easy accounting to the external agencies. These are shown under the summary budget (schedule 2).

Reference

University of Georgia. (2011). Report On Audit Of The Financial Statements. Retrieved on 30 May 2012 from www. busfin. uga. edu/accounting/UGAafrcy. pdf