

Public Private Venture Program

PPV Accounting and Cash Flow Reporting



Office of Fiscal Affairs
Board of Regents of
The University System of Georgia
Presentation FY 2014 Year End Training
May 1, 2014



Public Private Venture Program
PPV Accounting and Cash Flow Reporting
Portfolio Approach

BENCHMARKS AND STANDARDS

PERFORMANCE MATTERS

TRANSPARENCY

BEST IN CLASS

PROACTIVE

STRATEGIC



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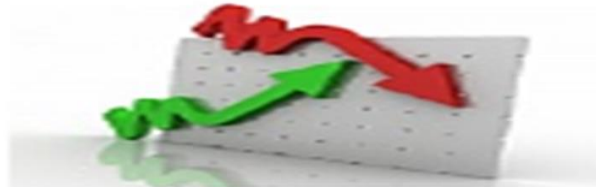
PPV Accounting and Cash Flow Reporting

TRENDS:

- **INCREASING REQUESTS FOR CASH FLOW DATA** - Continued and More Frequent Requests For Reviews and Cash Flow Data From Standard & Poor's, Moody's and other Financial Investors and Bond Holders. (Approximately 25% of Portfolio Reported on During FY 2013)



- **NON-PERFORMING ASSETS** – Growing Concern About Number of PPV Projects Not Meeting Proforma and Not Being Self-Liquidating (Impact of more stringent admission's criterion, changes to learning support requirements, growing on-line population and ongoing challenges with matriculation.)



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TRENDS:

- **REAL-TIME DATA** - Growing Need for Real-Time Cash Flow Data. Currently Cash Flow Submittal Is Done Once A Year, Movement Toward More Frequent Reporting
- **OTHER PPV NEWS – (INCREASE OVERSIGHT AND MORE POLICIES)**



- ✓ **Board of Regents Policy Additions Addressing PPV Projects November 2012**
 - 1) **System Capacity as % of Revenues**
 - 2) **Creation of Capital Liability Reserve Fund**
 - 3) **Guidelines Addressing Refinancing**
- ✓ **Established 5-Year Debt Management Plan December 2012**

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TRENDS:

- **OTHER PPV NEWS – (INCREASE OVERSIGHT AND MORE POLICIES)**
 - ✓ **Capital Liability Pooled Reserve Fund Created and Funded July 2013**



- ✓ **Increased Refinancing of PPV Deals the First Half of 2013 Resulting in Savings**
- ✓ **Integrated Review of All Proposed PPV Projects, Must Address Critical Need**
- ✓ **P3 Initiative Underway (Susan Ridley and Marty Nance)**

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ACCURACY & CONSISTENCY

Need to Increase Accuracy in Reporting Cash Flow for PPV Projects

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FY 2013 Initiatives: Pilot-PeopleSoft Program (Use of PeopleSoft to Support Cash Flow Submittals)

- *Pilot Schools*
 1. *Georgia College & State University*
 2. *Georgia Gwinnett College*
 3. *Georgia Perimeter College*
 4. *Georgia Southern University*
 5. *Georgia State University*
 6. *Savannah State University*
 7. *University of North Georgia*

- *Creation of Nvision Report/Efforts to Make Reporting More Simplified*

- *Redefined Operating and Expense Categories To
Be Consistent with PeopleSoft*

- *Better Clarity as to Source of Revenues*



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FY 2013 Initiatives: Pilot-PeopleSoft Program (Use of PeopleSoft to Support Cash Flow Submittals)

PeopleSoft Description			Nvision Report		PPV Cash Flow Report
PROJECT REVENUE (direct project income)					
<u>Account</u>					
404xxx	Student Transportation Fees		Student Fees		Student Fee Income
406xxx	Student Health Fees				
405xxx	Parking/Vehicle Registration Fees	↔			
407xxx	Student Athletic Fees				
408xxx	Student Activity Fees				
409xxx	Other Fees				
451xxx	Rents	↔	Rents	↔	Rental Income
All other 4xxxxx accounts not separately identified in the Revenue section	Fund 10000 (State General)		Fund 10000 (State General)		Fund 10000 (State General)
	Fund 10500 (Tuition)		Fund 10500 (Tuition)		Fund 10500 (Tuition)
	Fund 10600 (Other General)	↔	Fund 10600 (Other General)	↔	Fund 10600 (Other General)
	Fund 14000 (Dept'l Sales & Services)		Fund 14000 (Dept'l Sales & Services)		Fund 14000 (Dept'l Sales & Services)
	Fund 15000 (Indirect Cost Recovery)		Fund 15000 (Indirect Cost Recovery)		Fund 15000 (Indirect Cost Recovery)
	All Other Funds		All Other Funds		All Other Funds
Non-Project Revenue (other revenue either pledged in the pro-forma or not pledged but needed to cover project deficit/shortfall)					
911xxx, 921xxx	Non-Mandatory Transfers	↔	Non-Mandatory Transfers	↔	If funding sources are pledged in Proforma
					Bookstore Auxiliary Income Food Services/Dining Auxiliary Income Concession Auxiliary Income Other Auxiliary Income
					If funding sources are not pledged in Proforma and needed to cover project deficit/shortfall
					Non-Mandatory Transfers

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FY 2013 Initiatives: Pilot-PeopleSoft Program (Use of PeopleSoft to Support Cash Flow Submittals)

		Nvision Report		PPV Cash Flow Report	
5xxxxx	Salaries and Benefits	↔	Personnel	↔	Personnel
7172xx	Electricity	↔	Electricity	↔	Electricity
7174xx	Natural/Propane Gas	↔	Natural/Propane Gas	↔	Natural/Propane Gas
7175xx	Water	↔	Water/Sewer	↔	Water/Sewer
7171xx	Coal	↔	Other Utilities	↔	Other Utilities
7173xx	Fuel Oil				
7176xx	Other Utilities				
7151xx	Repairs & Maintenance	↔	Repairs & Maintenance	↔	Repairs & Maintenance
7152xx	Repair & Replacement	↔	R&R Contribution	↔	R&R Contribution
7201xx	Insurance & Bonding	↔	Insurance & Bonding	↔	Insurance & Bonding
7531xx	Contracts	↔	Contracts	↔	Contracts
6xxxxx	Travel	↔	Other Operating Expense	↔	Other Operating Expense
All other 7xxxxx	Operating Supplies and Expenses not				
83xxxx - 88xxxx	Equipment				
890xxx	Depreciation	↔	✘	↔	✘
8181xx	Lease Purchase Principal	↔	Base Rent	↔	Base Rent
8182xx	Lease Purchase Interest				
			✘		Non-Mandatory Transfers (will show here for

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Why system-wide standards for accounting for PPV Projects?

- To achieve greater accountability
- To enhance campus/system management and oversight
- To enable more efficient, accurate, and timely reporting to the Board of Regents, rating agencies, and other stakeholders

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PPV Accounting and Cash Flow Reporting

Comments/Issues by the Pilot Team

- Budgeting at the APPROP level versus the ORG level
- ID Code modification
- Consistent use of project ID codes
 - ✓ No rule set up in PeopleSoft to require project ID code
- Use of project ID codes in P-Card WORKS
 - ✓ Project field can be added to chart string in WORKS
- Use of M&O funds double counted in Nvision report
- Nvision report run by Budget Year instead of Fiscal Year
- Run Nvision report to Report Manager instead of to Windows
- The use of project ID codes in the GAAP ledger

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PPV Accounting and Cash Flow Reporting

Public/Private Ventures
 USG Institution
 Fiscal Year 2014
 Project: ID Code - Student Center

Project Revenue	
Student Transportation Fees	0.00
Student Health Fees	0.00
Parking/Vehicle Registration Fees	0.00
Student Athletic Fees	0.00
Student Activity Fees	0.00
Other Student Fees	6,949,875.14
Rents	0.00
All Other Revenue	
Fund 10000	0.00
Fund 10500	0.00
Fund 10600	0.00
Fund 14000	0.00
Fund 15000	0.00
All Other Funds	50,000.00
Revenue Subtotal	6,999,875.14
Non-Project Revenue	(200,000.00)
Revenue Total	6,799,875.14

Accounts 404xxx
 Accounts 406xxx
 Accounts 405xxx
 Accounts 407xxx
 Accounts 408xxx
 Accounts 409xxx
 Accounts 451xxx

All other 4xxxxx accounts not already identified, Fund 10000
 All other 4xxxxx accounts not already identified, Fund 10500
 All other 4xxxxx accounts not already identified, Fund 10600
 All other 4xxxxx accounts not already identified, Fund 14000
 All other 4xxxxx accounts not already identified, Fund 15000
 All other 4xxxxx accounts not already identified, All other Funds

Accounts 911xxx, 921xxx

Project Expenses	
Personnel	0.00
Electricity	458,930.77
Natural/Propane Gas	20,636.80
Water/Sewer	35,694.00
Other Utilities	0.00
Repairs & Maintenance	1,226,023.05
R&R Contribution	0.00
Insurance & Bonding	114,323.00
Contracts	96,322.87
Other Operating Expense	50,330.25
Project Expenses Subtotal	2,002,260.74
Lease Payments	
Base Rent	4,338,776.00
Expense Total	6,341,036.74
Total	458,838.40

Accounts 5xxxxx
 Accounts 7172xx
 Accounts 7174xx
 Accounts 7175xx
 Accounts 7171xx, 7173xx, 7176xx
 Accounts 7151xx
 Accounts 7152xx
 Accounts 7201xx
 Accounts 7531xx
 Accounts 6xxxxx, other 7xxxxx accounts not already identified, 83xxxx
 - 88xxxx

Accounts 8181xx, 8182xx

For Information Only:	
Encumbrances - Salaries	0.00
Encumbrances - Operating Expense	(95,327.79)
Encumbrances Subtotal	(95,327.79)

Accounts 5xxxxx, Ledger Detail_En
 Accounts 6xxxxx, 7xxxxx, 8xxxxx, Ledger Detail_En



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PPV Accounting and Cash Flow Reporting

Business Procedures Manual



Equilibrium between Accounting and Cash Flow Reporting

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PPV Accounting and Cash Flow Reporting

Business Procedures Manual

PPV Cash Flow Data Reviewed by BOR, Offices of Fiscal Affairs and Facilities

- Confirm the annual cash flow numbers are consistent with the approved proforma and verifying that the school is operating the project consistent with the approved deal terms.
- Analyze revenue and expenses and confirming that the correct rental payment was made and determining whether the project is self-liquidating and measuring project coverage ratio.
- Review operating expenses based on the PPV portfolio's trends and industry standards.
- Confirm amount of project cash reserves held for the project at the institution and the amount of Repair and Replacement reserves held with foundation/trustee is consistent with proforma.
- Confirm any major capital expenditures.
- Any other item as required based on internal and external requests.

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PPV Revenue

- **Identification Numbers** - Within PeopleSoft or an alternative accounting system used by non-Georgia First Institutions, each institution is required to use project identification numbers provided by the BOR, Office of Fiscal Affairs that permit revenue tracking by source for each PPV project.
- **Traceable** - All revenue submitted and recorded in the PPV Project Cash Flow submittal must be traceable to the institution's audited financial statements and business plan, PeopleSoft and Nvision report for the appropriate period.
- **Earned/Allocated** - PPV Project Revenue consists of actual income earned by the project or funds generated outside of the project but allocated to support the PPV Project for the stated period.

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PPV Expenses - continued

- ***Incurred, Paid or Obligated*** - expenditures incurred and paid or obligated for the operation, maintenance, and repair of a PPV facility. Generally include:
 - ✓ salaries, wages and benefits of individuals directly responsible for work associated with running and maintaining the facility,
 - ✓ the cost of equipment, materials, supplies and services associated with completing work on the facility,
 - ✓ the cost of audits,
 - ✓ expenses for accounting services, general repair and maintenance of the structure and systems in the structure,
 - ✓ electricity, natural and/or propane gas, water/sewer, other utility services,
 - ✓ insurance and bonding, and
 - ✓ contracts.



Calculating Expenses

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PPV Expenses - continued

- **Directly Tracked Expenses** - each institution is required to utilize project identification numbers provided by the BOR, Office of Fiscal Affairs that permit tracking of expenses associated with operating and maintaining the PPV facility.

- **Allocation Method** - allocation permitted if accounting methodology and/or technology barriers prevent the institution from being able to directly track expenses.
 - The assumptions for allocation must be **reasonable**, and take into consideration the type of construction, size and age of the structure, use of facility and any other variables that may contribute to deriving a reasonable calculation.
 - The allocation method must be **reviewed and approved** by the BOR, Office of Fiscal Affairs.
 - Once established and utilized, the allocation method **cannot be changed or modified without prior review and approval** from the BOR, Office of Fiscal Affairs.
 - The method of allocating expenses shall be **explained in the annual Cash Flow** submittals to the BOR, Office of Fiscal Affairs.

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PPV Expenses - continued

- **Resident Life Support Programs** - expenses may include the cost of delivering resident life programs as long as the total expenses appear reasonable and consistent from year to year.
- **Student Recreation and Stadium Facilities** - expenses should not include costs associated with running specific programs or the salaries, wages and benefits of individuals serving as teachers, coaches, program leaders or other personnel not dedicated to managing or operating facility.
- **Depreciation and Capital** - are not considered operating expenses
- **Repairs and Replacement Reserve Payments** – recorded as part of the Lease Payment and not under the category “Operating and Maintenance Expense.

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Self-Liquidating Ratio

Calculate Self-Liquidating Ratio for each project and it is the ratio of Net Operating Income to Lease Payment

Calculation:

- ✓ Revenue = \$4,600,000
- ✓ Expenses = \$1,200,000
- ✓ Lease Payment = \$2,400,000
- ✓ Net Operating Income (NOI) = \$4,600,000 minus \$1,200,000 or \$3,400,000
- ✓ Coverage Ratio = $\text{NOI} / \text{Lease Payment}$ or $\$3,400,000 / \$2,400,000$ or 1.42

Cumulative Cash Flow

- Amount of project cumulative cash flow used to fund deficit/shortfall
- Amount of project cumulative cash flow that exist as of end of fiscal year

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Underperforming PPV Project

- **An underperforming PPV project is defined as:**
 - ✓ A project whose self-liquidating ratio is below 1.0
 - ✓ Not keeping reasonable pace with the financials as shown in the approved proforma for the project.

- **For any underperforming PPV project, the Chief Business Officer is to:**
 - ✓ Notify BOR, Office of Fiscal Affairs prior to certification and submittal of cash flow data that the project is underperforming and state factors contributing to the underperformance of the project.

 - ✓ Adopt and implement PPV Project Action Plan to remedy shortfall in coordination with BOR, Office of Fiscal Affairs.

 - ✓ Submit progress reports periodically and/or as requested by BOR, Office of Fiscal Affairs, demonstrate compliance with the PPV Project Action Plan.

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PPV Reporting:

- BOR, Office of Fiscal Affairs prepares an **annual report** of PPV performance and submits it to the Chancellor, EVC for Administration, Vice Chancellor of Fiscal Affairs, and Vice Chancellor of Facilities.

- The report is to:
 - ✓ **List underperforming projects,**
 - ✓ **Identify factor(s) contributing to underperformance of the project and,**
 - ✓ **Note how institution plans to remedy shortfall(s).**

- As necessary and/or required, the overall performance of the PPV portfolio is submitted and **shared with rating agencies, financial institutions, legislators and the public.**

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FY 2013 PPV Performance



Some Challenges!

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FY 2013 PPV Cash Flow Findings

- **Majority of Portfolio Achieved 1.0 or Greater Self-liquidating Coverage Ratio.**

- **25 Underperforming Projects – 16 are Enrollment Driven Projects and 9 Housing Projects**

- **Key Challenges with Underperforming Assets**
 - ✓ Enrollment decline due to changes in learning support and other factors
 - ✓ Increase in on-line students impacting headcount for fee
 - ✓ Operating Expenses increase without corresponding increase in revenue

- **Action Plans Devised for All Underperforming Projects**

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FY 2014 PPV Cash Flow Suggestions

- **Review reporting requirements**
 - ✓ Read Board Policy Manual, Business Procedure Manual, Instructions for completing Cash Flow Report
 - ✓ Ask for one-on-one meeting/training with System Office, Office of Fiscal Affairs

- **Employ proactive management style**
 - ✓ Active and continuous review of project revenue, expenses, enrollment and occupancies
 - ✓ Seek assistance from the System Office, Office of Fiscal Affairs when challenges (financial and operational) are first indicated

- **Understand connectivity** amongst PPV cash flow, business plans, audited financial statements, PeopleSoft and Nvision reports
 - ✓ Assure same data and information is reported



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We're In This Together

Students, Institution, Foundation, & System Office