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Governmental Accounting Standards Series

Statement No. 35 of the Governmental Accounting Standards Board

Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities

an amendment of GASB Statement No. 34

GASB

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Summary

This Statement establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. The standards are designed to provide financial information that responds to the needs of three groups of primary users of general purpose external financial reports: the citizenry, legislative and oversight bodies, and investors and creditors. Generally, this amendment to Statement 34 permits public colleges and universities, in separately issued financial statements, to use the guidance for special-purpose governments engaged only in business-type activities, engaged only in governmental activities, or engaged in both governmental and business-type activities in their separately issued reports. 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.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments, public benefit corporations and authorities, and public employee retirement systems, utilities, hospitals and other health-care providers, and colleges and universities. Paragraph 2 discusses the applicability of this Statement.

Statement No. 35 of the
Governmental Accounting
Standards Board

Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities

an amendment of GASB Statement No. 34

November 1999

Governmental Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7, P.O. Box 5116, Norwalk, Connecticut 06856-5116

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INTRODUCTION

1. The objective of this Statement is to enhance the understandability and usefulness of the general purpose external financial reports issued by public colleges and universities. The standards are designed to provide financial information that responds to the needs of the three groups of primary users of general purpose external financial reports: (a) those to whom government is primarily accountable (the citizenry), (b) those who directly represent the citizens (legislative and oversight bodies), and (c) those who lend or who participate in the lending process (investors and creditors).[1]

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability

2. This Statement amends GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* to include public colleges and universities (institutions).

3. This Statement supersedes GASB Statement No. 8, *Applicability of FASB Statement No. 93, "Recognition of Depreciation by Not-for-Profit Organizations," to Certain State and Local Governmental Entities;* GASB Statement No. 14, *The Financial Reporting Entity,* paragraph 48; GASB Statement No. 15, *Governmental College and University Accounting and Financial Reporting Models;* GASB Statement No. 16, *Accounting for Compensated Absences,* footnote 2; GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill*

[1]GASB Concepts Statement No. 1, *Objectives of Financial Reporting,* paragraph 30.

Closure and Postclosure Care Costs, paragraph 12 and footnote 5; GASB Statement No. 19, *Governmental College and University Omnibus Statement;* GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities,* footnote 2; GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* paragraph 18; Statement 34, footnote 3; GASB Interpretation No. 4, *Accounting and Financial Reporting for Capitalization of Contributions to Public Entity Risk Pools,* paragraphs 8 and 17 and footnote 7; and GASB Technical Bulletin No. 92-1, *Display of Governmental College and University Compensated Absences Liabilities,* to remove the special provisions for public colleges and universities.

4. This Statement also amends Statement 14, paragraphs 19, 44, and footnote 6; Statement 16, paragraph 2; Statement 18, paragraph 16; GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance,* paragraph 4; GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* paragraph 14; and GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* paragraph 11 (to remove the special provisions for public colleges and universities that use the AICPA College Guide model); as well as GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* paragraph 5; and Statement 23, paragraph 3 (to include public colleges and universities in the provisions of these Statements).

Basic Financial Statements and Management's Discussion and Analysis

5. This Statement supersedes footnote 3 of Statement 34, thereby including public colleges and universities in the scope of that standard.

EFFECTIVE DATE AND TRANSITION

Effective Date

6. For public institutions that are not component units of another reporting entity, the requirements of this Statement are effective in three phases based on total annual revenues (discussed in paragraph 8 below). Earlier application is encouraged. Public institutions that elect early implementation of this Statement for periods beginning before June 15, 2000, also should implement Statement 33 at the same time. All component units should implement the requirements of this Statement no later than the same year as their primary

government, regardless of the amount of each component unit's total revenues. When a primary government implements this Statement, public institutions that are component units of that primary government also should implement this standard to provide the financial information required for the primary government's basic financial statements, regardless of the phase-in guidance contained in paragraph 7.

7. The requirements of this Statement are effective in three phases for public institutions that are not component units of another reporting entity 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 of $100 million or more—should apply the requirements of this Statement in financial statements for periods beginning after June 15, 2001.
- Phase 2 institutions—with total annual revenues of $10 million or more but less than $100 million—should apply the requirements of this Statement in financial statements 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 in financial statements for periods beginning after June 15, 2003.

8. For purposes of identifying the appropriate implementation phase, *revenues* includes all revenues of the primary institution (excluding additions to investment in plant or other financing sources, and extraordinary items, as defined in paragraph 55 of Statement 34). As noted in paragraph 6, all component units should implement the requirements of this Statement in the same year as their primary government, regardless of the amount of each component unit's revenues.

Infrastructure

9. Public colleges and universities are required to report infrastructure assets.

10. Prospective reporting of general infrastructure assets[2] in the statement of net assets is required at the effective dates of this Statement. Retroactive reporting of all *major general infrastructure assets* is encouraged at that date. Public institutions that report as special-purpose governments either engaged only in governmental activities or engaged in both governmental and business-type activities should report infrastructure using the provisions of Statement 34 as follows:

- Phase 1 public institutions as described in paragraph 7 should retroactively report all major general infrastructure assets for fiscal years beginning after June 15, 2005.
- Phase 2 public institutions should retroactively report all major general infrastructure assets for fiscal years beginning after June 15, 2006.
- Phase 3 public institutions are encouraged but are not required to report major general infrastructure assets retroactively.

If determining the actual historical cost of general infrastructure assets is not practical because of inadequate records, public institutions should report the estimated historical cost for major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements, in fiscal years ending after June 30, 1980.

Transition

11. In the first period that this Statement is applied, public institutions are not required to restate prior periods for purposes of providing the comparative data for MD&A as required in paragraph 11 of Statement 34. However, public institutions are encouraged to provide comparative analysis of key financial statement elements in MD&A for that period. Also in the first year of implementation, MD&A should include a statement that in future years, when prior-year information is available, a comparative analysis of financial data will be presented.

12. If comparative annual financial statements are presented for earlier periods, those financial statements should be restated. Adjustments, if any, resulting from a change to comply with this Statement should be treated as adjustments of prior periods. If restatement of the financial statements for prior periods

[2]Public institutions that report as special-purpose governments engaged only in business-type activities are required to report infrastructure upon implementation, without regard to the phase-in periods included in this paragraph. The transition period also does not apply to business-type activities for public institutions engaged in *both* governmental and business-type activities.

is not practical, the cumulative effect of applying this Statement should be reported as a restatement of beginning net assets, as appropriate, for the earliest period restated (generally, the current period). In the first period that this Statement is applied, the financial statements should disclose the nature of the restatement and its effect.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by unanimous vote of the seven members of the Governmental Accounting Standards Board:

Tom L. Allen, *Chairman*
Robert J. Freeman, *Vice-chairman*
Cynthia B. Green
Edward M. Klasny
Edward J. Mazur
Paul R. Reilly
Richard C. Tracy

Appendix A

BACKGROUND INFORMATION

13. In 1986, the GASB added to its agenda a project on accounting and financial reporting by public colleges and universities. At that time, the Board agreed that the project should first focus on gathering information about the needs of users, current public college and university accounting and financial reporting practices, and the implications of those practices when a public institution's reports are incorporated into the financial reports of a primary government.

14. A GASB Research Report, *Information Needs of College and University Financial Decision Makers,* by John H. Engstrom, was issued in 1988. That report identified the significant financial decision makers for public institutions, the sources of information they use in making financial decisions, and the importance of audited financial statements.

15. The Board issued Statement 15 in 1991. The objective of that Statement was to clarify generally accepted accounting principles (GAAP) for public institutions and to provide interim guidance pending further research. Statement 15 provided that both the AICPA College Guide model and the Governmental model were acceptable for accounting and financial reporting by public institutions. Those models are defined as follows:

a. The AICPA College Guide model—the accounting and financial reporting guidance recognized by the American Institute of Certified Public Accountants (AICPA) Industry Audit Guide, *Audits of Colleges and Universities,* as amended by AICPA Statement of Position (SOP) 74-8, *Financial Accounting and Reporting by Colleges and Universities,* and as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989, and as modified by all applicable GASB pronouncements cited in Codification Section Co5, "Colleges and Universities."
b. The Governmental model—the accounting and financial reporting standards established by National Council on Governmental Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles,* as modified by subsequent NCGA and GASB pronouncements.

16. Following its research, the Board decided to go forward with the Financial Reporting Model project for public institutions. Progress on the model project benefited from progress on a related project on the financial reporting model for governmental entities other than public institutions. During the development of these models, the GASB issued two surveys. The research findings identified several measurement and reporting issues that might be addressed by the Board in one or more separate projects.

17. In June 1994, the Board issued an Invitation to Comment (ITC), *College and University Financial Reporting Model.* The ITC presented three reporting model alternatives. Two of those alternatives were based on the models presented in the companion ITC for other governmental entities. The third alternative was based on FASB Statements No. 116, *Accounting for Contributions Received and Contributions Made,* and No. 117, *Financial Statements of Not-for-Profit Organizations*. The GASB received 144 comment letters on the ITC and held two public hearings. Consideration of respondents' comments contributed to the development of the basic (or "core") financial statements which were described in the next due process document—a Preliminary Views (PV), *College and University Financial Reporting Model: Core Financial Statements,* issued in June 1995.

18. The PV proposed that, to best meet the different needs of diverse user groups, basic financial statements for public institutions should include both an entity-wide perspective and a fund group perspective. The Board received ninety-two comment letters on the PV; held six public hearings, seven user focus group meetings, and a task force meeting; and conducted a mail survey to each group of identified users of public institutions' financial statements to provide the Board with constituent views about the various provisions of the PV. In addition, seven colleges and universities participated in a field test of the PV proposal. The Board considered all of the information received during the various steps of due process to help form the basis for the financial reporting provisions of an Exposure Draft issued in April 1997 (1997 ED).

19. The Board issued that ED after redeliberation of the issues raised in the due process to the PV. The guidance in the ED carried forward much of the content of the PV. During the due process phase for that ED, the Board received 143 written responses and held three public hearings at which twenty-one participants testified. The Board deliberated the issues raised by respondents and in 1999 decided to revise the 1997 ED and reexpose it for additional due process.

20. The 1999 revised ED proposed that a separate financial reporting model for public colleges and universities be discontinued and that Statement 34 be amended to include public institutions within its reporting guidance afforded for special-purpose governments.

21. The Board received eighty-four responses to the revised ED. As explained in Appendix B, "Basis for Conclusions," the comments and suggestions from all of these sources contributed to the Board's deliberations and helped form the basis for this Statement.

Appendix B

BASIS FOR CONCLUSIONS

Introduction

22. This appendix summarizes factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members gave greater weight to some factors than to others.

23. This Statement is part of an ongoing effort to improve the general purpose external financial reports issued by public colleges and universities (institutions). The Board has released guidance on related reporting issues and continues to have other reporting issues on its agenda. For example, in December 1998, the Board issued Statement 33, which establishes recognition criteria for nonexchange transactions. Also, the Board is reviewing current requirements for note disclosures.

24. This appendix addresses the *reasons* that underlie the financial reporting requirements of this Statement. It discusses why the Board believes that public institutions should be included under the provisions of Statement 34, and why the Board did not adopt the dual-perspective reporting model for public institutions as proposed in the 1997 ED. This appendix includes the reasons for the changes that have been made to the standards proposed in the 1997 ED and the 1999 revised ED.

Objective of This Statement

25. The objective of this Statement is to amend Statement 34 to include public colleges and universities in the financial reporting model established by that Statement. Because Statement 34 primarily addresses reporting requirements for general purpose governments, this appendix focuses on issues related to separately issued reports. The new reporting model is expected to provide more useful information to a wider range of users than did the previous model. The Board has found that few resource providers—especially citizens and legislators—or others with an interest in the financial activities of public colleges

and universities read the institutions' external financial reports. The reporting model created by the standards in Statement 34 is designed to provide more relevant and understandable financial information.

26. Since establishing its project on accounting and financial reporting by public colleges and universities, the Board considered whether public institutions should continue to have a separate financial reporting model or whether they should apply the reporting requirements contained in standards for other state and local governments. Generally, the requirements contained in Statement 34, as amended, will permit public colleges and universities to report as special-purpose governments engaged only in business-type activities (BTAs), engaged only in governmental activities, or engaged in both governmental and business-type activities.

27. This Statement supersedes Statement 15, which allowed 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. The Board believes that many two-year institutions that have taxing authority and some other public institutions operate in a manner similar to other governments or governmental departments or agencies. The Board concluded, therefore, that public institutions should have the ability to report using the guidance for special-purpose governments engaged only in governmental activities, in both governmental and business-type activities, or as BTAs.

Status of GASB Statement 20

28. The Board considered whether to reaffirm the standards in Statement 15 regarding the applicability of pronouncements issued by the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), and the Committee on Accounting Procedure of the AICPA prior to November 30, 1989 (the date of the Jurisdiction Resolution). The Board also considered whether an option to follow *all* FASB pronouncements issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements, should be provided to public colleges and universities. Because both of these options are provided for special-purpose governments that use BTA reporting in GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* paragraph 7, as amended, the Board decided that the option should be extended to public colleges and universities, as set forth in Statement 34.

1997 Exposure Draft

29. In contrast to Statement 34, the 1997 ED would have required public colleges and universities to report using a dual-perspective approach. This approach meant looking at a public institution's financial activities in two different ways. One way—the entity-wide perspective—focused on reporting information about an institution's operating results and financial position from an *economic* perspective. A different way of looking at an institution's activities—the fund group perspective—focused on reporting information that public institutions use to manage and account for their activities.

Essential Characteristics of Each Perspective

30. The entity-wide perspective was intended to report a public institution as an economic unit and to include all measurable assets and liabilities—financial and capital—of the institution. It also would have included all measurable changes in the institution's assets and liabilities that occurred during the reporting period, whether the related cash inflows or outflows occurred in the same period or a prior period or would occur in a future period. This perspective would have required use of the economic resources measurement focus and accrual basis of accounting for the institution as a whole and for all component units included in the institutional reporting entity under Statement 14.

31. Similar to the AICPA College Guide model, the fund group perspective was intended to provide information about the sources, uses, and balances of financial resources and certain capital assets by fund group and to help demonstrate compliance with the external restrictions and internal designations placed on the use of resources. In keeping with the measurement focus and basis of accounting (MFBA) used in the AICPA College Guide model, the 1997 ED would have required use of the total financial resources measurement focus and the accrual basis of accounting at the fund group perspective. This MFBA recognizes the effect of transactions on total financial resources by accruing all revenues and expenditures. Depreciation expense is not reported because it does not affect financial resources.

Alternatives Considered

Respondents' Reactions to the 1997 Exposure Draft

32. Most respondents to the 1997 ED did not support the Board's proposal for dual-perspective reporting. They generally asserted that presenting two perspectives that did not directly articulate might cause confusion among users of public college and university financial statements. Most respondents indicated a preference for the entity-wide perspective alone. They believed that fund group information could be presented as supplementary information if the institution felt it was necessary to provide the additional information.

33. Respondents that agreed with the dual-perspective approach indicated that both perspectives are necessary to meet the wide range of user needs that college and university financial reporting should address. Those respondents generally agreed that each perspective's MFBA was appropriate for that perspective.

Alternatives

34. During deliberations of the responses received to the 1997 ED, the Board explored several alternatives that led to its decision to discontinue consideration of a separate financial reporting model for colleges and universities and to include them under the reporting provisions of Statement 34. The alternatives to dual-perspective reporting that the Board examined included the principal alternatives that respondents proposed. The following paragraphs outline these alternatives and include the Board's reasons for accepting or rejecting them.

Adopt the entity-wide perspective as basic financial statements and report fund group information as required supplementary information

35. The 1997 ED contained one Board member's alternative view, which would have established entity-wide financial statements as the basic financial statements for public institutions with fund group information reported as required supplementary information (RSI). Most respondents, including those who submitted written responses, participated in user focus groups, or testified at public hearings on the 1997 ED, preferred limiting reporting requirements to the entity-wide perspective. However, most of these respondents indicated that, if

fund groups were required to be presented, they should be reported as RSI. In response to that input and the alternative view, the Board considered presenting the fund group financial information as RSI, rather than in the basic financial statements.

36. The Board reviewed the nature and purpose of fund group reporting for public colleges and universities compared with fund or fund-type reporting for other governments. After additional consideration of all the issues, the Board concluded that fund group reporting, though useful for some public college and university financial statement users, did not serve the same purposes as fund-based reporting for other governments and was not essential for most users' understanding of the financial position and results of operations of public colleges and universities. The historical development of the governmental fund structure and the use of the current financial resources and modified accrual MFBA have been influenced by the public budgetary process and the taxing power of general purpose governments. Primarily because of that relationship, this MFBA provides useful information to users of those governments' reports. However, the activities of most public colleges and universities are not affected in the same way by public budgets, and many public institutions do not directly levy taxes. The effect of most public college and university budgets differs from the effect of general purpose government budgets in that these public institutions do not adopt detailed annual budgets by fund. The cycle between budget adoption by fund and reporting the results of activities on a standardized basis generally does not exist in the public college and university environment. Therefore, there is diminished need for many public college and university financial statement users to understand these fund-based activities and assess the accountability for reporting resources raised and spent within a fund.

37. In addition, the lack of a clear budget-to-GAAP cycle over the years has resulted in public institutions that used the College Guide model moving from current financial resources measurements to the longer-term total financial resources measurements currently found in most fund groups. (The exception is the plant funds, which measure a combination of total financial and economic resources.) Therefore, unlike the fund-based information of other governments, fund group information for public institutions does not help users to understand how short-term results affect the long term. Moreover, short-term measurements such as amounts available for appropriation are not considered as vital to public college and university financial statement readers, further distancing

fund group information from the fund information found for governmental funds. Reexamination of these factors led the Board to conclude that fund groups were not essential to the fair presentation of a public institution's financial position or changes in financial position.

38. Unlike general purpose governments that continue to report individual funds and fund types, such reporting in general purpose external financial reports for public colleges and universities has greatly diminished. Past GASB studies have found that fund-based aggregations are not as informative to most users of public college and university financial statements. The Board explored individual fund reporting for all public institutions in the early stages of the Public College and University Financial Reporting Model project. It abandoned the effort primarily because, as noted earlier, over the years the use of individual funds for some institutions has been eliminated, and activities are tracked by fund group rather than by fund.

39. After considering the factors associated with reporting fund group information as RSI, the Board rejected the alternative. First, it believes the benefits that RSI reporting of fund group information provides to *some* users do not outweigh the burden placed on *all* financial statement preparers. Second, the need for the Board to maintain separate standards for fund group reporting, and the lack of a conceptual basis for continuing a different reporting standard for one type of government, provided sufficient reasons for not requiring fund group information.

Incorporate public colleges and universities in the reporting model for other governments

40. After considering the above factors, the Board explored incorporating the separately issued financial statements of public colleges and universities into the reporting model established for other governmental entities in Statement 34. This could have been accomplished in one of two ways. First, some respondents suggested that institutions should present their separately issued financial reports using the general purpose governmental fund structure, as certain institutions currently do under Statement 15. In these respondents' view, this approach would enhance comparability among all governments because similar activities would be reported in similar fund types. Moreover, financial information for public institutions that meet the requirements of Statement 14 for blending with their primary governments could be included in the appropriate funds of their primary governments, avoiding the need for a separate category

for higher education funds. Public institutions reporting under Statement 14 that are required to be discretely presented in their primary governments' financial reports would continue to be reported in that manner.

41. The Board rejected this approach because it believes that changes would be required in the fund structure and MFBA used by most public colleges and universities to report fund-based information that would not be cost beneficial.

42. The Board also believes that the environment in which most public colleges and universities operate has changed significantly since the current college financial reporting model was adopted. With the adoption by private institutions of FASB Statement 117, comparability between public and private colleges' and universities' financial reporting diminished. The Board believes that users have indicated a need for more comparable information for public and private institutions.

43. The second approach considered by the Board would permit public colleges and universities issuing separate reports to use the guidance provided for special-purpose governments either engaged in only business-type activities, engaged in only governmental activities, or engaged in both governmental and business-type activities. This approach was adopted by the Board. Proponents of this approach point out that similar entities, such as public hospitals, have reported in this manner for many years. These proponents believe that there is no compelling reason that special-purpose governmental reporting should not also be available to public colleges and universities in their separately issued financial statements.

44. With respect to reporting certain activities as BTAs, respondents point out that most public colleges and universities meet the principal criterion established in paragraph 67 of 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. Supporters of BTA reporting for public colleges and universities also point out that, 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 should be 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.

45. As provided in paragraph 123 of Statement 34, the Board encourages public institutions that use BTA reporting guidance to provide net program cost information about their multipurpose enterprise funds by including a statement of activities as supplementary information. The Board believes that for certain multipurpose entities, information can be provided by using formats that convey information about "cost of services," such as the net program cost format discussed in paragraphs 38 through 40 of Statement 34.

46. The Board considered limiting public college and university reporting to the BTA guidance; however, based on research, it concluded that for some 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 business-type activities because they operate similarly to other governments or governmental agencies. As previously stated, many two-year public institutions have taxing power 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 business-type activities. Those institutions could follow the reporting standards set forth in paragraph 135 of Statement 34, which provides the financial reporting guidance for special-purpose governments engaged in more than one governmental program or that have both governmental and business-type activities.

47. Rather than issuing separate standards for public colleges and universities, the Board has provided financial reporting guidance for public institutions by amending Statement 34 to incorporate them. As previously discussed, the Board decided not to require fund group reporting. In addition to the reasons already explained, the Board does not believe it is appropriate to require additional reporting requirements for only one type of government. The Board is concerned that requiring fund group reporting only for public colleges and universities would create a precedent for setting standards on an industry-by-industry basis.

1999 Revised Exposure Draft

48. The majority of respondents to the 1999 revised ED supported the Board's decision to discontinue a separate reporting model for public colleges and universities and to include public institutions within the financial reporting guidance of Statement 34.

49. As noted earlier, issues that respondents raised with their comments were deliberated by the Board and were considered in the development of this Statement.

Appropriations

50. When a public institution reports using the format of a special-purpose government engaged only in business-type activities, an operating/nonoperating format is required for the statement of revenues, expenses, and changes in net assets. In the nonauthoritative, illustrative financial statements, appropriations received from the public institution's primary government are reported as nonoperating revenues.

51. Most respondents to the revised ED disagreed that appropriations that are not specifically designated for a capital purpose should be presented as non-operating revenues. Rather, their comments indicated that they believed that these appropriations were intended to support the functional operations of the public institution and, therefore, should be displayed as operating revenues. They also noted that these appropriations allow for lower tuition and fees and they believe appropriations should be treated in the same manner.

52. Those respondents presented several arguments to support their position for displaying appropriations as operating revenues. The Board deliberated the technical arguments presented by these respondents. After careful consideration, the Board decided that a specific exclusion that would allow these transactions to be reported as operating revenue would conflict with the Board's goal of eliminating industry-specific guidance for transactions that also are prevalent in other industries. The Board believes that adequate guidance on defining operating revenues and expenses is provided in paragraph 102 of Statement 34 and by reference to paragraph 17 of Statement 9.

Segment Reporting

53. Public institutions that choose to report as special-purpose governments engaged only in business-type activities are required to report segment information following the guidance in paragraphs 122 and 123 of Statement 34.

54. Many respondents believed that the guidance contained in Statement 34 was unclear in its definition of a segment and could result in excessive disclosure for some public institutions that have multicampus locations. They indi-

cated that it is unclear whether the segment comprises the total activity that contained units that had revenue-backed bonded debt or whether the segment comprises only those units that actually had pledged revenues to secure bonded debt.

55. In response to this concern, the Board noted that paragraph 122 of Statement 34 requires note disclosure for any segment that has a specially identifiable revenue stream pledged to support revenue bonds and has expenses, gains and losses, assets, and liabilities that can be identified. For example, if a single residence hall has its revenue stream pledged in support of a revenue bond, and if the expenses, gains and losses, assets, and liabilities attributable to that residence hall can be identified, the single residence hall is considered the segment. However, if several residence halls are financed by a revenue bond and the revenue streams from the residence halls are pledged in support of that revenue bond, the aggregated residence halls are considered the segment if the expenses, gains and losses, assets, and liabilities can be identified.

Statement of Cash Flows

56. Statement 34 requires the direct method of presenting cash flows. A majority of respondents, while agreeing with presenting the statement of cash flows, requested that the Board allow the option of using either the direct or indirect method of presenting cash flows. They commented that their counterparts in private higher education were allowed this option and that requiring public institutions to use the direct method held these public institutions to a stricter standard than that of private institutions.

57. The Board reexamined the research conducted during the due process phases of both the state and local government and college and university projects and determined that sufficient evidence exists from users of public entity financial statements that the direct method of presenting cash flows provided more detailed and useful information to meet their needs. Based on this evidence, the Board decided to continue the requirement to provide cash flow information using the direct method.

Appendix C

APPLICABLE GUIDANCE OF GASB STATEMENT 34

58. The following paragraphs in Statement 34, issued in June 1999, provide guidance that may be applicable to most public colleges and universities in their application of this standard. This appendix refers to paragraphs in Statement 34's Standards and Basis for Conclusions (BFC). It is intended as a general guide and may not be all-inclusive for issues affecting public institutions. References to paragraphs in Statement 34 are applicable as of the issuance date of this Statement.

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Depreciation and the modified approach	20–26, 132, 133, 152, 153, 161–166	340–342
Net cost format	123	439, 462b
Effective date and transition	142–166	469–476

Appendix D

ILLUSTRATIONS

59. This appendix illustrates the display and disclosure requirements of this Statement. It is presented for illustrative purposes only and is non-authoritative. These sample financial statements are presented to help readers of this Statement understand its provisions. In some instances amounts that may be considered immaterial are used to illustrate specific requirements or alternatives. No inferences about determining materiality should be drawn from these illustrations. (The requirements for information classified as required supplementary information are provided in paragraphs 8 through 11 and 129 through 133 of Statement 34 and are illustrated in Appendix C of that Statement.)

CONTENTS

Public Institutions Engaged Only in Business-type Activities— Basic Financial Statements

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 Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2002

Operating expense 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	—
Bookstore (net of scholarship allowances of $166,279)	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	—
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 Cash Flows
For the Year Ended June 30, 2002

The direct method of reporting cash flows is required.

	Primary Institution	Component Unit Hospital
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 33,628,945	$ —
Research grants and contracts	13,884,747	—
Payments from insurance and patients	—	18,582,530
Medicaid and Medicare	—	31,640,524
Payments to suppliers	(28,175,500)	(13,084,643)
Payments to employees	(87,233,881)	(32,988,044)
Loans issued to students and employees	(384,628)	—
Collection of loans to students and employees	291,642	—
Auxiliary enterprise charges:		
Residence halls	26,327,644	—
Bookstore	8,463,939	—
Other receipts (payments)	1,415,502	(997,502)
Net cash provided (used) by operating activities	(31,781,590)	3,152,865
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	39,388,534	—
Gifts and grants received for other than capital purposes:		
Private gifts for endowment purposes	85,203	—
Net cash flows provided by noncapital financing activities	39,473,737	—
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	4,125,000	—
Capital appropriations	1,918,750	—
Capital grants and gifts received	640,813	711,619
Proceeds from sale of capital assets	22,335	5,066
Purchases of capital assets	(8,420,247)	(1,950,410)
Principal paid on capital debt and lease	(3,788,102)	(134,095)
Interest paid on capital debt and lease	(1,330,126)	(34,538)
Net cash used by capital and related financing activities	(6,831,577)	(1,402,358)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	16,741,252	2,843,124
Interest on investments	2,111,597	70,501
Purchase of investments	(17,680,113)	(4,546,278)
Net cash provided (used) by investing activities	1,172,736	(1,632,653)
Net increase in cash	2,033,306	117,854
Cash—beginning of year	2,562,112	878,340
Cash—end of year	$ 4,595,418	$ 996,194

ABC University
Statement of Cash Flows
For the Year Ended June 30, 2002
(continued)

	Primary Institution	Component Unit Hospital
Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:		
Operating income (loss)	$(39,625,460)	$ 23,921
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	6,847,377	2,976,212
Change in assets and liabilities:		
Receivables, net	1,295,704	330,414
Inventories	37,284	(160,922)
Deposit with bond trustee	67,115	—
Other assets	(136,229)	75,456
Accounts payable	(323,989)	(75,973)
Deferred revenue	217,630	—
Deposits held for others	(299,428)	—
Compensated absences	138,406	(16,243)
Net cash provided (used) by operating activities	$(31,781,590)	$3,152,865

Note: The required information about noncash investing, capital, and financing activities is not illustrated.

Notes to the Financial Statements

These sample note disclosures are presented only to illustrate the specific disclosure requirements of this Statement. Other disclosures such as the additional significant accounting policies that will result from implementing this Statement are not illustrated. NCGA Interpretation 6, as amended by Statement 34 and other pronouncements, provides the requirements for a complete set of notes. These sample notes are illustrative only and are not meant to imply that the specific terminology and formats presented are required. Notes to the financial statements should include the information provided below.

Note 1: Information about capital assets. This disclosure is required by paragraph 117 of Statement 34. It presents the beginning and ending balances and increases and decreases for the year for each major class of capital asset and the related accumulated depreciation. For public institutions that have significant nondepreciable capital assets, separate disclosure of depreciable and nondepreciable assets is required in notes to the financial statements, if this separation is not presented on the face of the financial statements. There are many different ways to present the required disclosures—only one method has been illustrated. For example, some public institutions may find it more informative to reverse the columns and rows in the disclosure; that is, present asset categories as column headings and explain the changes going down the page. More complete explanations could be provided using that approach.

Note 2: Information about long-term liabilities. This disclosure is required by paragraph 119 of Statement 34. It presents the beginning and ending balances and increases and decreases for the year for each major type of long-term liability. In addition, paragraph 119c requires disclosure of the portion of each item that is due within one year. Other presentation techniques may be used.

Note 3: Information about collections. For collections not capitalized, paragraph 118 of Statement 34 requires disclosures that provide a description of the collection and the reasons these assets are not capitalized. For collections that are capitalized, public institutions should make the disclosures required by paragraphs 116 and 117 of Statement 34.

Note 4: Information about donor-restricted endowments. Paragraph 121 of Statement 34 requires note disclosures about donor-restricted endowments, including the amounts of net appreciation on investments of donor-restricted endowments that are available for authorization for expenditure by the governing board, and how those amounts are reported in net assets; the state law regarding the ability to spend net appreciation; and the policy for authorizing and spending investment income, such as a spending-rate or total-return policy.

Note 5: Disclosure of segment information. Public institutions that report as special-purpose governments engaged only in business-type activities and have a segment are required by paragraph 122 of Statement 34 to provide condensed financial statements for those segments. A segment is an identifiable activity that has one or more revenue bonds or other revenue-backed debt instruments (such as certificates of participation) outstanding for which expenses, gains and losses, assets, and liabilities are identifiable.

Note 1—Illustrative Disclosure of Information about Capital Assets

Capital asset activity for the year ended June 30, 2002 was as follows:

	Primary Institution			
	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 13,308,014	$ —	$ —	$ 13,308,014
Infrastructure	6,050,831	319,969	100,423	6,270,377
Buildings	108,329,014	2,955,506	—	111,284,520
Furniture, fixtures, and equipment	47,908,549	2,787,103	2,449,486	48,246,166
Library materials	39,209,554	1,857,669	448,471	40,618,752
Capitalized collections	2,350,000	500,000	—	2,850,000
Total	217,155,962	8,420,247	2,998,380	222,577,829
Less accumulated depreciation:				
Infrastructure	1,742,352	90,200	100,423	1,732,129
Buildings	25,950,833	2,238,429	—	28,189,262
Furniture, fixtures, and equipment	17,299,215	2,501,483	2,449,486	17,351,212
Library materials	13,584,103	1,874,765	448,471	15,010,397
Capitalized collections	1,175,000	142,500	—	1,317,500
Total accumulated depreciation	59,751,503	6,847,377	2,998,380	63,600,500
Capital assets, net	$157,404,459	$1,572,870	$ —	$158,977,329

Note: Disclosures like those above for component units' balances and changes would be made in accordance with the guidelines set forth in paragraph 63 of Statement 14.

Note 2—Illustrative Disclosure of Information about Long-term Liabilities

Long-term liability activity for the year ended June 30, 2002 was as follows:

	Primary Institution				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases and bonds payable:					
Lease obligations	$ 3,005,108	$ 523,597	$ 770,908	$ 2,757,797	$ 650,390
General obligation bonds payable	18,518,268	1,519,740	1,147,100	18,890,908	2,705,217
Revenue bonds payable	9,732,058	2,605,260	1,870,094	10,467,224	324,378
Total leases and bonds payable	31,255,434	4,648,597	3,788,102	32,115,929	3,679,985
Other liabilities:					
Compensated absences	3,439,578	516,712	378,306	3,577,984	402,501
Total other liabilities	3,439,578	516,712	378,306	3,577,984	402,501
Total long-term liabilities	$34,695,012	$5,165,309	$4,166,408	$35,693,913	$4,082,486

Note: Amounts shown in "Ending balance" of long-term liabilities include both current and long-term portions.

Note: Disclosures like those above for component units' balances and changes would be made in accordance with the guidelines set forth in paragraph 63 of Statement 14.

This schedule need not duplicate the information required to be disclosed by Statement 27. However, if the reporting institution has an unpaid pension obligation, that liability should be added to the ending balance so that this schedule agrees with the statement of net assets if a single amount is reported as long-term liabilities.

Note 3—Illustrative Disclosure of Information about Collections

In addition to the Monet art collection which is capitalized and depreciated (Note 1), the university has other collections that it does not capitalize, including its Irish shamrock collection and its rare book collection. These collections adhere to the university's policy to (a) maintain them for public exhibition, education, or research; (b) protect, keep unencumbered, care for, and preserve them; and (c) require proceeds from their sale to be used to acquire other collection items. Generally accepted accounting principles permit collections maintained in this manner to be charged to operations at time of purchase rather than capitalized.

Note 4—Illustrative Disclosure of Information about Endowments

If a donor has not provided specific instructions, state law permits the Board of Regents to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the Board of Regents is required to consider the university's "long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions." Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

The Board of Regents chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the policy established by the Board, 5 percent of the average market value of endowment investments at the end of the previous three years has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending policy exceeds the investment income. At June 30, 2002, net appreciation of $9,964,479 is available to be spent, of which $5,402,603 is restricted to specific purposes.

Note 5—Segment Information

The following financial information represents identifiable activities for which one or more revenue bonds or other revenue-backed debt is outstanding. These activities provide dormitory space and bookstore access to students of the university.

	Residential Life Revenue Bonds of 1989	Bookstore Revenue Bonds of 1999
CONDENSED STATEMENT OF NET ASSETS		
Assets:		
Current assets	$ 3,201,921	$1,454,575
Capital assets	16,295,113	5,720,136
Total assets	19,497,034	7,174,711
Liabilities:		
Current liabilities	363,000	211,281
Long-term liabilities	7,935,444	2,487,178
Total liabilities	8,298,444	2,698,459
Net assets:		
Invested in capital assets, net of related debt	8,185,113	3,114,876
Restricted:		
Expendable:		
Capital projects	625,889	335,000
Debt service	343,864	147,483
Unrestricted	2,043,724	878,893
Total net assets	$11,198,590	$4,476,252
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	$28,079,274	$9,092,363
Operating expenses	27,027,330	8,647,298
Net operating income	1,051,944	445,065
Nonoperating revenues	79,310	38,144
Change in net assets	1,131,254	483,209
Net assets—beginning of year	10,067,336	3,993,043
Net assets—end of year	$11,198,590	$4,476,252
CONDENSED STATEMENT OF CASH FLOWS		
Net cash flows provided by operating activities	$ 2,132,227	$ 543,214
Net cash flows used by capital and related financing activities	(911,600)	(250,625)
Net cash flows used by investing activities	(1,155,764)	(233,849)
Net increase in cash	64,863	58,740
Cash—beginning of year	199,448	46,885
Cash—end of year	$ 264,311	$ 105,625

This note illustrates segments for which all operating revenues are pledged to revenue bonds. If all operating revenues were not pledged to meet revenue bonds, only those segments with pledged revenues for which expenses, gains and losses, assets, and liabilities can be identified would be reported.

Public Institutions Engaged in Both Governmental and Business-type Activities—Basic Financial Statements

ABC Community College
Statement of Net Assets
June 30, 2002

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	$ 5,117,496	$ 490,441	$ 5,607,937
Investments	19,889,916	3,150,000	23,039,916
Property taxes receivable	7,981,008	—	7,981,008
Tuition and fees receivable	758,521	—	758,521
Other receivables	635,039	63,468	698,507
Internal balances	167,692	(167,692)	—
Inventories	—	463,424	463,424
Prepaid items	137,120	—	137,120
Land	4,889,818	—	4,889,818
Capital assets, net of accumulated depreciation	62,975,781	868,750	63,844,531
Total assets	102,552,391	4,868,391	107,420,782
LIABILITIES			
Accounts payable	289,606	1,933	291,539
Accrued payroll	1,435,038	60,974	1,496,012
Deferred tuition and fees revenue	2,431,551	—	2,431,551
Other deferred revenue	102,868	—	102,868
Bonds payable:			
Due within one year	580,000	—	580,000
Due in more than one year	9,840,000	—	9,840,000
Total liabilities	14,679,063	62,907	14,741,970
NET ASSETS			
Invested in capital assets, net of related debt	57,445,599	868,750	58,314,349
Unrestricted	30,427,729	3,936,734	34,364,463
Total net assets	$ 87,873,328	$4,805,484	$ 92,678,812

Alternatively, the internal balances could be reported on separate lines as assets and liabilities. A notation would need to be added to inform the reader that the "Total" column is adjusted for those amounts.

ABC Community College
Statement of Activities
For the Year Ended June 30, 2002

Indirect expenses are presented in a separate column to enhance comparability (of direct expenses by function) between institutions that allocate indirect expenses and those that do not. Allocation of support activities is optional.

Functions/Programs	Expenses	Expense Allocation
Primary institution:		
Governmental activities:		
Instruction	$13,810,090	$ 6,325,073
Academic support	860,032	919,058
Student services	3,734,433	2,804,118
Public service	1,368,526	—
General administration	1,785,692	—
Operations and maintenance	3,522,463	(3,522,463)
Institutional support	4,541,687	—
Interest	870,320	(870,320)
Unallocated depreciation	5,655,466	(5,655,466)
Total governmental activities	36,148,709	0
Business-type activities:		
College bookstore	2,945,641	—
Food service	1,753,369	—
Industrial training	321,825	—
Total business-type activities	5,020,835	—
Total primary government	$41,169,544	$ 0

General revenues:
Property taxes
State appropriations
Interest
Miscellaneous
Transfers
Total general revenues and transfers
Change in net assets
Net assets—beginning
Net assets—ending

Program Revenues			Net Revenues (Expenses) and Changes in Net Assets		
Charges for Services					
Tuition and Fees	Sales, Services, and Other Revenues	Operating Gifts, Grants, and Contracts	Governmental Activities	Business-type Activities	Total
$12,812,745	$ —	$ 263,899	$ (7,058,519)	$ —	$ (7,058,519)
—	396,752	—	(1,382,338)	—	(1,382,338)
23,585	396,950	857,352	(5,260,664)	—	(5,260,664)
15,150	—	270,443	(1,082,933)	—	(1,082,933)
—	296,648	—	(1,489,044)	—	(1,489,044)
—	—	—	—	—	—
—	—	—	(4,541,687)	—	(4,541,687)
—	—	—	—	—	—
—	—	—	—	—	—
12,851,480	1,090,350	1,391,694	(20,815,185)	—	(20,815,185)
—	3,083,961	—	—	138,320	138,320
—	2,098,643	—	—	345,274	345,274
—	134,458	14,431	—	(172,936)	(172,936)
—	5,317,062	14,431	—	310,658	310,658
$12,851,480	$ 6,407,412	$1,406,125	(20,815,185)	310,658	(20,504,527)

A separate column for tuition and fees is not required.

15,362,534	—	15,362,534
10,959,604	—	10,959,604
545,360	179,391	724,751
—	147,282	147,282
370,000	(370,000)	—
27,237,498	(43,327)	27,194,171
6,422,313	267,331	6,689,644
81,451,015	4,538,153	85,989,168
$ 87,873,328	$ 4,805,484	$ 92,678,812

ABC Community College
Balance Sheet
Governmental Funds
June 30, 2002

	General Fund	Grants and Contracts Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	$ 1,491,423	$ —	$ 3,155,721	$ 4,647,144
Investments	9,349,916	—	9,790,000	19,139,916
Property taxes receivable	6,049,682	—	1,931,326	7,981,008
Tuition and fees receivable	758,521	—	—	758,521
Interest receivable	111,895	—	164,055	275,950
Intergovernmental receivable	138,995	201,897	—	340,892
Internal receivables	1,395,629	—	—	1,395,629
Prepaid items	137,120	—	—	137,120
Total assets	$19,433,181	$201,897	$15,041,102	$34,676,180
LIABILITIES				
Accounts payable	$ 81,332	$ 13,991	$ 136,386	$ 231,709
Accrued payroll	1,414,199	9,757	5,035	1,428,991
Internal payables	—	75,281	1,090,115	1,165,396
Deferred tuition and fees revenue	2,431,551	—	—	2,431,551
Other deferred revenue	—	102,868	—	102,868
Total liabilities	3,927,082	201,897	1,231,536	5,360,515
NET ASSETS				
Unreserved, reported in:				
General fund	15,506,099	—	—	15,506,099
Special revenue fund	—	—	4,765,773	4,765,773
Debt service fund	—	—	3,351,013	3,351,013
Capital projects fund	—	—	5,692,780	5,692,780
Total fund balance	15,506,099	—	13,809,566	29,315,665
Total liabilities and fund balance	$19,433,181	$201,897	$15,041,102	

Amounts reported for *governmental activities* in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	67,865,599
Internal service funds are used by management to charge the cost of certain activities to individual funds. The assets and liabilities of the internal service funds are included in the statement of net assets.	1,112,064
Bonds payable are not due and payable in the current period and therefore are not reported in the funds.	(10,420,000)
Net assets of governmental activities	$ 87,873,328

ABC Community College
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2002

	General Fund	Grants and Contracts Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Tuition and fees	$12,851,480	$ —	$ —	$12,851,480
Property taxes	11,761,887	—	3,600,647	15,362,534
State appropriations	7,999,822	1,743,130	1,216,652	10,959,604
Federal appropriations	—	1,127,795	—	1,127,795
Interest	237,224	—	289,939	527,163
Other revenues	411,211	16,643	926,395	1,354,249
Total revenues	33,261,624	2,887,568	6,033,633	42,182,825
EXPENDITURES				
Current:				
Instruction	12,683,945	1,571,117	—	14,255,062
Academic support	820,110	39,750	172	860,032
Student services	1,613,935	829,338	1,291,160	3,734,433
Public service	1,235,673	8,871	123,982	1,368,526
General administration	1,785,692	—	—	1,785,692
Operations and maintenance	3,380,016	—	142,447	3,522,463
Institutional support	3,387,430	82,519	1,220,062	4,690,011
Debt service:				
Principal	—	—	440,000	440,000
Interest	—	—	870,320	870,320
Capital outlay	1,697,874	355,973	1,293,114	3,346,961
Total expenditures	26,604,675	2,887,568	5,381,257	34,873,500
Excess of revenues over expenditures	6,656,949	—	652,376	7,309,325
OTHER FINANCING SOURCES (USES)				
Transfers in	370,000	—	1,000,000	1,370,000
Transfers out	(1,000,000)	—	—	(1,000,000)
Total other financing sources (uses)	(630,000)	—	1,000,000	370,000
Net change in fund balances	6,026,949	—	1,652,376	7,679,325
Fund balances—beginning	9,479,150	—	12,157,190	
Fund balances—ending	$15,506,099	$ 0	$13,809,566	

Amounts reported for *governmental activities* in the statement of activities are different because:	
Governmental activities report depreciation, whereas governmental funds do not.	(5,655,466)
Governmental funds report capital outlay as an expenditure, whereas governmental activities do not.	3,346,961
Governmental funds report debt principal repayment as an expenditure, whereas governmental activities do not.	440,000
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported with governmental activities.	611,493
Change in net assets of governmental activities	$ 6,422,313

ABC Community College
Statement of Net Assets
Proprietary Funds
June 30, 2002

	Business-type Activities—Enterprise Funds				Governmental Activities—Internal Service Funds
	College Bookstore	Food Service	Industrial Training	Totals	
ASSETS					
Current assets:					
Cash and cash equivalents	$ 158,832	$ 331,609	$ —	$ 490,441	$ 470,352
Investments	3,150,000	—	—	3,150,000	750,000
Interest receivable	63,468	—	—	63,468	18,197
Inventories	388,534	74,890	—	463,424	—
Total current assets	3,760,834	406,499	—	4,167,333	1,238,549
Noncurrent assets:					
Capital assets:					
Equipment	124,439	1,083,937	—	1,208,376	—
Less accumulated depreciation	(90,843)	(248,783)	—	(339,626)	—
Capital assets, net	33,596	835,154	—	868,750	—
Total noncurrent assets	33,596	835,154	—	868,750	—
Total assets	3,794,430	1,241,653	—	5,036,083	1,238,549
LIABILITIES					
Current liabilities:					
Accounts payable	—	822	1,111	1,933	57,897
Accrued payroll	22,544	26,081	12,349	60,974	6,047
Internal payables	—	—	167,692	167,692	62,541
Total liabilities	22,544	26,903	181,152	230,599	126,485
NET ASSETS					
Invested in capital assets, net of related debt	33,596	835,154	—	868,750	—
Unrestricted	3,738,290	379,596	(181,152)	3,936,734	1,112,064
Total net assets	$3,771,886	$1,214,750	$(181,152)	$4,805,484	$1,112,064

> Funds that do not meet the definition of a major fund are not required to be shown in a separate column. However, any other fund that is believed to be particularly important to financial statement users may be reported as a major fund.

ABC Community College
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2002

	Business-type Activities—Enterprise Funds				Governmental Activities—Internal Service Funds
	College Bookstore	Food Service	Industrial Training	Totals	
OPERATING REVENUES					
Charges for services	$3,083,961	$2,098,643	$ 134,458	$5,317,062	$4,090,216
Total operating revenues	3,083,961	2,098,643	134,458	5,317,062	4,090,216
OPERATING EXPENSES					
Salaries	239,118	797,747	162,616	1,199,481	78,699
Employee benefits	47,480	104,662	28,544	180,686	2,756,956
Contractual services	299,027	326,314	72,059	697,400	225,576
General material and supplies	2,346,368	387,634	55,840	2,789,842	435,689
Conference and meetings	1,204	43,905	2,766	47,875	—
Depreciation	12,444	93,107	—	105,551	—
Total operating expenses	2,945,641	1,753,369	321,825	5,020,835	3,496,920
Operating income (loss)	138,320	345,274	(187,367)	296,227	593,296
NONOPERATING REVENUES (EXPENSES)					
Interest income	179,391	—	—	179,391	18,197
Miscellaneous revenues	140,131	8,346	14,500	162,977	—
Miscellaneous expenses	—	(1,195)	(69)	(1,264)	—
Total nonoperating revenues (expenses)	319,522	7,151	14,431	341,104	18,197
Income before transfers	457,842	352,425	(172,936)	637,331	611,493
TRANSFERS OUT	(370,000)	—	—	(370,000)	—
Change in net assets	87,842	352,425	(172,936)	267,331	611,493
Total net assets—beginning	3,684,044	862,325	(8,216)	4,538,153	500,571
Total net assets—ending	$3,771,886	$1,214,750	$(181,152)	$4,805,484	$1,112,064

Funds that do not meet the definition of a major fund are not required to be shown in a separate column. However, any other fund that is believed to be particularly important to financial statement users may be reported as a major fund.

ABC Community College
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES
Receipts from customers
Payments to suppliers
Payments to employees
Other receipts
Net cash provided (used) by operating activities

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES
Cash repaid by other funds
Cash borrowed from other funds
Transfers to other funds
Net cash provided by noncapital financing activities

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES
Acquisition of fixed assets
Net cash used by capital and related financing activities

CASH FLOWS FROM INVESTING ACTIVITIES
Purchase of investments
Sale of investments
Interest on investments
Net cash used by investing activities
Net increase (decrease) in cash and cash equivalents
Balances—beginning of year
Balances—end of year

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:
Operating income (loss)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:
Depreciation expense
Other income
Other expenses
Change in assets and liabilities:
Inventories
Accounts payable
Accrued payroll
Net cash provided by operating activities

Business-type Activities—Enterprise Funds				Governmental Activities—
College Bookstore	Food Service	Industrial Training	Totals	Internal Service Funds
$ 3,083,961	$2,098,643	$ 134,458	$ 5,317,062	$ 4,090,216
(2,654,610)	(862,515)	(158,242)	(3,675,367)	(3,387,569)
(234,512)	(797,103)	(161,475)	(1,193,090)	(77,401)
140,131	7,151	14,431	161,713	—
334,970	446,176	(170,828)	610,318	625,246
483,431	191,159	—	674,590	—
—	—	167,692	167,692	62,541
(370,000)	—	—	(370,000)	—
113,431	191,159	167,692	472,282	62,541
—	(305,726)	—	(305,726)	—
—	(305,726)	—	(305,726)	—
(3,150,000)	—	—	(3,150,000)	(750,000)
2,650,000	—	—	2,650,000	—
199,226	—	—	199,226	—
(300,774)	—	—	(300,774)	(750,000)
147,627	331,609	(3,136)	476,100	(62,213)
11,205	—	3,136	14,341	532,565
$ 158,832	$ 331,609	$ 0	$ 490,441	$ 470,352
$ 138,320	$ 345,274	$(187,367)	$ 296,227	$ 593,296
12,444	93,107	—	105,551	—
140,131	8,346	14,500	162,977	—
—	(1,195)	(69)	(1,264)	—
39,482	—	—	39,482	—
(13)	—	967	954	30,652
4,606	644	1,141	6,391	1,298
$ 334,970	$ 446,176	$(170,828)	$ 610,318	$ 625,246

Note 1—Illustrative Disclosure of Information about Capital Assets

Capital asset activity for the year ended June 30, 2002 was as follows:

	Primary Institution			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Land	$ 4,889,818	$ —	$ —	$ 4,889,818
Buildings and leasehold improvements	90,165,045	8,326,058	833,942	97,657,161
Equipment	62,795,002	1,846,432	794,551	63,846,883
Total	157,849,865	10,172,490	1,628,493	166,393,862
Less accumulated depreciation for:				
Buildings and leasehold improvements	58,890,868	4,372,768	833,942	62,429,694
Equipment	33,981,929	2,911,191	794,551	36,098,569
Total accumulated depreciation	92,872,797	7,283,959	1,628,493	98,528,263
Governmental activities capital assets, net	$ 64,977,068	$ 2,888,531	$ —	$ 67,865,599
Business-type activities:				
Equipment	$ 902,650	$ 305,726	$ —	$ 1,208,376
Less accumulated depreciation	234,075	105,551	—	339,626
Business-type activities capital assets, net	$ 668,575	$ 200,175	$ —	$ 868,750

Note 2—Illustrative Disclosure of Information about Long-term Liabilities

	Primary Institution				
	Beginning Balance	Issuances	Retirements	Ending Balance	Current Portion
General obligation bonds	$10,860,000	$ —	$440,000	$10,420,000	$580,000
Total long-term liabilities	$10,860,000	$ —	$440,000	$10,420,000	$580,000

Appendix E

CODIFICATION INSTRUCTIONS

60. The sections that follow update the June 30, 1999, *Codification of Governmental Accounting and Financial Reporting Standards* for the effects of this Statement. Only the paragraph number of this Statement is listed if the paragraph will be cited in full in the Codification. Certain Codification sections, such as Section 1300, "Fund Accounting," and Section 2200, "Comprehensive Annual Financial Report," are superseded in large part or in their entirety by the provisions of Statement 34 and therefore do not require revision by this Statement.

* * *

FIXED ASSETS — SECTION 1400

Sources: [Revise as follows:] NCGA Statements 1 through 2
NCGA Statement 5
GASB Statement 6

.119 [Delete paragraph and related heading and footnotes.]

* * *

DEFINING THE FINANCIAL REPORTING ENTITY — SECTION 2100

Reporting the Primary Government

.118 [Delete last two sentences.] [GASBS 14, ¶19, as amended by GASBS 35, ¶5]

* * *

COMPREHENSIVE ANNUAL FINANCIAL REPORT — SECTION 2200

[Section 2200 will be revised in its entirety by Statement 34, which has effective dates that are the same as for this Statement. The Codification instructions for this section in Statement 34 should be revised as follows:]

.190–.191 [Delete paragraphs and related heading.]

* * *

CASH FLOWS STATEMENTS — SECTION 2450

[Portions of Section 2450 will be revised by Statement 34, which has effective dates that are the same as for this Statement. The Codification instructions for this section in Statement 34 should be revised as follows:]

Sources: [Add the following:] GASB Statement 35

.101 [Revise paragraph as follows:] This section establishes standards for reporting cash flows of proprietary funds and governmental entities engaged in business-type activities, including public benefit corporations and authorities, governmental utilities, governmental hospitals [and other healthcare providers], and public colleges and universities. Section 1300, "Fund Accounting," provides definitions of proprietary funds. Business-type activities are financed in whole or in part by fees charged to external users for goods or services. These activities are generally reported in enterprise funds. [GASBS 9, ¶1 and ¶5, as amended by GASBS 34, ¶106; GASBS 34, ¶15; GASBS 35, ¶5]

.102 [Revise paragraph as follows:] The provisions of this section are applicable to proprietary funds and governmental entities engaged in business-type activities, including public benefit corporations and authorities, governmental utilities, governmental hospitals [and other healthcare providers], and public colleges and universities. Trust funds (including pension trust funds) are exempt from the requirement to present a statement of cash flows. However, trust funds are not precluded from presenting a statement of cash flows if the information provided is considered useful. [GASBS 9, ¶5, as amended by GASBS 25, ¶14; GASBS 34, ¶106 and ¶138; GASBS 35, ¶5]

* * *

REPORTING ENTITY AND COMPONENT UNIT PRESENTATION AND DISCLOSURE — SECTION 2600

Reporting the Primary Government

.104 [Delete last two sentences.] [GASBS 14, ¶19, as amended by GASBS 35, ¶5]

* * *

CLAIMS AND JUDGMENTS — SECTION C50

Entities Other Than Pools—General Principles

.109 [Delete last sentence.]

.127 [Delete paragraph and related heading, renumbering remaining paragraphs.]

.134 [Delete paragraph and related heading and footnote, renumbering remaining paragraphs and footnotes.]

* * *

DEBT REFUNDINGS — SECTION D20

Sources: [Add the following:] GASBS 35

Scope of This Section

.101 [Replace last four sentences with the following:] The requirements of this section apply to all state and local governmental entities, including public benefit corporations and authorities and public utilities, hospitals and other healthcare providers, and colleges and universities. [GASBS 7, ¶1 and ¶7; GASBS 23, ¶3; GASBS 35, ¶5]

* * *

GRANTS AND OTHER FINANCIAL ASSISTANCE — SECTION G60

[Section G60 will be superseded in its entirety by Statement 33. It will be replaced by a new Section N50, "Nonexchange Transactions." Codification instructions for that new section, reproduced in Appendix A of the June 1999 Codification, should be revised as follows:]

NONEXCHANGE TRANSACTIONS — SECTION N50

.108 [Revise second sentence as follows:] (When the modified accrual basis of accounting is required, the requirements of this section for the recognition of *expenses* should be interpreted as requirements for the recognition of *expenditures*.) [GASBS 33, ¶11, as amended by GASBS 35, ¶5]

* * *

INVESTMENTS — SECTION I50

.112 [Revise paragraph by deleting next-to-last sentence.] [GASBS 31, ¶14, as amended by GASBS 35, ¶5]

* * *

LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS — SECTION L10

.111 [Delete paragraph and related heading and footnote, renumbering remaining paragraphs and footnotes.]

.115 [Delete the phrase *or paragraph .111 for MSWLFs reported using the AICPA College Guide model* at end of paragraph.] [GASBS 18, ¶16, as amended by GASBS 35, ¶5]

* * *

PENSION ACTIVITIES—EMPLOYER REPORTING **SECTION P20**

.115 [Delete paragraph and renumber remaining paragraphs.]

* * *

COLLEGES AND UNIVERSITIES **SECTION Co5**

[Revise entire section as follows:]

Sources: GASB Statement 34
GASB Statement 35

.101 This Codification is written from the perspective of general purpose governments—states, cities, counties, towns, and villages. However, many governments, including public colleges and universities, are special-purpose governments. Those governments are legally separate entities, as discussed in Section 2600, "Reporting Entity and Component Unit Presentation and Disclosure," and may be component units[1] or other stand-alone governments.[2] This section provides guidance on applying this Codification to public colleges and universities. [GASBS 34, ¶134; GASBS 35, ¶2 and ¶5]

.102 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. [GASBS 34, ¶15]

Reporting by Public Colleges and Universities Engaged in Governmental Activities

.103 Public colleges and universities (institutions) engaged in more than one governmental program or that have both governmental and business-type activities[3] should provide both fund financial statements and government-wide

[1][GASBS 34, fn59] [Change cross-reference.]

[2][GASBS 34, fn60] [Change cross-reference.]

[3][GASBS 34, fn61] [Change cross-reference.]

financial statements. For these institutions, all the requirements for basic financial statements and required supplementary information (RSI) in paragraphs .106 through .180 of Section 2200, "Comprehensive Annual Financial Report," apply. [GASBS 34, ¶135]

.104 For public colleges and universities engaged in a single governmental program, the fund financial statements and the government-wide statements may be combined using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements rather than at the bottom of the statements or in an accompanying schedule.[4] Or the public college or university may present separate government-wide and fund financial statements and may present its government-wide statement of activities using a different format. For example, the statement of activities may be presented in a single column that reports expenses first followed by revenues (by major sources). The difference between these amounts is net revenue (expense) and should be followed by contributions to permanent and term endowments, special and extraordinary items, transfers, and beginning and ending net assets. [GASBS 34, ¶136]

.105 For the purpose of applying the provisions of paragraph .104, a public institution should not be considered "single-program" if it budgets, manages, or accounts for its activities as multiple programs. [GASBS 34, ¶137]

Reporting by Public Colleges and Universities Engaged Only in Business-type Activities

.106 Public colleges and universities engaged only in business-type activities should present only the financial statements required for enterprise funds. (See Section P80, "Proprietary Fund Accounting and Financial Reporting.") For these public colleges and universities, basic financial statements and RSI consist of:

a. Management's discussion and analysis (MD&A) (paragraphs .106–.109 of Section 2200, as appropriate)
b. Enterprise fund financial statements (Section P80), consisting of:
   (1) Statement of net assets or balance sheet
   (2) Statement of revenues, expenses, and changes in net assets
   (3) Statement of cash flows

[4][GASBS 34, fn62] [Change cross-references.]

c. Notes to financial statements (Section 2300, "Notes to Financial Statements")
d. Required supplementary information other than MD&A, if applicable (Section 2200, paragraph .178).

[GASBS 34, ¶138]