GASB 35 Implementation Guide

Questions and Answers for Public Colleges and Universities Using Business Type Activity (BTA) Reporting

by

NACUBO 1999–2000 GASB Statement 35
Reporting Model Implementation Workshop Faculty
and
PricewaterhouseCoopers LLP

NACUBO
National Association
of College and University
Business Officers

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Questions and Answers for Public Colleges and Universities Using Business Type Activity (BTA) Reporting

A Supplement to GASB's Implementation Guide for Statement 34

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Introduction and Overview

GASB 35 Implementation Guide: Questions and Answers for Public Colleges and Universities Using Business Type Activity (BTA) Reporting, prepared by the National Association of College and University Business Officers (NACUBO), as its name implies, primarily addresses those issues that apply to public institutions that elect to use BTA reporting, as discussed further below and in paragraph 15 of GASB Statement 34.

Objectives of GASB 35 Implementation Guide

This guide was prepared for public institution business officers as a supplement to the *Guide to Implementation of GASB Statement 34 on Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* published in April 2000 by the Governmental Accounting Standards Board (GASB) on GASB Statements 34 and 35. Since GASB Statement 35 merely amends GASB Statement 34 to make it apply to public institutions, the GASB Statement 34 implementation guide also addresses Statement 35. The GASB 35 Guide is the product of a joint effort of the faculty of NACUBO's 1999–2000 Reporting Model Implementation Workshops, its Accounting Principles Council, and the accounting firm of PricewaterhouseCoopers LLP.

Generally, GASB Statement 35 permits public institutions, in separately issued external financial statements, to use the GASB Statement 34 guidance for special-purpose governments engaged only in BTA, engaged only in governmental activities, or engaged in both governmental and BTA. Under this guidance, in its separately issued reports, a public institution is required to include management's discussion and analysis (MD&A); basic financial statements, as appropriate for the category of special purpose government reporting selected; notes to the financial statements; and required supplementary information other than MD&A, if applicable.

Most public institutions are expected to choose to report as special purpose governments (described in paragraph 134 of Statement 34) engaged solely in BTA. GASB Statement 34 provides that enterprise fund reporting (see paragraph 138 of Statement 34) should be used by special purpose governments engaged only in BTA reporting. An entity may elect enterprise fund reporting for any activity for which a fee is charged to external users for goods or services (see paragraph 67 of statement 34). Most public institutions cover a major portion of their costs through external user charges for their services. Therefore, these public institutions are permitted to use BTA reporting (see paragraph 44 of Statement 35). NACUBO strongly encourages such reporting by public institutions.

For other public institutions, it may be more appropriate to report using the guidance for special purpose governments engaged only in governmental activities or engaged in both governmental and BTA because they operate similarly to other governments or governmental agencies. Many two-year public institutions have the power to levy taxes and are subject to the same public budget laws as are other special purpose governments engaged only in governmental activities or in both governmental and BTA. Those institutions could follow the reporting standards set forth in paragraph 135 of GASB Statement 34, which provides the financial reporting guidance for special purpose governments engaged in more than one governmental program or in both governmental and BTA.

As discussed further below, this implementation guide also addresses certain issues pertaining to GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* and Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*. GASB has also issued an implementation guide on Statement No. 9, dated June 1992.

Organization of GASB 35 Implementation Guide

Section I of this guide features questions and answers that expand on those questions and answers included in the GASB Statement 34 implementation guide. The questions and answers will help public institution business officers apply the applicable provisions of GASB Statement 34. As noted above, not all parts of GASB Statement 34 are applicable to public institutions that elect BTA reporting. Section I of this guide also contains questions and answers pertaining to the statement of cash flows prescribed by GASB Statement 9 and accounting for nonexchange transactions in accordance with GASB Statement 33 (that many public institutions will address for the first time when they adopt GASB Statement 35).

Section II expands on the table included on page 22 of GASB Statement 35, which summarizes the pertinent paragraphs of GASB Statement 34 that apply to public institutions. The expanded table identifies questions and answers in the GASB 34 implementation guide that are particularly relevant to institutions selecting BTA reporting. The selection of particularly relevant questions was made on a judgmental basis and NACUBO recognizes that some may consider other questions in the GASB implementation guide to be particularly relevant. Therefore, public institution business officers should consider all questions in the GASB 34 implementation guide.

Section III presents sample financial statements, and Section IV offers general guidelines for and examples of the inflows and outflows on the statement of cash flows.

Section I

Questions and Answers

General

1

Q What are the reporting requirements for public institutions under GASB Statement 34?

A Generally, depending on the characteristics of a public institution, the requirements of GASB Statement 34 permit it to report as:

- special purpose governments engaged only in business type activities (BTA);
- special purpose governments engaged only in governmental activities; or
- special purpose governments engaged in both governmental and business type activities (GASB Statement 35, paragraph 26, basis for conclusions).

BTAs are those financed in whole or in part by fees charged to external parties for goods or services (GASB Statement 34, paragraph 15).

Governmental activities generally are those financed through taxes, intergovernmental revenues, and other predominantly nonexchange revenues.

Because many two-year and some four-year public institutions have taxing authority, they may choose to report as special purpose governments engaged in governmental activities or both governmental and BTA (GASB Statement 35, paragraphs 27 and 46, basis for conclusions). However, most public institutions regularly receive state appropriations, and also cover a major portion of their costs through external user charges for their services. Therefore, according to basis of conclusions paragraphs 44–47 of GASB Statement 35 and related paragraph 67 of GASB Statement 34, these public institutions may use BTA reporting. Paragraph 67 of GASB Statement 34 states: "Governments should apply each of these criteria in the context of the activity's principal revenue sources."

Additionally, public institutions should contact the appropriate state agency to determine state-mandated reporting requirements and transition issues.

2

Q ABC University's revenues consist of 5 percent special state appropriations earmarked for a special public-service-type activity with associated fees and 95 percent tuition and other revenues. ABC University is currently in the planning phase for implementation of GASB Statements 34 and 35 and is attempting to determine the appropriate reporting type for its financial statements. What reporting options are available to ABC University?

A ABC University has the option of reporting as BTA only or may report as governmental and BTA.

Paragraph 15 of GASB Statement 34 specifies that "Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. These activities are usually reported in governmental funds and internal service funds. Business type activities are financed in whole or in part by fees charged to external parties for goods or services. These activities are usually reported in enterprise funds."

Paragraph 44 of GASB Statement 35 addresses the determination of the appropriate reporting model as follows: "With respect to reporting certain activities as BTAs, respondents point out that most public institutions meet the principal criterion established in paragraph 67 of GASB Statement 34. An entity may elect that reporting, which is available for any activity for which a fee is charged to external users for goods or services. Although most public institutions are regularly subsidized, they also cover a portion of their costs through external user charges for their services. Therefore, these public institutions are permitted to use BTA reporting. An additional advantage cited by some proponents of BTA reporting for public institutions is that it may enhance comparability with their not-for-profit and for-profit counterparts."

Additionally, paragraph 67 of GASB Statement 34 provides certain criteria for consideration in determining whether an activity is required to be reported as an enterprise fund activity/business type activity under the new reporting model.

It is important to recognize that GASB Statement 34 primarily addresses general-purpose governments. Therefore, in addition to the guidance provided by GASB Statements 34 and 35, the appendixes of both statements as well as GASB's Implementation Guide should be considered in determining the appropriate reporting type and reporting requirements for public institutions.

3

Q Does GASB Statement 34 apply to governmental health care providers affiliated with public institutions?

A Yes. GASB Codification Section Ho5 has been revised to require governmental health care providers to follow GASB Statement 34. The American Institute of Certified Public Accountants (AICPA) accounting and auditing guides, "Audits of State and Local Governmental Entities" and "Audits of Providers of Health Care Services" address the implications of GASB Statement 34 as they relate to governmental health care providers. Both are being updated to reflect the requirements of GASB Statement 34.

4

Q Does the implementation of GASB Statement 35 have an impact on the previously filed Disclosure Statements (Cost Accounting Standards Board Form DS-2)?

A Those public institutions that have filed their Disclosure Statements with the federal government must file revisions with regard to:

- Part I (accrual accounting); and
- Part III and IV for depreciation, if the institution decides to change from the use-allowance method to depreciation for the facilities and administration (F&A) cost proposal. The depreciation method used for the F&A cost proposal must be

consistent with the method used in the financial statements. Public institutions should also document their depreciation method and capitalization policies.

5

Q Should public institutions consult with their state comptroller's office (or equivalent) about the implementation of GASB Statement 34?

A Yes. This is highly desirable because:

- first, the effective date for the public institution generally will be the same as that of the state government (see question 8 below);
- second, the manner of including the public institution's financial statements in the state's financial statements may require the public institution to provide additional information (e.g., data on interfund activities) that could be gathered during the implementation process; and
- third, a state office may have mandated that certain GASB Statement 34 implementation options are to be followed by the public institutions within the state.

6

Q Are the sample financial statements in GASB Statement 35 prescriptive or illustrative?

A The sample financial statements are illustrative. However, the minimum information required by GASB Statement 34, paragraphs 91–105, must be presented in the financial statements. Additionally, reporting entities should consider information needs of readers in determining reporting formats and level of detail provided, both on the face of the financial statements and in the footnotes. Refer to GASB Statement 35, Appendix D, Illustrations, and GASB Statement 35, paragraph 59, for additional information.

Effective Date and Transition

7

Q What is the effective date for implementation of GASB Statement 35?

A There are three effective dates based on the amount of revenues of an institution assuming that it is a stand-alone entity (instead of a public institution that is a component unit or department of another entity). GASB Statement 35, paragraph 7, states:

For public institutions that are not component units of another reporting entity, the requirements of this Statement are effective in three phases based on a public institution's total annual revenues in the first fiscal year ending after June 15, 1999:

- Phase 1 institutions—with total annual revenues at $100 million or more—should apply the requirements of this Statement for periods beginning after June 15, 2001;
- Phase 2 institutions—with total annual revenues at $10 million or more but less than $100 million—should apply the requirements of this Statement for periods beginning after June 15, 2002;
- Phase 3 institutions—with total annual revenues of less than $10 million—should apply the requirements of this Statement for periods beginning after June 15, 2003.

Public institutions that are component units or a department of another entity (e.g., a state) must adopt GASB Statement 34–35 no later than the same year as the primary government. Likewise, component units and departments of the public institution, e.g., foundations, academic medical centers, hospitals, etc., must adopt GASB Statement 34–35 no later than the same year as the public institution. The accrual basis provisions of GASB Statement 33 must be implemented at the same time as GASB Statements 34 and35.

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Q For public institutions reporting as BTAs, what are the implementation dates for GASB Statements 34–35 as they pertain to infrastructure?

A If an institution elects to report as BTA, infrastructure must be reported at the date of implementation of GASB Statement 35. Other public institutions should refer to the phase-in periods specified in paragraph 10 of GASB Statement 35.

9

Q Will public institutions be required to restate prior-period financial statements in the year of adoption?

A Yes. Adjustments resulting from a change to comply with GASB Statement 35 should be treated as adjustments of prior periods, and financial statements presented for the periods affected should be restated. If restatement of the financial statements for prior periods is not practical, the cumulative effect of applying GASB Statement 34 should be reported as a restatement of beginning net assets (GASB Statement 35, paragraph 12).

In the first period that GASB Statement 35 is applied, public institutions are not required to restate prior periods for purposes of providing the comparative data for management's discussion and analysis (MD&A). However, public institutions are encouraged to provide comparative analysis of key financial statement elements in MD&A for that period (GASB Statement 35, paragraph 11). For example, institutions can describe currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net assets) or results of operations (revenues, expenses, and other changes in net assets). Other examples include data on instructional expenses, examples of student tuition and fee growth, and enrollment.

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Q What type of disclosure is appropriate for reporting periods prior to implementing the requirements of the BTA model?

A The significance of the new reporting model warrants consideration of a footnote similar to the following in financial statements issued in years leading up to the year of implementation:

New Accounting Pronouncements

- In November 1999, the Governmental Accounting Standards Board (GASB) issued Statement 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities—an amendment of GASB Statement 34.* As originally issued, Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* was not applicable to public institutions. Rather than issuing separate standards, GASB decided to provide financial reporting guidance for public institutions by amending Statement 34 to extend its applicability to them. Statement 35 supersedes GASB Statement 15, which currently allows public institutions to choose one of two models when preparing their financial statements—the model contained in the 1973 AICPA Industry Audit Guide, Audits of Colleges and Universities (AICPA College Guide model), or the governmental model. As component units of a state government, most public institutions will implement GASB Statement 35 at the same time as the state government implements GASB Statement 34.
- Under the provisions of the GASB standards, the institution is permitted to report as a special purpose government engaged only in BTA. BTA reporting will require the institution to present only the basic financial statements and required supplementary information (RSI) for an enterprise fund that includes management's discussion and analysis (MD&A), a statement of net assets or a balance sheet, a statement of revenues,

expenses, and changes in net assets, a statement of cash flows, notes to the financial statements, and other applicable RSI. The required basic financial statements described above are prepared using the economic resources measurement focus and the accrual basis of accounting. Fund financial statements are not required for BTA reporting.

- Statement 34 will also require the institution to retroactively and prospectively report all capital assets, net of accumulated depreciation, including infrastructure assets (long-lived capital assets such as roads, bridges, etc.), in the statement of net assets, and report depreciation expense in the statement of revenues, expenses, and changes in net assets. Retroactive reporting of capital assets will require a prior period adjustment to net assets. Management has not yet determined the effect of the implementation of this statement on the institution's financial statements.

Financial Statement Presentation

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Q What are the minimum reporting requirements for public institutions reporting as BTAs?

A For public institutions engaged only in BTA, the following are required for the general-purpose external financial statements:

- Management's Discussion and Analysis (MD&A);
- Statement of Net Assets;
- Statement of Revenues, Expenses, and Changes in Net Assets;
- Statement of Cash Flows (using the direct method);
- Notes to the Financial Statements (including segment reporting if applicable); and
- Required Supplementary Information other than MD&A (GASB Statement 34, paragraph 138).

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Q What are some of the key points that should be presented by major reporting area?

A Some of the key points for major reporting areas are:

MD&A (GASB Statement 34, paragraphs 8–11):

- must be included as required supplementary information (RSI);
- precedes the basic financial statements;
- provides an objective and easily readable analysis of the institution's financial activities based on currently known facts, decisions, or conditions;
- discusses current year results in comparison with the prior year, with emphasis on the current year;
- discusses positive and negative trends;
- may use charts, graphs, and tables to enhance understandability of the information;
- should avoid "boilerplate" discussion;
- should be focused on the primary government—not component units—although discussion of component units may be necessary if they are material; but
- in the first year of implementation, restatement of prior periods for purposes of providing the comparative data for MD&A as required by paragraph 11 is not required, but presentation of a comparative analysis of key elements is encouraged (GASB Statement 34, paragraph 145).

Statement of Net Assets (GASB Statement 34, paragraphs 97–98):

- uses classified format (current vs. noncurrent [long term] classifications);
- requires separation of restricted assets (e.g., cash and cash equivalents restricted for repayment of debt);

- has three net asset categories—
  - unrestricted,
  - restricted (nonexpendable and expendable),
  - invested in capital assets, net of related debt;
- can use net asset or balanced format; and
- does not display internal designations of unrestricted net assets on the face of the statement of net assets (but may disclose them in the notes to the financial statements) (GASB Statement 34, paragraph 37).

Statement of Revenues, Expenses, and Changes in Net Assets (GASB Statement 34, paragraphs 100–101):

- makes a distinction between operating/nonoperating;
- considers state appropriations as nonoperating;
- may have an optional natural or functional expense classification; and
- provides reporting of capital contributions and additions to permanent and term endowments.

Statement of Cash Flows (GASB Statement 34, paragraph 105 and GASB Statement 9):

- requries direct method;
- has four categories—
  - operating,
  - noncapital financing (e.g., state appropriations and gifts),
  - capital and related financing, and
  - investing;
- gives reconciliation of net operating income (loss) to cash flows from (used in) operating activities; and
- shows significant noncash activity.

Required Supplementary Information (RSI) other than MD&A:

- includes data as required by previous GASB pronouncements, that is, GASB Statements 10, 25, 27;
- does not require budgetary information for BTA users; and
- must include infrastructure information if the modified approach is used.

Segment Reporting (for revenue-backed debt) (GASB Statement 34, paragraph 122):

- is contained within the notes to the financial statements;
- includes any activity, or grouping of activities, for which revenue-backed debt is outstanding and there are identifiable assets, liabilities, revenues, and expenses that are required to be accounted for separately; and
- requires—
  - condensed statement of net assets,
  - condensed statement of revenues, expenses, and changes in net assets, and
  - condensed statement of cash flows.

Capital Assets (GASB Statement 34, paragraphs 18–22):

- must be capitalized at their actual or estimated historic cost;
- are depreciated in most cases over their estimated useful life—except for—
  - noncapitalized collections of works of art, historical treasures, and similar assets, and

- inexhaustible assets (e.g., land);

- include ancillary costs and capitalized interest;
- use the same depreciation methods to calculate the depreciation amounts for facilities and administrative rate purposes as are used by the institution for its financial statements (Office of Management and Budget Circular A-21, paragraph 12.b.(2)); and
- record at net book value as of the date of implementation—
  - prior periods restated, and
  - net assets cumulatively adjusted.

Infrastructure Assets (i.e., long-lived capital assets) (GASB Statement 34, paragraphs 148–166):

- have a phase-in period for public institutions not reporting as BTAs (see paragraph 10 of GASB Statement 35);
- must be implemented at the same time as GASB Statement 35 for public institutions that report as BTA;
- are normally comprised of stationary capital assets that can be preserved for a significantly greater number of years than most capital assets, (e.g., roads, etc.); and
- can treat parking lots and fencing as land improvements because they are typically adjacent to the buildings that they service and have a much shorter life than long-lived infrastructure assets as defined by GASB. Furthermore, these assets serve different functions than infrastructure assets and are considered part of the adjacent building. Questions 25 and 46 of the GASB Implementation Guide address this issue.

Note Disclosures about Capital Assets and Long-term Liabilities (GASB Statement 34, paragraphs 116–120):

- should provide detail in the notes to the financial statements about capital assets and long-term liabilities reported in the statement of net assets. The information disclosed should be divided into major classes of capital assets and long-term liabilities. Capital assets that are not being depreciated should be disclosed separately from those that are being depreciated; and
- should provide disclosures about capital assets and long-term liabilities of discretely presented component units if deemed necessary for fair presentation.

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Q Are public institutions reporting as BTAs still required to report fund balances in their external financial statements?

A The concept of fund balances is no longer appropriate for external, general-purpose reporting by BTAs. The term *net assets* replaces fund balances.

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Q Will public institutions that elect BTA reporting still need to report on a fund accounting basis?

A GASB Statement 34 does not require fund reporting for public institutions that choose to report as BTAs. However, public institutions have generally structured both their chart of accounts and fiscal management processes utilizing the concepts of fund accounting. Therefore, fund accounting statements may still be required to satisfy debt covenant requirements, Integrated Postsecondary Education Data System (IPEDS) reporting requirements, accreditation information requests, facilities and administrative rate proposal information requirements, or other external reporting requirements and, in many cases, internal budgets and management reports may continue to be prepared on a fund accounting basis.

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Q What are the basic differences between BTA reporting and reporting as engaged in governmental activities?

A When reporting as engaged only in BTA, the primary financial statements are a statement of net assets, statement of revenues, expenses, and changes in net assets, and a statement of cash flows. No "funds" statements are required. The budget versus actual reporting requirement for governmental reporting is not required for those electing to report as BTA. When reporting as engaged only in governmental activities or engaged in both governmental and BTA, the primary entity-wide financial statements are a statement of net assets and a statement of activities. The statement of activities is presented in the "net program cost" format. Fund financial statements are required if reporting as engaged in governmental activities or as both governmental and BTA.

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Q Does GASB Statement 35 supercede GASB Statement 15, *Governmental College and University Accounting and Financial Reporting Models,* which allowed the use of the AICPA College Guide model or the governmental model as defined in NCGA Statement 1?

A Yes. See paragraph 3 of GASB Statement 35.

17

Q How should public institutions classify quasi-endowments?

A Resources used to create quasi-endowments (funds functioning as endowments) may be either restricted or unrestricted. Quasi-endowments created with restricted resources must be reported as expendable restricted net assets. Those created with unrestricted resources must be reported with unrestricted net assets, but could be described in a note to the financial statements indicating that they have been designated for long-term investment.

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Q If an institution utilizes commercial paper or Treasury Notes and rolls over the principal amount at maturity, how should this be treated?

A Many institutions invest in commercial paper and Treasury Notes as part of their investment program. Both securities are purchased at a discount and earnings are realized by a higher maturity value. For example, a security with a maturity value of $100,000 is purchased with six months remaining until maturity at an effective earnings rate of 6 percent. The institution would pay $97,000 for the security. Because of their liquidity and short-term nature, these securities are usually reported in the statement of net assets as either cash equivalents or short-term investments. Both securities may be classified as a cash equivalent, per GASB Statement 9, if the remaining time to maturity at date of acquisition is three months or less; an institution can elect to report all such purchases as investments even if purchased with a remaining time to maturity of less than three months. Both securities should be adjusted to fair value at the reporting date if they have not matured.

The investment income from the net increase (decrease) in fair value should be reported as nonoperating investment revenue on the statement of revenues, expenses, and changes in net assets. The fair value at the reporting date is reported on the statement of net assets as either cash equivalents or short-term investment. If a purchase is classified as a cash equivalent, nothing is included on the statement of cash flows other than the change in fair value that is reported as investment income. If the purchase is classified as an investment, on the statement of cash flows the purchase price paid is reported in the section for cash flows from investing activities as purchase of investment and the maturity value is reported as proceeds from the sales and maturities of investments.

Statement of Net Assets

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Q How does one determine the difference between current and noncurrent assets and liabilities?

A In general, current liabilities are those that will be paid within one year of the date of the statement of net assets. Current assets are those that are available to satisfy current liabilities. They include assets that will be converted to cash within one year of the date of the statement of net assets. Typically other assets and liabilities expected to become due beyond one year are considered *noncurrent.* Examples of current and noncurrent assets and liabilities are found on the illustrative statement of net assets displayed in GASB Statement 35, page 27.

Additionally, it is important to understand the differences between *short-term* and *long-term* debt and *current* and *noncurrent* assets. For example, an institution may have long-term debt which matures over 20 years. The principal portion due within one year of the date of the statement of net assets should be classified as a current liability.

20

Q How are restricted cash and cash equivalents reported in the statement of net assets?

A Cash and short-term investments normally are classified as current assets. On the statement of net assets, restricted cash and cash equivalents that can be used to pay current liabilities (in keeping with restrictions) are classified as current assets; cash and cash equivalents that cannot be used to pay current liabilities (in keeping with restrictions) are classified as noncurrent liabilities.

21

Q How are sinking funds that are related to retirement of indebtedness reported under GASB Statement 34?

A Sinking funds are not reported as sinking funds, per se, on the statement of net assets, statement of revenues, expenses, or changes in net assets, or the statement of cash flows. The components of a sinking fund (cash and cash equivalents, short- or long-term investments, etc.) are reflected on the statement of net assets under the appropriate net asset category. It is up to the institution's administrative systems to account for sinking funds and the components of such funds. Either unrestricted or restricted net assets may be used to fund a sinking fund.

22

Q If an institution has bond proceeds that remain unspent at year-end, should these funds be reported as current or noncurrent assets?

A The length of the bond indenture has no bearing on current or noncurrent status of net assets. In all probability, the cash from the sale of bonds will be converted to investments with maturity dates set to match the construction project's cash forecast. Some of the investments (purchased with a 90-day maturity or less) will be carried as cash equivalents and reported as current assets. Other investments with maturity dates from 91 days to one year will be carried as short-term investments and reported as current assets. Still other investments with maturities of one year or more will be carried as other long-term investments and reported as noncurrent assets.

23

Q In what asset category should funds internally designated for plant expenditures be displayed?

A This depends on the type of net assets being internally designated for plant expenditures. If expendable restricted net assets are designated, the amounts are displayed as expendable restricted net assets. If unrestricted net assets are designated, the amounts are displayed as unrestricted net assets. In any event, internal designations are not displayed on the face of the financial statements but may be included in the notes.

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Q Are liabilities for compensated absences current or noncurrent?

A Compensated absence liabilities that are expected to be paid within one year are current. The compensated absence liability calculated for the periods thereafter would be noncurrent. A standard computational algorithm for determining the current portion of the compensated absences liability does not exist. See GASB Statement 16 for guidance on the calculation. A historical analysis of terminations, retirements, and other uses of compensated absences on an annual basis should provide a reasonable estimate of the current portion. See GASB Statement 35 Appendix D, Note 2, for sample note disclosures, which emphasize the distinction between current and noncurrent liabilities.

25

Q Can public institutions show designations for net assets, such as for quasi-endowments, on the face of financial statements?

A No. GASB Statement 34 prohibits public institutions from showing designations of unrestricted net assets on the face of financial statements. Designations can be disclosed in the notes to the financial statements. GASB Statement 34, paragraph 37, provides the requirements on this issue. Additionally, public institutions are required to show restricted net assets as expendable or nonexpendable on the face of the financial statements, and must provide details regarding the major categories of restrictions within the expendable and nonexpendable categories. Nonexpendable net assets are net assets that are required to be maintained in perpetuity, for example, permanent endowments.

26

Q How are restricted net assets defined under GASB Statement 34?

A GASB Statement 34, paragraph 34, states that "net assets should be reported as restricted when constraints placed on net asset use are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation." Internally established constraints are designations and do not meet the GASB definition for restrictions.

27

Q How is the net asset category for *invested in capital assets, net of related debt* defined under GASB Statement 34?

A GASB Statement 34, paragraph 33, states that "this component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets." If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds should not be included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt should be included in the same net assets component as the unspent proceeds—for example, restricted expendable for capital projects. In most cases, this will have no impact on net assets because the debt will be equal to the unspent proceeds.

28

Q If an institution receives a cash advance related to a grant or contract where funding is provided in advance of the grant or contract period, how is the portion that has not been spent recorded in the financial statements?

A For a grant or contract that meets the criteria of an exchange transaction, operating revenue should be reported for the amount of revenue earned. The portion received in excess of the amount earned should be recorded as deferred revenue.

For a grant that meets the criteria of a nonexchange transaction, nonoperating revenue must be recognized when all applicable eligibility requirements are met (GASB Statement 33, paragraph 20). Funds received before the eligibility requirements are met should be reported by the institution as deferred revenue.

For a nonexchange grant funded by a private sponsor without any time, cost reimbursement, or other eligibility requirements, the entire cash advance should be recognized as nonoperating revenue.

29

Q How are permanent endowments classified with respect to being expendable or nonexpendable?

A Permanent endowments have the characteristics of voluntary nonexchange transactions. The stipulation that the principal be maintained in perpetuity is a time requirement. Therefore, the principal portions are permanently nonexpendable additions to net assets. Only the income and possibly some portion of realized gains are expendable by the institution, depending on the donor's specifications and applicable state law. Thus, the principal is nonexpendable while the investment income and—depending on the facts and circumstances—the unrealized appreciation are expendable.

30

Q How should an institution treat a permanent endowment that was established with an original gift of $100,000 but now has accumulated gains of $900,000 for a total current value of $1,000,000?

A The answer depends on the restrictions established by the donor and applicable state law. If a donor requires only the $100,000 gift, exclusive of unrealized gains, to be maintained in perpetuity, then $100,000 will be displayed as nonexpendable restricted net assets and $900,000 as expendable unrestricted or restricted net assets, depending on the facts and circumstances surrounding the donor's gift as well as applicable state law.

31

Q If an institution is required to use a state treasurer's cash pool that includes investments with maturities longer than 90 days, but the institution is allowed to use the cash pool as a demand deposit account, does the institutional cash in this pool meet the cash and cash equivalent definition?

A Yes. GASB Statement 9, paragraph 50, provides that cash that is treated as a deposit that can be withdrawn on demand satisfies the definition for cash and cash equivalents.

Statement of Revenues, Expenses, and Changes in Net Assets

32

Q How are state appropriations reported?

A Appropriations received from the public institution's primary government are reported as nonoperating revenues (GASB Statement 34, paragraph 102; GASB Statement 9, paragraph 21C; GASB Statement 34 Implementation Guide, Question 215).

33

Q Because state appropriations are classified as nonoperating, must expenses financed with state appropriations also be treated as nonoperating?

A No. When resources are expended for an operating purpose, the character of the revenue source does not affect the classification of the expense.

34

Q Does the statement of revenues, expenses, and changes in net assets include unrealized gains and losses? If so, where are the unrealized gains and losses reported?

A Unrealized gains and losses are reported as part of the investment income line item in accordance with paragraph 13 of GASB Statement 31.

35

Q Is the classification of investment income as operating or nonoperating revenue affected by the spending rate?

A No. All investment income, as well as realized and unrealized gains and losses, are reported as part of the investment income line item in accordance with paragraph 13 of GASB Statement 31.

36

Q If an institution uses a spending rate, how is investment income from the spending rate reported in the statement of revenues, expenses, and changes in net assets?

A All investment income is reported as nonoperating. However, an institution may differentiate between amounts related to the spending rate and amounts in excess of the spending rate by displaying these amounts as separate nonoperating line items.

37

Q How should revenues and expenses be classified in a financial report prepared using the BTA model?

A Revenues should be reported by major source and expenses should be reported by functional or natural classification. The statement should also distinguish between operating and nonoperating revenues and expenses. If expenses are reported by natural classification, note that the MD&A still requires condensed financial information including "program expenses, at a minimum by function." The institution should identify revenues used as security for debt retirement. Revenues should be reported net of discounts and allowances, with those amounts shown parenthetically on the face of the financial statements or by reference to a footnote (GASB Statement 34, paragraph 100, footnote 41).

Generally, in a public institution's financial statements, expenses are reported by function. However, BTA reporting models usually report expenses by natural classification. Public institutions that report as BTAs may report expenses by function or natural classification. Refer to guidance offered in NACUBO Advisory Report 2000-08.

38

Q Are contract and grant revenues operating or nonoperating revenues?

A It depends on the terms of the contract or grant. When an institution elects BTA reporting, a consideration for defining operating revenues is how individual transactions are categorized for purposes of preparing a statement of cash flows using GASB Statement 9, paragraph 21 (GASB Statement 34, paragraph 102). When a contract or grant is considered to be an exchange transaction, it generally will be for program activities and should be treated as operating revenue. Other types of grants, representing nonexchange receipts, are treated as nonoperating revenues.

39

Q How should revenue and expense be recorded for summer school sessions that cross fiscal years?

A Accrual accounting for BTAs requires that revenues and expenses be accrued and recognized in the period earned or incurred. The revenue and expenses for a summer session should be split between the two fiscal years, with appropriate amounts being recognized in the accounting period in which they are earned or incurred and become measurable.

40

Q The sample statement of revenues, expenses, and changes in net assets appearing in GASB Statement 35 separately displays bookstore residential life and bookstore revenues.

Must these activities be reported in this manner?

A The statements are illustrative only and are nonauthoritative. An institution can have financial statements with only one line for all auxiliaries, or can list auxiliaries separately. Such decisions should be based on the information needs of the users. In the BTA sample provided in Appendix D of GASB Statement 35, the sample financial statement emphasizes the relative importance of residential life and bookstore auxiliary operations and related scholarship discounts and allowances.

41

Q How should indirect cost recoveries be reported in the new reporting model?

A Grants and contracts must be categorized as exchange or nonexchange transactions. Facility and administrative (indirect) cost recoveries associated with exchange transactions should be recorded as operating revenues and reported as such in the statement of revenues, expenses, and changes in net assets. Facilities and administrative cost recoveries associated with nonexchange transactions should be recorded as nonoperating revenues.

42

Q Does GASB Statements 34 or 35 require the priority of release of restricted resources when both restricted and unrestricted resources are available to satisfy an expense?

A No. The priority of release is based on the institution's policy governing the use of resources. This policy election should be disclosed in the notes to the financial statements (GASB Statement 34, paragraph 115h). However, paragraph 63 basis for conclusions of GASB Statement 33 states ". . . governments should report net assets resulting from transactions with purpose restrictions as restricted net assets (or a reservation of fund balance for governmental funds) until the resources are used for the specified purpose or for as long as the provider requires the resources to be maintained intact (for example, endowment principal). Thus, the disbursement of unrestricted resources for the same purpose should not result in a lifting of the restriction on an equivalent amount of restricted resources."

Further, GASB Statement 34, paragraph 325 basis for conclusions states: "The Board also took into account the discussion of the expiration of donor restrictions in paragraph 17 of FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made.*" That paragraph states, "If an expense is incurred for a purpose for which both unrestricted and temporarily restricted net assets are available, a donor-imposed restriction is fulfilled to the extent of the expense incurred unless the expense is for a purpose that is directly attributable to another specific external source of revenue." GASB believes that the decision whether to first apply restricted or unrestricted resources to specific expenses should be a management matter and therefore did not include a similar requirement in Statement 34.

43

Q How should a public institution display a donor's gift of a lump-sum payment of $1,000,000 for scholarships for the music department?

A This is a nonexchange transaction with a purpose restriction. Expendable restricted net assets must be reported until the $1,000,000 is used for the music scholarships. The institution would display on the statement of revenues, expenses, and changes in net assets a nonoperating revenue gift of $1,000,000. The amount remaining, after the award of music scholarships, would result in expendable restricted net assets. The institution would further classify expendable restricted net assets by category (e.g., scholarships).

44

Q How should the receipt of appropriations earmarked for capital projects be recorded?

A These are capital appropriations and would be displayed after "income before other revenues, expenses, gains, and losses."

45

Q If the state provides a general appropriation, and the institution decides to use a portion for capital purposes, should the revenue recognition be divided between state appropriation—operating and state appropriation—capital?

A The entire amount should be reported as nonoperating—state appropriations—operating. As the use of the appropriation is not specified by the state, the institution can spend the state appropriations to fund any of its programs, including capital acquisitions.

46

Q If a grant or contract provides for equipment acquisitions, how should the amounts provided for equipment and other capital items be reported?

A The primary purpose of the grant or contract terms dictate whether the grant or contract transaction will be reported as operating or nonoperating. If the arrangement represents an exchange transaction, and the equipment is incidental to the program activity, it will be classified as operating revenues, especially if the acquisition amount does not meet the fixed asset capitalization threshold. If the primary purpose of the grant or contract is equipment acquisition, it is considered a capital grant and the transaction is reported as a capital contribution after "income before other revenues, expenses, gains, and losses." (In this case, the transaction also should be reported as capital financing in the statement of cash flows if the acquisition exceeds the fixed asset capitalization threshold. If the acquisition does not meet the capitalization threshold, the acquisition could be reported in the operating activities of the statement of cash flows.) (GASB Statement 34 Implementation Guide, Question 213.)

47

Q Are public institutions required to identify revenues used as security for revenue bonds in the statement of revenues, expenses, and changes in net assets?

A Yes. The institution should identify revenues used as security for debt retirement per paragraph 100 in GASB Statement 34. Such disclosure can be made parenthetically on the face of the financial statements or by reference to a note disclosure. This requirement applies whether or not the revenue would be reportable in a segment.

48

Q Is it a requirement to allocate depreciation expense across programs when the functional classification option is used to report expenses in the statement of revenues, expenses, and changes in net assets?

A No. Public institutions electing BTA reporting may report expenses by functional or natural classification. Depreciation may be reported as a single line item or it can be allocated by function. If depreciation is allocated, the institution should disclose the total depreciation expense in the notes to the financial statements and the method of allocation.

49

Q How are capital campaign receipts recorded in the statement of revenues, expenses, and changes in net assets?

A If the gifts represent additions to permanent or term endowments, they are reported in the capital contributions category below nonoperating revenues and expense. If the gifts are not specified as additions to endowments, they are reported as nonoperating revenues—gifts. Note that certain pledges are not recognized until the resources are received; these include permanently nonexpendable additions to endowments and other trusts, term endowments, and contributions of works of art, historical treasures, and similar assets to capitalized collections. These provisions are found in GASB Statement 33, paragraphs 22 and 25 and footnotes 12 and 15.

50

Q ABC University has been awarded a grant that is determined to be a nonexchange transaction. Under the following scenarios, when would revenue be recognized?

The grant has allowable cost eligibility requirements:

A Revenue is recognized when expenditures meeting the eligibility requirements are incurred.

The grant has no allowable cost or other eligibility requirements:

A Revenue is recognized when the institution is entitled to receive the grant funds, which may be in advance of the actual receipt of funds (GASB Statement 33, paragraph 20).

51

Q ABC University has been awarded a grant that is determined to be a nonexchange transaction and has received all grant funds in advance. Under the following scenarios, when would revenue be recognized?

The grant has allowable cost eligibility requirements:

A Revenue is deferred and recognized as expenditures meeting the eligibility requirements are incurred.

The grant has no allowable cost or other eligibility requirements:

A Revenue is recognized when the institution receives the grant funds.

Statement of Cash Flows

52

Q What guidance is available with respect to the reporting of cash flows?

A GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting,* was issued in September 1989. The GASB staff issued an implementation guide for GASB Statement 9 dated June 1992 that addresses many specific implementation questions. Also refer to the Appendix contained in this guide.

53

Q Are public institutions required to use the direct method for the statement of cash flows?

A Yes. GASB Statement 34, paragraph 105, prescribes the direct method of presenting cash flows from operating activities.

54

Q How is interest collected on student loans reported in the statement of cash flows?

A According to GASB Statement 9, paragraph 19, student loans are program activities. These program loans are made and collected as part of a governmental program. As program activities, interest collected on these loans is reported as operating revenues in the statement of revenues, expenses, and changes in net assets and as cash flows from operating activities in the statement of cash flows.

55

Q Are cash receipts and payments reported gross or net in the statement of cash flows?

A Cash receipts and payments are reported gross in the statement of cash flows. The focus on cash and cash equivalents is explained in GASB Statement 9, paragraph 8. The recognition that gross information is more relevant than net amounts for both cash receipts and cash payments is discussed at length in GASB Statement 9.

56

Q What are cash and cash equivalents?

A Cash and cash equivalents are items that are readily convertible to cash, while carrying an insignificant risk of change in value. The assumption is that book value equals market value. Cash equivalents have original maturities of three months or less. The definition of cash and cash equivalents should be included as part of the institution's significant accounting policy disclosure. See GASB Statement 9, paragraph 9.

57

Q How should the sale of fixed assets be shown in the statement of cash flows?

A The proceeds from the sale of fixed assets is displayed in the capital and related financing activities section of the statement of cash flows. Removal of the fixed asset and accumulated depreciation are not cash items and thus would not be reflected in the recognition of the cash inflow. Additionally, depreciation expense is displayed as a reconciling item in the reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities.

58

Q How should an institution display unrestricted gifts for noncapital purposes in the statement of cash flows?

A Unrestricted gifts for noncapital purposes should be displayed as a noncapital financing activity in the statement of cash flows.

59

Q Should information, such as investment and capital asset activities, be reported gross or net in the statement of cash flows?

A Generally, such activities should be reported gross in the statement of cash flows. GASB Statement 9, paragraphs 13 and 14, identify certain circumstances where net reporting is appropriate because their turnover is quick, their amounts are large, and their maturities are short. Examples include cash receipts and payments pertaining to investments (other than cash equivalents); loans receivable; and debt (provided that the original maturity of the asset or liability is three months or less).

60

Q Investment managers typically report investment income net of management and other fees. Is net reporting of fees allowable under GASB Statement 9?

A Yes. Investment income may be recognized net of the amount charged for external investment management fees.

61

Q If an institution has a sweep account where, on a daily basis, excess cash is invested overnight, do these transactions qualify for netting in the statement of cash flows?

A Yes. In most instances, the sweep transactions will qualify for netting based on the provisions of paragraph 14 of GASB Statement 9. Therefore, in most situations there will be no impact on the statement of cash flows.

62

Q How are pooled investment activities displayed on the statement of cash flows?

A The gross inflows and outflows of cash resulting from pooled long-term or short-term investment activity will be displayed as part of the cash flows from investing activities on the statement of cash flows. Some pooled investments are on-demand investments that likely will be reported as cash equivalents. As such, inflows and outflows from these investments will not be reflected in the statement of cash flows.

63

Q What basic information is needed to report cash flows from investment activity in the statement of cash flows?

A Four components are needed to report cash flows from investment activity. They are:

- gross purchases of investments;
- gross sales of investments;
- proceeds from the sale of donated investments; and
- investment income received on investments.

64

Q How are transactions between an institution's system and its component units reported in the statement of cash flows?

A If the component units' financial statements are blended in the system's financial statements, inflows and outflows of the aggregate reporting entity are reported. This aggregation of the system and components' financial information will require elimination of transactions to avoid duplicate reporting. For example, the component units' disbursements to the system for debt payments and the system's receipt of those resources would be eliminated. Only the debt obligation payment by the system would be reported in the combined statements.

If the component units are discretely presented, inflows and outflows between the system and the component unit will be presented in each entity's statement of cash flows.

65

Q How are gains and losses from endowments or other long-term investments reported in the statement of cash flows?

A In accordance with GASB Statement 31, all gains and losses, whether realized or unrealized, are reported as investment income in the statement of revenues, expenses, and changes in net assets. Only realized cash inflows are reported in the investing section in the statement of cash flows. Unrealized gains are not reported in the reconciliation of net operating revenues (expenses) to net cash flows provided (used) by operating activities because the reconciliation begins with operating income (loss) and such transactions are deemed to be nonoperating revenues in accordance with GASB Statement 31, paragraph 102.

Management's Discussion and Analysis (MD&A)

66

Q What are the differences between the auditing requirements for the MD&A and the financial statements?

A MD&A provides an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions. The financial managers of public institutions are knowledgeable about the transactions, events, and conditions that are reflected in their financial report and of the fiscal policies that govern its operations. MD&A provides financial managers with the opportunity to present both a short- and a long-term analysis of the public institution's activities.

Even though MD&A precedes the financial statements, it is required supplementary information subject to auditor review to ensure that the information included there is consistent with the information in the financial statements. The auditor's requirements are found in SAS 52, Codification §558.07. The primary focus of the auditor's review is the requirements of AU 558.07, not the consistency of RSI with the financial statements, which is only part of the AU 558.07 requirements. While the auditor must report situations where MD&A does not meet certain conditions specified in SAS 52, that report generally has no effect on the auditor's opinion on the financial statements. Conversely, financial statement issues will always affect the auditor's opinion on the financial statements.

67

Q How is MD&A presented in situations involving a system's published financial statements versus an individual campus's financial statements?

A If a system prepares financial statements that include multiple campuses, the system's financial statements must include MD&A. The system may choose to present information about individual campuses in MD&A if it is relevant. If the system and the individual campuses both publish financial statements, MD&A must precede each set of financial statements.

68

Q Should public institutions incorporate component unit information in MD&A?

A The MD&A should focus on the primary government, but should include component unit information based on the materiality of the component units. GASB Statement 34, paragraph 10, provides additional information pertaining to the information that the MD&A should focus on, including issues related to component units.

69

Q GASB Statement 34, paragraph 11, indicates that a budget analysis is required in MD&A. Is this true for BTA reporting?

A No. Paragraph 138a of GASB Statement 34 indicates that MD&A requirements apply only to the extent appropriate. Budgetary analysis is not required with BTA reporting.

70

Q Can a public institution include nonfinancial data in its MD&A?

A Yes. However, the nonfinancial data should be relevant to the [Omnibus] requirements of MD&A that are supported by individually verifiable information. For example, data such as full-time equivalent student information, student/faculty or other ratios, and so on, having an effect on the financial position or results of operations of the institution, may be appropriate for reference in MD&A. Other nonfinancial data that is not relevant to the requirements for MD&A could be included outside the financial statements and MD&A as other (optional) supplementary information.

71

Q Can the institution include a discussion on designations of net assets in the MD&A?

A Designations that relate to currently known facts, decisions, and events may be used to support the required elements of MD&A.

72

Q Can the president's letter be substituted for MD&A?

A No. While some public institutions historically may have presented a president's letter that incorporated much of the information now required by MD&A, such a letter will not satisfy MD&A requirements. Further, information included in the president's letter cannot be incorporated by reference into MD&A in lieu of presenting it in MD&A.

73

Q Paragraph 11 of GASB Statement 34 requires comparison and discussion of significant changes from the prior year. What types of program revenues, general revenues, and program expenses are likely to be discussed in this section of MD&A?

A Higher education programs have not been defined by GASB Statement 34. You may consider the following classifications in defining programs for your institution:

Program revenues:

- tuition and fees;

- patient services (for a blended component hospital);
- research grants and contracts;
- gifts (those restricted to specific programs);
- educational sales and service; and
- auxiliaries—
  - residential life,
  - bookstore operations,
  - dining operations, and
  - intercollegiate athletics.

General revenues:

- state appropriations;
- gifts (those not restricted to specific programs); and
- investment income.

Program (functional) expenses (may be presented either by functional designations or by natural classes such as salary and wages, payment to vendors, etc.):

- instruction;
- research;
- public service;
- academic support;
- student services;
- institutional support;
- operation and maintenance of plant;
- auxiliaries—
  - residential life,
  - bookstore operations, and
  - dining operations;
- intercollegiate athletics; and
- hospital (for a blended component hospital).

Note: In the year of implementation, GASB Statement 34 does not require comparative information to be presented in the MD&A.

Exchange / Nonexchange Transactions

74

Q ABC University has a material amount of multiyear pledges to be received in installments that meet the eligibility requirements as voluntary nonexchange transactions under GASB Statement 33. May the pledge receivables be recorded at the net present value of expected future cash flows?

A Yes, per examples 21 and 21a in Appendix D of GASB Statement 33, discounting may be appropriate, but is not required, when a gift pledge is made on an installment basis.

75

Q How should federal appropriations be classified for external financial reporting purposes?

A As with all revenue sources, federal appropriations need to be reviewed to determine whether they represent exchange or nonexchange transactions. Generally, if it is determined that the federal appropriations are exchange transactions and they are not appropriated for capital purposes, such appropriations should be classified as operating revenues. If it is determined that the federal appropriations represent a nonexchange transaction (see GASB Statement 33 for details on exchange versus nonexchange), such appropriations generally are reported as nonoperating revenues. GASB Statement 9 also provides guidance in determining the operating and nonoperating categories.

The NACUBO Accounting Principles Council last year released NACUBO Advisory Reports 2000-06 and 2000-07 providing guidance on federal appropriations, including those for land grant institutions. NACUBO Advisory Reports can be accessed on the NACUBO Web site at www.nacubo.org.

76

Q How should gifts, grants, and contracts be classified for external financial reporting purposes under GASB Statement 33?

A In a nonexchange transaction, an institution receives value from another party without directly giving equal value in exchange (GASB Statement 33, paragraphs 1 and 3). Gifts normally do not involve the exchange of a service or good and therefore are usually reported as nonoperating on the statement of revenues, expenses, and changes in net assets. Grants and contracts must be reviewed individually to determine the correct reporting. Frequently, the primary purpose of sponsored research is to provide the sponsors with the results of research performed in exchange for payment to fund sponsored research. In these circumstances, research grants or contracts are exchange transactions and are reported as operating revenues. On the other hand, gifts for research received without giving equal value should be recorded as nonexchange transactions.

77

Q It appears that operating revenue is equated to an exchange transaction. If that is the case, why would investment income be nonoperating?

A The concept of what is operating is not always based on exchange. It is based on program activity. When an institution elects BTA reporting, a consideration for defining operating revenues is how individual transactions will be categorized for purposes of preparing a statement of cash flows under GASB Statement 9 (GASB Statement 34, paragraph 102). Typically, an exchange transaction is operating revenue. Generally, cash flows from investment activities will not be treated as operating revenue under GASB Statement 9 (GASB Statement 9, paragraph 15).

78

Q Many transactions have both exchange and nonexchange elements. For example, a public broadcasting company may have a fundraiser where donors receive a $20 gift for each $100 donation. How are such transactions recorded?

A The transaction may be segmented between exchange and nonexchange transactions. The $20 gift is an exchange transaction, recorded as an operating revenue and expense, because the fair value for the exchange was the cost of the gift. The $80 residual is a nonexchange transaction, recorded as a nonoperating revenue, because goods and services of the public broadcasting company (e.g., airtime, programming) were provided without exchange.

Scholarships

79

Q What guidance is available with respect to accounting for scholarship allowances?

A NACUBO has published Advisory Report 2000-05, *Accounting and Reporting Scholarship Discounts and Allowances to Tuition and Other Fee Revenues by Public Institutions of Higher Education.* The report was approved in July 2000 by the NACUBO Accounting Principles Council and represents preferred industry practice for all public schools, colleges, and universities in the absence of any guidance from the Financial Accounting Standards Board, the Governmental Accounting Standards Board, or the American Institute of Certified Public Accountants.

80

Q How are scholarship allowances reported?

A GASB Statement 34, footnote 41 states that "revenues should be reported net of discounts and allowances with the discount or allowance amount parenthetically disclosed on the face of the statement or in a note to the financial statements. Alternatively, revenues may be reported gross with the related discounts and allowances reported directly beneath the revenue amount." Therefore, tuition and fees should be reduced by the amount of scholarship allowances.

81

Q How are graduate fee waivers classified?

A The recording of graduate fee waivers depends on whether the fee waiver is in exchange for services or a simple fee waiver. If it is a simple fee waiver, the waiver is treated as a scholarship discount and allowance. If the fee waiver is a part of the student's compensation for employment as a graduate assistant or a similar exchange or exchange-like transaction, it is recorded as compensation/benefits expense. (See Student R example in NACUBO's Advisory Report 2000-05, *Accounting and Reporting Scholarship Discounts and Allowances to Tuition and Other Fee Revenues by Public Institutions of Higher Education.*)

82

Q If a student receives financial aid from a third party, and the amount exceeds on-campus charges, and the student receives a refund of the excess, is it reported as scholarships and fellowships expense?

A If a third party pays a student's on-campus charges with no institutional involvement, any excess payment would not be a scholarship and fellowship expense. The overpayment would be a refund of noninstitutional resources held in an agency account for the student. The third-party payment would be treated the same as if the student paid the on-campus charges.

If the third-party payment were received in response to an agreement between the institution and a third-party payer whereby a formal payment agreement has been negotiated (such as a sponsor's agreement with a foreign country), the overpayment would be considered a scholarship and fellowship expense (see GASB Statement 24).

83

Q Are PLUS Loans, Stafford Loans, Perkins Loans, and Direct Lending loans reported as tuition and fees or third-party payments?

A Direct Lending, Stafford, and PLUS loans are financial aid that is not recognized as revenue by the institution and is treated as student payments. The institution acts as fiduciary agent for the student. Generally, the receipt of loans is not treated as operating revenue because the loan proceeds are the student's money, that is, agency transactions or balance sheet transactions. Receipt and disbursement of these loans are reported in the statement of cash flows as cash flows from noncapital financing activities; even if funds received are applied to students' accounts, the application of the funds is both a noncapital financing activity cash outflow and an inflow of cash from operating activities.

Although Perkins Loans are made to students by the institution, they do not result in a scholarship discount or allowance because the loan itself is a separate exchange transaction. Perkins Loans are operating activities in accordance with GASB Statement 9. Any interest payment should be recognized as operating revenue on the statement of revenues, expenses, and changes in net assets. On the statement of cash flows, Perkins Loan repayments and interest payment are operating cash inflows. New Perkins Loan awards are reported as cash outflows. If all or part of the new loan is applied to a student's account, there is no operating cash flow from that transaction.

84

Q What if a foundation is a component unit and provides scholarships for tuition and fees to students from foundation resources?

A The key fact in this question relates to the use of foundation resources rather than institutional resources held in trust by the foundation. These are third-party payments on behalf of students, which are recognized as revenue. If the foundation is a component unit of the institution and the financial information is blended with the institution (see GASB Statement 14), the primary government should record the scholarships as scholarship discounts and allowances up to, and including, the amount of on-campus charges. Any amount applied in excess of on-campus charges would be recorded as scholarship expense.

If the foundation is a component unit of the institution and the financial information is presented discretely (see GASB Statement 14), the primary government should record the scholarship as a third-party payment.

85

Q When an institution receives gifts for scholarships, and awards the scholarships to students, how does the institution record the gifts and the scholarship awards?

A When the institution receives gifts for scholarships, they are recorded as nonoperating revenues. When the institution awards scholarships, these amounts are scholarship discounts and allowances, a contra-account to tuition and fee revenue. If the award creates a refund to the student, the refund portion is recorded as scholarship expense. This treatment eliminates the double counting of revenue (GASB Statement 34, footnote 41).

86

Q Should institutional funds deposited to a student's account in satisfaction of the net balance due be considered a scholarship discount or allowance?

A Yes. To the extent institutional funds are equal to or less than the student account balance, they represent a scholarship allowance.

87

Q If an institution receives $3 million from the federal Pell program and applies $2 million to students' accounts receivable and pays the $1 million balance to the students, how are the transactions recorded?

A Accounting for Pell Grants is governed by GASB Statements 24 and 33. Because Pell Grants are conditioned on making awards to eligible students, the eligibility requirements of GASB Statement 33 apply and require that the conditions be met before revenue is recognized. As the funds are passed through from the federal government to the college or university to the ultimate grantee (the student), GASB Statement 24 requires the flow of Pell Grants to be recognized as revenues and expenses and restricted net assets. Consequently, the institution should recognize receivables and revenues when all applicable eligibility requirements are met. Funds received before the eligibility requirements are met should be reported as deferred revenue by the institution (GASB Statement 33, paragraph 21). For financial statement purposes, the institution needs to review the eligibility requirements of the students to determine the amount of deferred revenue, if any, at the end of the fiscal year.

Component Units

88

Q Does implementation of BTA reporting under GASB Statements 34 and 35 change the method of reporting component units?

A No. GASB Statement 35 does not change the component unit reporting methodology prescribed in GASB Statement 14. Therefore, if GASB Statement 14 requires a discrete or blended presentation of a component unit, that presentation does not change because of GASB Statement 35. See paragraphs 52 and 53 of GASB Statement 14 for blending requirements. All other component units must be discretely presented as discussed in paragraphs 44–50 of GASB Statement 14.

89

Q The BTA sample financial statements in GASB Statement 35 display a separate column for the component unit hospital. Is this separate column required or can a single column statement be presented for all financial statements?

A If the component unit is a discretely presented BTA, then a separate column is required.

Capital Assets / Infrastructure / Depreciation

90

Q How are capital assets reported in the new model?

A Acquisitions of capital assets that meet the institution's capitalization policy must be recorded as assets. Such acquisitions that do not meet or exceed the institution's capitalization policy will be recognized as expenses and reported as operating expense/outflow in the statement of revenues, expenses, and changes in net assets and the statement of cash flows. Additionally, GASB Statement 35 Appendix D, note 1, provides an example of the expanded note disclosure reporting requirements.

91

Q Where are gains (losses) on the disposal of capital assets reported in the statement of revenues, expenses, and changes in net assets and the statement of cash flows?

A Gains (losses) on the disposal of capital assets are reported as nonoperating revenue on the statement of revenues, expenses, and change in net assets. The cash received is displayed as an inflow in the cash flows from capital and related financing activities section of the statement of cash flows.

92

Q Will GASB provide guidance on capitalization thresholds?

A No. GASB has indicated that it will not provide guidance on this issue. Public institutions subject to Office of Management and Budget (OMB) Circular A-21 should consult their cognizant federal agency before establishing thresholds. For some states, changing the capitalization threshold also requires legislative action.

93

Q Assuming initial selection and qualification for use of the modified approach, when would an organization be required to change from the modified approach to the historical cost/depreciation method of reporting infrastructure assets?

A If any of the criteria of GASB Statement 34, paragraphs 23 and 24, do not continue to be met, the institution would be required to apply the depreciation requirements in paragraphs 21 and 22. This change should be reported as a change in accounting estimate in the period in which the change occurred.

94

Q Is the modified approach for infrastructure available for public institutions electing BTA reporting, governmental reporting combined with BTA reporting, or only governmental reporting?

A The modified approach is available for all public institutions that satisfy the requirements of the modified approach regardless of the reporting model used. If the institution reports as a BTA, it does not have the additional transition period for retroactive reporting back to June of 1980 per footnote 2 of GASB Statement 35. Therefore, infrastructure would be reported from 1980 to current at the date of implementation.

95

Q Can an institution choose whether it will report infrastructure in networks or subsystems?

A Yes. The institution can select either the network or subsystem approach for reporting infrastructure assets.

96

Q If public institutions have general infrastructure assets and related records dated prior to 1980, are they required to depreciate assets acquired before 1980?

A Yes. If the public institution elects BTA reporting, it is required to depreciate assets acquired before 1980. This presentation provides a more complete picture of the institution's investment in infrastructure and may be useful in managing infrastructure assets.

97

Q If an institution elects the historical cost/depreciation method, is accumulated depreciation recorded from the date the asset was placed in service?

A Yes. The accumulated depreciation from the date of service should be recorded. This accumulated depreciation should be reported as an adjustment of prior periods, and any comparative financial statements presented for prior periods should be restated. If restatement of financial statements for the prior periods is not practical, the accumulated depreciation would be part of the restatement of beginning net assets arising from the implementation of GASB Statements 34 and 35.

98

Q How can an institution distinguish between land improvements and infrastructure assets?

A The terms *land improvements* and *infrastructure* are confusing because they are not mutually exclusive. Because land improvements are stationary in nature, they may also be considered infrastructure. There is no requirement that the term infrastructure be used when reporting these assets or that public institutions separate infrastructure from land improvements. Typically, land improvements will serve the use of a particular site or building. Land improvements include assets such as pathways, parking lots, swimming pools, fencing, and so on. Infrastructure assets serve the public or community as a whole and include roads, street lighting, storm sewers, and the like.

99

Q Is it necessary to break out infrastructure assets into a separate line item in the statement of net assets?

A No. As indicated in GASB Statement 34, separate lines between depreciable and nondepreciable assets are required. Infrastructure can be reported on a separate line with land, where the other line would be depreciable buildings, property, and equipment, net.

100

Q What impact does the new reporting model have for an institution utilizing use allowance in accordance with OMB Circular A-21?

A The 1998 revisions to OMB Circular A-21 require conformity of the depreciation methods used for financial statement purposes and those used for federal cost-recovery purposes. The conformity requirement is assumed to include depreciable lives as well as depreciation methods. The 1998 change to §J.12 of Circular A-21 applies to all public institutions that are required by generally accepted accounting principles to record depreciation for external financial reporting purposes, and that recover costs from federal awarding agencies through an indirect cost (F&A cost) reimbursement rate. With the promulgation of GASB Statements 34 and 35, the A-21 requirements related to consistency in depreciation methods now apply to public institutions. The A-21 requirement applies to depreciation of buildings, fixed equipment, land improvements, moveable equipment, and any other class of assets for which depreciation is claimed in the F&A rate calculation. Public institutions that continue to recover F&A costs through a use-allowance methodology are not affected by this change. However, public institutions using a use-allowance methodology should be advised that the 1998 revisions to Circular A-21 limited recovery under the use-allowance methodology to the acquisition costs of the capitalized assets.

101

Q What are the reporting requirements for works of art and historical treasures?

A Public institutions are required to capitalize such items at their historical cost or fair value at date of donation *unless* they are part of a collection that is:

- held for public exhibition, education, or research in furtherance of public service rather than financial gain;
- protected, kept unencumbered, cared for, and preserved; and
- subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Public institutions are encouraged, but not required, to capitalize collections meeting the above criteria.

Information about such assets should be disclosed in the notes to the financial statements (GASB Statement 34, paragraph 118). When noncapitalized collections are donated, both revenues equal to fair value at the date of donation should be recognized. When donated collection items are not capitalized, the entity should also recognize program expenses equal to the amount of revenues recognized (GASB Statement 34, paragraph 28). Depreciation for capitalized work of arts and historical treasures that are inexhaustible is not required (GASB Statement 34, paragraph 29).

102

Q Are library holdings to be depreciated like other capital assets?

A Library holdings that meet the criteria of "works of arts" and "historical treasures" under paragraph 27 of GASB Statement 34 need not be depreciated. Other capitalized assets included in the library holdings must be depreciated in accordance with GASB Statement 34, paragraph 21.

103

Q Where can the institution obtain guidance on expected lives of general fixed assets and of infrastructure assets?

A Generally accepted accounting principles require that capitalized assets be depreciated over their useful lives. An institution should examine its experience in determining useful lives. To assess the reasonableness of the institution's useful lives, it may compare them to the asset types and useful lives established by the American Hospital Association (AHA).

104

Q Where is depreciation expense reported?

A Depreciation expense should be reported as an operating expense in the statement of revenues, expenses, and changes in net assets. Total depreciation expense may be reported separately in the statement of revenues, expenses, and changes in net assets if expenses are reported by natural classification. However, if expenses are reported by function, and depreciation is allocated in part or in whole, total depreciation expense would be reported only in the notes to the financial statements. An institution may elect to show depreciation related to auxiliary enterprises separately.

105

Q Can an institution depreciate all assets other than infrastructure and expense infrastructure?

A No. All infrastructure additions and improvements should be capitalized. Additions or improvements increase the capacity or efficiency of infrastructure assets rather than preserve the useful life of the assets.

106

Q Can an institution allocate noninfrastructure depreciation without allocating infrastructure depreciation?

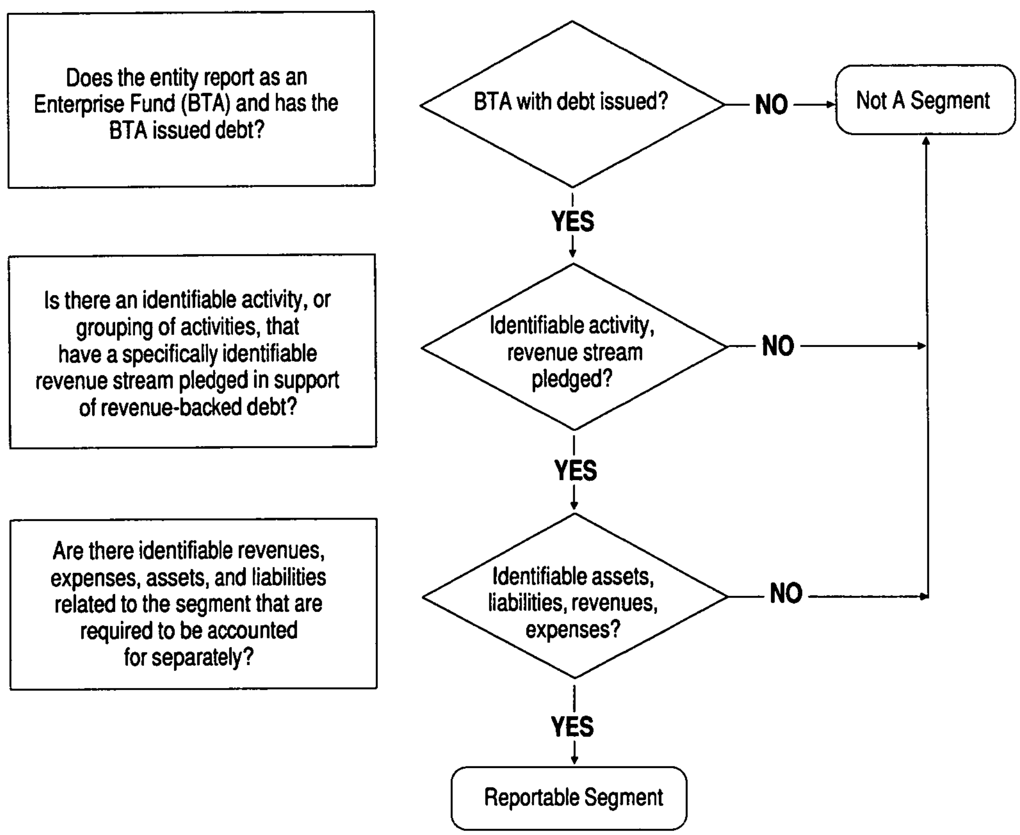
A Yes. GASB Statement 34 is silent with respect to allocation of depreciation expense for special purpose governments that are BTAs. As such, a public institution is not required to or precluded from allocating any depreciation to its various functions. However, because general infrastructure assets are normally not associated with specific functions, depreciation generally should not be allocated.

Segments

107

Q How is it determined if a revenue bond has created a segment?

A Refer to the following flowchart:



108

Q What is the segment impact if an institution issues one revenue bond with the revenues of four dormitory halls pledged to the bond versus an institution issuing a separate revenue bond for each dormitory and each dormitory pledging its revenues to its revenue bond?

A Refer to the flow chart on reportable segment. The determination of a specifically identifiable revenue stream pledged in support of revenue-backed debt will generally determine the number of segments. If, in the case of this question, the institution has pledged the revenues of four residence halls to one bond, the institution will have one segment consisting of four residence halls. On the other hand, if the institution issued four revenue bonds, one bond for each residence hall, with the revenues from each specific residence hall pledged specifically to one specific bond, the institution would have four segments. For additional information, see question 236 in the GASB 34 Implementation Guide.

109

Q If an institution has a revenue series bond where each time a new bond is issued under the series the pledged revenue is changed either through an addition or deduction in pledged revenues, how would the segment be determined?

A The most recent pledge in the series establishes the segment.

110

Q Does each segment require an MD&A?

A No. The MD&A is a reflection of the primary government's financial activity.

111

Q If revenue bonds are backed by a full system pledge, is segment reporting required?

A No. A full system pledge is a statement that the institution as a whole is backing the bonds. Therefore, a separate segment is not required because the financial statements of the public institution serve as the required reporting.

112

Q When an institution advance refunds (in-substance defeases) a bond with a new bond issue, are the defeased bonds still a segment? What about the new bonds?

A If the institution issues new bonds that defease an earlier bond series, the new bond becomes a segment if it meets segment-reporting guidelines. The defeased bonds are no longer reported as a separate segment.

113

Q If an institution enters into a long-term capital lease and agrees to make lease payments over a long period of time, does such an arrangement constitute a segment?

A Long-term lease arrangements generally do not create segment-reporting requirements, unless the lease arrangements are supported by an identifiable revenue stream pledged in support of the lease payments. For additional information, see GASB Statement 34, paragraph 122.

114

Q An institution's component unit (hospital) has issued debt and pledged all the net revenue of the hospital toward the debt. Does the hospital, or the institution, have a reportable segment?

A If the hospital is separately displayed as a component unit in the institution's financial statements, then there is not a separate reportable segment. The financial statements include all the information required of a segment. If the hospital financial data is blended and not separately displayed, then it does represent a reportable segment.

115

Q How would an auxiliary display payments to the institution for operation and maintenance of plant or institutional support in the segment's condensed statement of revenues, expenses, and changes in net assets?

A For general-purpose external financial statement purposes, transactions between the auxiliary and the institution would be eliminated. For purposes of segment reporting related to the auxiliary, those transactions would be reported gross.

116

Q How should an institution display auxiliary revenue that has (1) been discounted for scholarships funded by grants and (2) pledged for revenue bonds in the segment's condensed statement of revenues, expenses, and changes in net assets?

A Revenues should always be reported net of scholarship allowances in both the financial statements and segment information.

Section II

Summary of Relevant Questions in GASB 34 Guide

Implementation Guide Questions Particularly Relevant to Public Institutions Electing BTA Reporting

Topic	Statement 34 Paragraphs Standards	Statement 34 Paragraphs BFC	GASB 34 Implementation Guide Question	Implementation Guide Point
GENERAL				
Special purpose governments	134–138	457–462	257	Special purpose governments provide a limited set of services or programs (such as higher education) as opposed to general-purpose governments that provide more than one type of governmental service (such as public safety, transportation). The distinction is important to understand the portions of GASB Statement 34 that are applicable to the entity.
			260	A primary government that is a special purpose government engaged only in business activities and that has a governmental component unit (that does not qualify for blending under GASB Statement 14) should present government-wide financial statements.
Proprietary funds	66–68, 91–105	422–440	–	
Enterprise funds	67, 94	387–389	4	Special purpose governments that are engaged only in BTA, such as many public institutions, issue only enterprise fund financial statements.
			18 and 161	Criteria for enterprise fund reporting apply in the context of the activity's principal revenue source. The term "activity" is different than the term "fund."
Segment information	122, 123	446	236	The "identifiable activity" that determines what constitutes a segment is the source of the pledged revenue. Thus, if a single bond issue is secured by multiple dormitory units, the activity and segment are the total of all dorm units.
			237	A segment can exist even if another specific identifiable revenue stream is pledged in support of the bonds or other revenue-backed debt.
SPECIFIC				
Management's discussion and analysis (MD&A)	8–11	289–295	8	If the public institution provides comparative financial statements (that is, basic financial statements and RSI are presented for both years), MD&A is required to address both years presented in the comparative financial statements. The "comparative" MD&A would include comparative condensed financial information and related analysis for both years. However, completely separate MD&As are not required.
Classification as Required Supplemental Information (RSI)	8–9	290–292	10	Only information that addresses required elements of RSI should be reported as RSI. Supplemental information that is not RSI (such as fund-based activity statement) should be reported as "supplementary information."
			12	Charts and graphs may be used to supplement, or elaborate on, information in the condensed statements, but should not be used in place of them.
			13	The term "currently known" means to have been aware of at the date of the auditor's report, not the possible effect of events that might happen (although such matters could be addressed in the letter of transmittal).
Minimum requirements—MD&A	11	295	–	
Relationship between MD&A and the president's letter	fn7	293, 294	–	

Topic	Statement 34 Paragraphs: Standards	Statement 34 Paragraphs: BFC	GASB 34 Implementation Guide Question	Implementation Guide Point
Eliminations, intra-Institutional activity, and balances	61	317, 318	147–156	These questions address detail of the GASB Statement 34 requirements for eliminations, intra-Institutional activities and balances.
Statement of net assets	97–99	429, 430	–	
Presentation of assets and liabilities	97	429	81	The enterprise fund (BTA) statement of net assets must be in a classified format (see also GASB Statement 34, paragraph 97).
			209	Restricted assets should often be reported as "noncurrent" assets.
Formats	98	–	–	
Classification of net assets	98	430	85	Only the term "net assets" should be used. Net assets should be displayed in three components—invested in capital assets, net of related debt; restricted (distinguishing between major categories of restrictions); and unrestricted.
			86	Disclosure of the three components of net assets is required—it is *not* an option.
			87–102	These questions address specific characteristics of the three components of net assets. Of particular note, question 91 indicates that institutions are not expected to categorize all uses of bond proceeds to determine how much of the debt actually relates to assets that have been capitalized. Unless a significant portion of the debt proceeds is spent for noncapitalizable purposes, the entire amount could be considered "capital-related."
			159	Permanent endowments of special purpose governments engaged only in BTAs should report the endowments as nonexpendable restricted assets segregated by purpose of restrictions.
Statement of revenues, expenses, and changes in net assets	100–104	431–439	–	
Presentation	101	435	111–114	These questions address the classification of interest expense as either direct or indirect program expenses for purposes of ultimate reporting in the government-wide financial statements.
			143, 213, 214, 215	This financial statement should distinguish between "operating" and "nonoperating" revenue and expense. Consistency with GASB Statement 9 categories of cash flows is encouraged.
			139–142, 212	These questions address the very important terms of "special" versus "extraordinary" items required to be reported in this financial statement.
			210	Revenue used as security for revenue bonds should be separately identified. If all revenue is used as security, or if there is no other major revenue source used as security, no separate identification is necessary.
			211	GASB Statement 34 prescribes no level of detail for operating and nonoperating classifications and allows reporting of expenses by natural or functional classification.
Defining operating revenues and expenses	102	436	–	

Topic	Statement 34 Paragraphs Standards	Statement 34 Paragraphs BFC	GASB 34 Implementation Guide Question	Implementation Guide Point
Capital contributions	100, 103	437	207–208	Contributed capital should not be separately identified in the statement of net assets.
Additions to endowments	100, 103	377, 438	–	
Scholarships allowances	fn41	–	–	
Release of restricted resources	–	325	–	
Statement of cash flows	105	440	–	
Notes to financial statements	113–123	445	83	Disclosure is required of amounts of compensated absences "due" within one year. The term "due" is based on the occurrence of certain events.
			84	The net pension obligation (per GASB Statement 27 on employer pension accounting) is an actuarial amount that is not "due" within one year and should *not* be reported as a current asset or liability.
Component unit reporting	124–128	453–456	256–265	These paragraphs discuss implementation and transition issues pertaining to a component unit's (such as a BTA college and university) inclusion in the primary government's (such as a state government) financial statements.
Capital asset reporting	18–29, 132, 133, 148–166	330–343	26	Library books that have a useful life of more than one year are capital assets and are depreciable, unless they can be considered works of art or historical treasures.
			33	Accumulated depreciation may be netted against capital assets or may be reported separately. Regardless of the presentation in the statement of net assets, the notes to the financial statements should disclose accumulated depreciation separately in addition to changes in accumulated depreciation.
Collections	27–29	343	78	Collections capitalized prior to the passage of GASB Statement 34 and additions to those collections may continue to be capitalized even if the collection does not meet the GASB Statement 34, paragraph 27 criteria.
			79	The provisions of GASB Statement 34, paragraph 27 may be applied on a "collection-by-collection" basis.
Depreciation and the modified approach	20–26, 132, 133, 152, 153, 161–166	340–342	36–52, 53–65, 255	These questions address numerous depreciation and infrastructure issues.
Net cost format	123	439, 462b	–	
Effective date and transition	142–166	469–476	262, 263, 267–261	These questions and answers address numerous effective date and transition issues.

Section III

Financials

Note: The statements that follow contain an illustration of the transition from the fund group presentation (page 58) to the new entity-wide statements that GASB Statement 35 requires either by object (page 59) or function (page 60). This presentation is only a tool to illustrate how to convert the current funds to the new entity-wide statements. They are presented for illustrative purposes only and are not authoritative.

ABC UNIVERSITY

Statement of Revenues, Expenditures, and Other Changes in Fund Balances for the Year Ended June 30, 2002

Note: This format is relevant only as other supplemental information.

	Current Funds Unrestricted	Current Funds Restricted	Plant Funds	Loan Funds	Endowment and Similar Funds	Adjustments	Total
REVENUES							
Student tuition and fees	38,262,877	1,864,771				(3,214,454)	36,913,194
Federal appropriations		1,300,000					1,300,000
State appropriations	37,771,463	2,196,045	1,918,750				41,886,258
Federal grants and contracts	2,078,857	7,424,488	400,000	52,128			9,955,473
State grants and contracts	277,515	1,947,472					2,224,987
Local grants and contracts	63,677	1,061,290					1,124,967
Nongovernmental grants and contracts	46,884	586,044	240,813				873,740
Gifts	1,322,442	500,000					1,822,442
Investment income (loss) (net of investment expense of 87,317)	129,890	86,590	(77,047)	50,156	1,993,332		2,182,921
Sales and services of educational departments	28,149					(8,347)	19,802
Auxiliary enterprises:							
Residential life	28,507,915					(428,641)	28,079,274
Bookstore	9,258,642					(166,279)	9,092,363
Other revenues	121,022		22,335				143,357
Total revenues	117,869,332	16,966,700	2,504,851	102,284	1,993,332	(3,817,721)	135,618,778
EXPENDITURES							
Educational and general:							
Instruction	35,382,559	3,104,782					38,487,341
Research	6,912,743	11,621,288					18,534,031
Public service	461,601					(8,347)	453,254
Academic support	9,981,034	178,529					10,159,563
Student services	3,745,445	89,111					3,834,556
Institutional support	11,837,987	51,725					11,889,712
Operations and maintenance of plant	5,786,143	4,073					5,790,216
Depreciation						6,847,377	6,847,377
Student aid	3,986,397	318,660				(3,809,374)	495,683
Auxiliary enterprises:							
Residential life	23,856,214	52,776					23,908,990
Bookstore	7,969,663						7,969,663
Expended for plant facilities			8,420,247			(8,420,247)	0
Interest on debt			1,330,126				1,330,126
Other expenditures				28,417			28,417
Total expenditures	109,919,786	15,420,944	9,750,373	28,417	0	(5,390,591)	129,728,929
Revenues over (under) expenditures	7,949,546	1,545,756	(7,245,522)	73,867	1,993,332	1,572,870	5,889,849
TRANSFERS AND OTHER SUPPORT							
Mandatory transfers:							
Federal Perkins Loan Program match	(17,376)			17,376			0
Debt service	(2,156,790)		2,156,790				0
Endowment income	320,000	541,935			(861,935)		0
Nonmandatory transfers:							
Future plant expansion	(1,127,831)		1,127,831				0
Endowment income	106,671	60,215			(166,886)		0
Student aid	1,500,000	(1,500,000)					0
Other	(19,681)	17,681		2,000			0
Total transfers	(1,395,007)	(880,169)	3,284,621	19,376	(1,028,821)	0	0
Additions to permanent endowments					85,203		85,203
Total transfers and other support	(1,395,007)	(880,169)	3,284,621	19,376	(943,618)	0	85,203
NET CAPITALIZED ASSETS			5,421,867			(5,421,867)	0
Net Increase (decrease) for year	6,554,539	665,587	1,460,966	93,243	1,049,714	(3,848,997)	5,975,052
FUND BALANCES							
Current year Depreciation (not an FG display item)			6,847,377			(6,847,377)	
Balances—beginning of year	7,161,911	280,500	192,109,158	2,323,858	26,521,802	(59,751,503)	168,645,726
Balances—end of year	13,716,450	946,087	200,417,501	2,417,101	27,571,516	(70,447,877)	174,620,778

ABC UNIVERSITY

Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended June 30, 2002

Operating expenses may be displayed using either object or functional classification.

	Primary Institution	Component Unit Hospital
REVENUES		
Operating Revenues		
Student tuition and fees (net of scholarship allowances of $3,214,454)	36,913,194	—
Patient services (net of charity care of $5,114,352)	—	46,296,957
Federal grants and contracts	10,614,660	—
State and local grants and contracts	3,036,953	7,475,987
Nongovernmental grants and contracts	873,740	—
Sales and services of educational departments	19,802	—
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $428,641: $28,079,274 of revenues are used as security for revenue bond Series 1989)	28,079,274	—
Bookstore (net of scholarship allowances of $166,229: $9,092,363 of revenues are used as security for revenue bond Series 1999)	9,092,363	—
Other operating revenues	143,357	421,571
Total operating revenues	88,773,343	54,194,515
EXPENSES		
Operating Expenses		
Salaries:		
Faculty (physicians for the hospital)	34,829,499	16,703,805
Exempt staff	29,597,676	8,209,882
Nonexempt wages	5,913,762	2,065,267
Benefits	18,486,559	7,752,067
Scholarships and fellowships	3,809,374	—
Utilities	16,463,492	9,121,352
Supplies and other services	12,451,064	7,342,009
Depreciation	6,847,377	2,976,212
Total operating expenses	128,398,803	54,170,594
Operating income (loss)	(39,625,460)	23,921
NONOPERATING REVENUES (EXPENSES)		
State appropriations	39,760,508	—
Gifts	1,822,442	—
Investment income (net of investment expense of $87,316 for the primary institution and $19,823 for the hospital)	2,182,921	495,594
Interest on capital asset—related debt	(1,330,126)	(34,538)
Other nonoperating revenues	313,001	321,449
Net nonoperating revenues	42,748,746	782,505
Income before other revenues, expenses, gains, or losses	3,123,286	806,426
Capital appropriations	2,075,750	—
Capital grants and gifts	690,813	711,619
Additions to permanent endowments	85,203	—
Total other revenues	2,851,766	711,619
Increase in net assets	5,975,052	1,518,045
NET ASSETS		
Net assets—beginning of year	168,645,726	45,900,375
Net assets—end of year	174,620,778	47,418,420

ABC UNIVERSITY

Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended June 30, 2002

Operating expenses may be displayed using either object or functional classification.

	Primary Institution	Component Unit Hospital
REVENUES		
Operating Revenues		
Student tuition and fees (net of scholarship allowances of $3,214,454)	36,913,194	—
Patient services (net of charity care of $5,114,352)	—	46,296,957
Federal grants and contracts	10,614,660	—
State and local grants and contracts	3,036,953	7,475,987
Nongovernmental grants and contracts	873,740	—
Sales and services of educational departments	19,802	—
Auxiliary enterprises:		
Residential life (net of scholarship allowances of $428,641: $28,079,274 of revenues are used as security for revenue bond Series 1989)	28,079,274	—
Bookstore (net of scholarship allowances of $166,229: $9,092,363 of revenues are used as security for revenue bond Series 1999)	9,092,363	—
Other operating revenues	143,357	421,571
Total operating revenues	88,773,343	54,194,515
EXPENSES		
Operating Expenses		
Educational and General		
Instruction	38,487,341	9,066,255
Research	18,534,031	9,899,876
Patient Services		15,388,436
Public Service	453,254	2,362,346
Academic support	10,159,563	3,567,759
Student services	3,834,556	—
Institutional support	11,889,712	3,937,236
Operations and maintenance of plant	5,790,216	2,350,017
Depreciation	6,847,377	3,865,411
Student Aid	495,683	3,733,258
Auxiliary enterprises:		
Residential life	23,908,990	
Bookstore	7,969,683	
Other expenditures	28,417	
Total operating expenses	128,398,803	54,170,594
Operating income (loss)	(39,625,460)	23,921
NONOPERATING REVENUES (EXPENSES)		
State appropriations	39,760,508	—
Gifts	1,822,442	—
Investment income (net of investment expense of $87,316 for the primary institution and $19,823 for the hospital)	2,182,921	495,594
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Net nonoperating revenues	42,748,746	782,505
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Increase in net assets	5,975,052	1,518,045
NET ASSETS		
Net assets—beginning of year	168,645,726	45,900,375
Net assets—end of year	174,620,778	47,418,420

ABC UNIVERSITY
Balance Sheet
June 30, 2002

	Current Funds Unrestricted	Current Funds Restricted	Plant Funds	Loan Funds	Endowment and Similar Funds	Agency Funds	Adjustments	Total
ASSETS								
Cash and cash equivalents	2,674,502	1,232,599	326,172	163,792	24,200	174,153		4,595,418
Short-term investments	8,247,060	164,705	6,242,551	31,045		593,620		15,278,981
Accounts receivable, net	3,412,330	2,941,554			3,213	55,423		6,412,520
Due from other funds	361,621	241,080	12,000				(614,701)	0
Inventories	531,524	54,350						585,874
Deposit with bond trustee			4,254,341					4,254,341
Endowment investments					21,548,723			21,548,723
Notes and mortgages receivable, net	425	283		2,222,264	171,526			2,394,498
Other assets	49,825	33,216				349,222		432,263
Investments in real estate					6,426,555			6,426,555
Capital assets (See Note 1)			222,577,829				(63,600,500)	158,977,329
Total assets	15,277,287	4,667,787	233,412,893	2,417,101	28,174,217	1,172,418	(64,215,201)	220,906,502
LIABILITIES								
Accounts payable and accrued liabilities	2,381,831	1,587,886	879,463			48,290		4,897,470
Due to other funds	7,200	4,800			602,701		(614,701)	0
Deferred Revenue	2,742,128	1,828,085						4,570,213
Deposits	0					1,124,128		1,124,128
Long-term liabilities (See Note 2)	3,277,055	300,929	32,115,929					35,693,913
Total Liabilities	8,408,214	3,721,700	32,995,392	0	602,701	1,172,418	(614,701)	46,285,724
FUND BALANCES								
Invested in capital assets, net of related debt			190,461,900				(63,600,500)	126,861,400
Restricted								
Nonexpendable:								
Scholarships and fellowships					10,839,473			10,839,473
Research					3,767,564			3,767,564
Expendable:								
Scholarships and fellowships					2,803,756			2,803,756
Research		461,182			4,741,550			5,202,732
Instructional department uses		438,571			500,000			938,571
Loans				2,417,101				2,417,101
Capital projects			4,952,101					4,952,101
Debt service			4,254,341					4,254,341
Other		46,334			357,298			403,632
Unrestricted	6,869,073		749,159		4,561,875			12,180,107
Total fund balances	6,869,073	946,087	200,417,501	2,417,101	27,571,516	0	(63,600,500)	174,620,778
Total Liabilities and Fund Balances	15,277,287	4,667,787	233,412,893	2,417,101	28,174,217	1,172,418	(64,215,201)	220,906,502

ABC UNIVERSITY

Statement of Net Assets

June 30, 2002

	Primary Institution	Component Unit Hospital
ASSETS		
Current Assets		
Cash and cash equivalents	4,571,218	977,694
Short-term investments	15,278,981	2,248,884
Accounts receivable, net	6,412,520	9,529,196
Inventories	585,874	1,268,045
Deposit with bond trustee	4,254,341	—
Notes and mortgages receivable, net	359,175	—
Other assets	432,263	426,427
Total current assets	31,894,372	14,450,246
Noncurrent Assets		
Restricted cash and cash equivalents	24,200	18,500
Endowment investments	21,548,723	—
Notes and mortgages receivable, net	2,035,323	—
Other long-term investments	—	6,441,710
Investments in real estate	6,426,555	—
Capital assets, net (Note 1)	158,977,329	32,602,940
Total noncurrent assets	189,012,130	39,063,150
Total assets	220,906,502	53,513,396
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	4,897,470	2,911,419
Deferred revenue	3,070,213	—
Long-term liabilities-current portion (Note 2)	4,082,486	989,321
Total current liabilities	12,050,169	3,900,740
Noncurrent Liabilities		
Deposits	1,124,128	—
Deferred revenue	1,500,000	—
Long-term liabilities (Note 2)	31,611,427	2,194,236
Total noncurrent liabilities	34,235,555	2,194,236
Total liabilities	46,285,724	6,094,976
NET ASSETS		
Invested in capital assets, net of related debt	126,861,400	32,199,938
Restricted for		
Nonexpendable		
Scholarships and fellowships	10,839,473	—
Research	3,767,564	2,286,865
Expendable		
Scholarships and fellowships	2,803,756	—
Research	5,202,732	—
Instructional department uses	938,571	—
Loans	2,417,101	—
Capital projects	4,952,101	913,758
Debt service	4,254,341	152,947
Other	403,632	—
Unrestricted	12,180,107	11,864,912
Total net assets	174,620,778	47,418,420

ABC UNIVERSITY

Statement of Cash Flows—Direct Method for the Year Ended June 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	36,968,596
Grants and contracts	14,312,691
Payments to suppliers	(12,514,494)
Payments for utilities	(16,433,048)
Payments to employees	(70,208,349)
Payments for benefits	(18,412,870)
Payments for scholarships and fellowships	(3,809,374)
Loans issued to students and employees	(410,230)
Collection of loans to students and employees	317,287
Auxiliary enterprise charges	
Resident halls	27,864,581
Bookstore	9,140,093
Sales and service of educational	29,302
Other receipts (payments)	142,738
Net cash provided (used) by operating activities	(33,013,077)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	39,760,508
Gifts and grants for other than capital purposes;	2,135,443
Private gifts for endowment purposes	85,203
William D. Ford direct lending receipts	62,346,643
William D. Ford direct lending disbursements	(62,346,643)
PLUS loans receipts	1,725,885
PLUS loans disbursements	(1,725,885)
Split-interest transactions receipts	45,750
Split-interest transactions disbursements	(45,750)
Student organization agency transactions	22,617
Net cash provided by noncapital financing activities	42,003,771
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Proceeds from capital debt	4,125,000
Capital appropriations	2,075,750
Capital grants and gifts received	690,813
Proceeds from sale of capital assets	0
Purchases of capital assets	(7,896,650)
Principal paid on capital debt and leases	(3,788,102)
Interest paid on capital debt and leases	(1,330,126)
Deposit with trustee	(920,935)
Net cash used by capital financing activities	(7,044,250)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	61,945,270
Interest on investments	2,182,921
Purchase of investments	(64,041,329)
Net cash provided by investing activities	86,862
NET INCREASE IN CASH	2,033,306
Cash—beginning of the year	2,562,112
Cash—end of year	4,595,418
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	(39,625,460)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	6,847,377
Changes in assets and liabilities:	
Receivables, net	(385,522)
Inventories	(7,814)
Other assets	(5,764)
Accounts payable	42,699
Deferred revenue	60,952
Deposits held for others	14,992
Compensated absences	138,406
Loans to students and employees	(92,943)
Net cash provided (used) by operating activities:	(33,013,077)
NONCASH TRANSACTIONS	
Equipment	523,597
Capital lease	(523,597)

Section IV

General Guidelines for Statement of Cash Flows

Some general guidelines and examples of the various categories of cash flows.

Operating Activities

In Flows

Operating activities include all transactions and other events that are not defined as capital and related financing, noncapital financing, or investing activities. Some activities that may fall within the operating inflows are:

- cash inflows from sales of goods or services, including receipts from collection of accounts receivable and both short- and long-term notes receivable from customers arising from those sales;
- receipts for services including discretely presented component units:
  - tuition and fees,
  - auxiliary enterprises, and
  - stores operations;
- sales and service of educational activities;
- outsourced services revenues;
- cash receipts from grants for specific activities that are considered to be operating activities of the grantor government (a grant arrangement of this type is essentially the same as a contract for services);
- certain federal appropriations—operating, noncapital (only if they are a contract for services);
- certain grants and contracts—operating, noncapital (only if they are a contract for services);
- Perkins loan payments (principal and interest);
- student program loan repayments; and
- all other cash receipts that do not result from transactions defined as capital and related financing, noncapital financing, or investing activities.

Out Flows

Some activities that may fall within the operating outflows are:

- payments to employees for salaries and fringe benefits;
- payments for services to vendors and suppliers;
- program loans and advances to students, including discretely presented component units;
- cash payments to acquire materials for providing services and manufacturing goods for resale, including principal payments on accounts payable and both short- and long-term notes payable to suppliers for those materials or goods;
- cash payments for grants to other governments or organizations for specific activities that are considered to be operating activities of the grantor government;
- noncapital grants and contracts disbursements (see GASB Statement 9, paragraph 22 c);
- cash payments for taxes, duties, fines, and other fees or penalties;
- institutional foundation management fees;
- fringe benefit disbursements; and
- all other cash payments that do not result from transactions defined as capital and related financing, noncapital financing, or investing activities.

Noncapital Financing Activities

In Flows

Noncapital financing activities include borrowing money for purposes other than to acquire, construct, or improve capital assets and repaying those amounts borrowed, including interest. This category includes proceeds from all borrowings (such as revenue anticipation notes) not clearly attributable to acquisition, construction, or improvement of capital assets, regardless of the form of the borrowing. Also included are certain other interfund and intergovernmental receipts and payments, such as:

- proceeds from issuing bonds, notes, and other short- or long-term borrowing not clearly attributable to acquisition, construction, or improvement of capital assets;
- cash receipts from grants or subsidies except (1) those specifically restricted for capital purposes (paragraph 24b) and (2) those for specific activities that are considered to be operating activities of the grantor government (paragraph 17c);
- grants and contracts—nonoperating;
- gifts;
- endowment;
- annuity and life income;
- state appropriations;
- federal appropriations (nonoperating);
- school land funds;
- cash received from property and other taxes collected for the public university and not specifically restricted for capital purposes;
- institutional foundations—noncapital gifts;
- alumni or other booster organizations—noncapital gifts;
- unrestricted gifts—noncapital; and
- agency transactions, including funds received from direct lending programs.

Out Flows

Cash outflows for noncapital financing activities include:

- repayments of amounts borrowed for purposes other than acquiring, constructing, or improving capital assets;
- interest payments to lenders and other creditors on amounts borrowed or credit extended for purposes other than acquiring, constructing, or improving capital assets;
- cash paid as grants or subsidies to other governments or organizations, except those for specific activities that are considered to be operating activities of the grantor government (paragraph 18d);
- grant and contract (subcontracts or pass through);
- annuity payments;
- life income payments;
- agency transactions, including funds disbursed from direct lending programs; and
- return of funds held for others, the disbursement of direct lending moneys, and other resources held as an agent.

Capital Financing Activities

In Flows

Capital and related financing activities include (a) acquiring and disposing of capital assets used in providing services or producing goods, (b) borrowing money for acquiring, constructing, or improving capital assets and repaying the amounts borrowed, including interest, and (c) paying for capital assets obtained from vendors on credit. Included are:

- proceeds from issuing or refunding bonds, mortgages, notes, and other short- or long-term borrowing clearly attributable to the acquisition, construction, or improvement of capital assets;
- receipts from capital grants awarded to the public university;
- grant and contract resources for capital purposes;
- receipts from contributions made by other funds, other governments, and other organizations or individuals for the specific purpose of defraying the cost of acquiring, constructing, or improving capital assets;
- capital appropriations;
- receipts from sales of capital assets; also, proceeds from insurance on capital assets that are stolen or destroyed; and
- receipts from special assessments or property and other taxes levied specifically to finance the construction, acquisition, or improvement of capital assets.

Out Flows

Cash outflows for capital and related financing activities include:

- payments to acquire, construct, or improve capital assets;
- purchases of capital assets;
- payments to contractors for construction or acquisition of capital assets;
- repayments or refunding of amounts borrowed specifically to acquire, construct, or improve capital assets;
- principal paid on capital debt and leases;
- deposits with capital debt payment trustee; and
- interest paid on capital debt and leases.

Investing Activities

In Flows

Investing activities include making and collecting loans (except program loans, as discussed in paragraph 19 of GASB Statement 9) and acquiring and disposing of debt or equity instruments. Examples include:

- receipts from collections of loans (except program loans) made by the public institution and sales of other entities' debt instruments (other than cash equivalents) that were purchased by the public institution;
- institutional loan repayments from other than faculty, staff and students;
- receipts from sales of equity and debt instruments and from returns of investment in those instruments;
- sales and maturities of investments;
- interest and dividends received as returns on loans (except program loans), debt instruments of other entities, equity securities, and cash management or investment pools;
- interest on investments; and
- withdrawals from investment pools that the governmental enterprise is not using as demand accounts.

Out Flows

Cash outflows for investing activities include:

- disbursements for loans (except program loans) made by the public institution and payments to acquire debt instruments of other entities (other than cash equivalents);
- loans to other state agencies;
- loans made as investing activities;
- payments to acquire equity and debt instruments;
- purchase of investments; and
- deposits into investment pools that the governmental enterprise is not using as demand accounts.

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