

Governmental Accounting Standards Series

[Completely Superseded]

Statement No. 20 of the
Governmental Accounting
Standards Board

**Accounting and
Financial Reporting for
Proprietary Funds and
Other Governmental Entities
That Use Proprietary
Fund Accounting**



Governmental Accounting Standards Board
of the Financial Accounting Foundation

[Completely Superseded]

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Summary

This Statement provides interim guidance on business-type accounting and financial reporting for proprietary activities (that is, proprietary funds and governmental entities that use proprietary fund accounting), pending further GASB research that is expected to lead to the issuance of one or more pronouncements on the accounting and financial reporting model for proprietary activities.

Proprietary activities should apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, *unless* those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

In addition to applying FASB Statements and Interpretations, APB Opinions, and ARBs issued on or before November 30, 1989, a proprietary activity may also apply *all* FASB Statements and Interpretations issued after November 30, 1989, *except for* those that conflict with or contradict GASB pronouncements.

The same application of FASB pronouncements is encouraged to be used for all proprietary activities, including component units, in the general purpose financial statements of the financial reporting entity.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 1993. Early application is encouraged.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including public benefit corporations and authorities, public employee retirement systems, governmental utilities, governmental hospitals and other healthcare providers, and governmental colleges and universities. Paragraph 5 discusses the applicability of this Statement.
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Fund Accounting

September 1993



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

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Statement No. 20 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting

September 1993

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Statement No. 20 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting

September 1993

INTRODUCTION

1. National Council on Governmental Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles*, in paragraphs 18, 74, 117, 122, and 127, requires the use of business-type (“commercial”) accounting and financial reporting by proprietary activities—that is, proprietary (enterprise and internal service) funds and other governmental entities that use proprietary fund accounting. Paragraph 18, subparagraph (2), states:

. . . All assets, liabilities, equities, revenues, expenses, and transfers relating to the government’s business and quasi-business activities—where *net income and capital maintenance are measured*—are accounted for through proprietary funds. The generally accepted accounting principles here are those applicable to similar businesses in the private sector. . . .

In addition, GASB Statement No. 1, *Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide*, paragraph 3, provides:

Concerning the jurisdictional division between the GASB and the Financial Accounting Standards Board (FASB), the GASB structural agreement provides that the GASB will establish accounting and financial reporting standards for activities and transactions of state and local governmental entities and the FASB will establish such standards for activities and transactions of all other entities. . . .

2. In the absence of an applicable GASB pronouncement, business-type accounting and financial reporting for state and local governmental entities has generally been defined by pronouncements of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

[Completely Superseded]

3. Statement on Auditing Standards No. 69, *The Meaning of “Present Fairly in Conformity with Generally Accepted Accounting Principles” in the Independent Auditor’s Report* (SAS 69), issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA), modified the hierarchy of generally accepted accounting principles (GAAP) in accordance with the November 30, 1989, “Jurisdiction Determination of Board of Trustees of the Financial Accounting Foundation” (1989 Jurisdiction Determination). This has caused uncertainty among preparers and auditors about the applicability of FASB pronouncements to accounting and financial reporting for proprietary activities. Some believe that SAS 69 provides that accounting and financial reporting for proprietary activities is not subject to FASB pronouncements. Others believe that SAS 69 did not change the GAAP hierarchy for those activities.

4. This Statement provides *interim guidance* pending further GASB research that is expected to lead to the issuance of one or more pronouncements on the accounting and financial reporting model for proprietary activities.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

5. The requirements of this Statement apply to accounting and financial reporting for proprietary activities—that is, proprietary funds and other governmental entities that use proprietary fund accounting, including public benefit corporations and authorities, governmental utilities, and governmental hospitals and other healthcare providers.¹ This Statement amends paragraphs 18, 74, 117, 122, and 127 of NCGA Statement 1.

¹NCGA Statement 1, paragraph 18, subparagraph (3), states: “. . . Nonexpendable Trust Funds and Pension Trust Funds are accounted for in essentially the same manner as proprietary funds. . . .” Furthermore, some governmental colleges and universities that report their transactions and balances using the “Governmental model,” as described in GASB Statement No. 15, *Governmental College and University Accounting and Financial Reporting Models*, maintain proprietary funds.

[Completely Superseded]

Proprietary Activity Accounting and Financial Reporting

6. Proprietary activities should apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, *unless* those pronouncements conflict with or contradict GASB pronouncements: FASB Statements and Interpretations, APB Opinions, and ARBs.
7. In addition to applying the FASB Statements and Interpretations, APB Opinions, and ARBs required in paragraph 6, a proprietary activity may also apply *all* FASB Statements and Interpretations issued after November 30, 1989, *except for* those that conflict with or contradict GASB pronouncements.
8. The same application of FASB pronouncements is encouraged to be used for all proprietary activities, including component units, in the general purpose financial statements of the financial reporting entity.
9. FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, does not specifically exclude state and local governmental entities from its scope,² nor does it preclude its application to governmental entities.³ FASB Statement 71 and related pronouncements issued on or before November 30, 1989,⁴ may be applied to proprietary activities that meet the criteria of those pronouncements for reporting as regulated enterprises. Related FASB pronouncements issued after November 30, 1989, are subject to the provisions of paragraph 7.

²FASB Statement 71, footnote 3, states: “The appropriate structure for setting accounting standards for state and local governmental units is currently under discussion. The FASB is proposing no change with respect to the applicability or use of its pronouncements in the governmental area until that matter is resolved.” FASB Statement 71 was issued in December 1982, prior to the establishment of the GASB.

³In the Basis for Conclusions section of FASB Statement 71, paragraph 64 states: “A number of governmental utility respondents to the Exposure Draft asked that governmental utilities be included within the scope of this Statement. . . . In their view, the [FASB’s] decision not to address governmental utilities in this Statement should not preclude them from applying it. The [FASB] agreed with those respondents and modified paragraph 5(a) so as not to preclude application by governmental utilities with rates set by their own governing board.” (Paragraph 5a describes one of three criteria that an enterprise must meet to apply FASB Statement 71.)

⁴Related pronouncements include FASB Statements No. 90, *Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs*; No. 92, *Regulated Enterprises—Accounting for Phase-in Plans*; and No. 101, *Regulated Enterprises—Accounting for the Discontinuation of Application of FASB Statement No. 71*.

[Completely Superseded]

EFFECTIVE DATE AND TRANSITION

10. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 1993. Early application is encouraged. If comparative financial statements are presented, restatement of prior-year financial statements is required.

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

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

James F. Antonio, *Chairman*
Martin Ives, *Vice-Chairman*
Robert J. Freeman
Barbara A. Henderson
Edward M. Klasny

[Completely Superseded]

Appendix A

BACKGROUND INFORMATION

11. GASB Codification Section 1300, “Fund Accounting,” paragraph .102b,⁵ which is based on NCGA Statement 1, paragraph 18, provides that proprietary funds (enterprise funds and internal service funds) “are used to account for a government’s ongoing organizations and activities that are similar to those often found in the private sector. . . .” It further provides that “the generally accepted accounting principles here are those applicable to similar businesses in the private sector; and the measurement focus is on determination of *net income, financial position, and cash flows*. . . .”

12. Codification Section 1600, “Basis of Accounting,” paragraph .125, which is based in part on NCGA Statement 1, paragraph 74, adds that “revenues earned and expenses incurred are recognized in a government’s proprietary funds in essentially the same manner as in commercial accounting. However, where the GASB has issued pronouncements applicable to entities and activities recognized in a government’s proprietary funds, those entities and activities should be guided by the GASB pronouncements. Only minor adaptations are involved in applying the revenue realization and expense recognition principles in the government environment” (footnote references omitted). Business-type (commercial) accounting is generally defined by FASB pronouncements, APB Opinions, and ARBs.

13. SAS 69 established a new GAAP hierarchy in 1992. Under SAS 69, category (a) in the GAAP hierarchy “consists of GASB Statements and Interpretations, as well as AICPA and FASB pronouncements specifically made applicable to state and local governmental entities by GASB Statements or Interpretations.”⁶ FASB pronouncements not made applicable by the GASB are considered *other accounting literature* (below category (d) in the GAAP hierarchy) for state and local governmental entities. Prior to the issuance of SAS 69, pronouncements of the FASB were presumed to apply to state and local governmental entities if no applicable GASB pronouncements existed on a given subject.⁷

⁵GASB *Codification of Governmental Accounting and Financial Reporting Standards* (Norwalk, CT: GASB, 1993).

⁶SAS 69, paragraph 12(a).

⁷AICPA Statement on Auditing Standards No. 52, *Omnibus Statement on Auditing Standards—1987*, paragraph 1, as it amended AICPA *Professional Standards*, Vol. 1, AU Sec. 411.06.

[Completely Superseded]

History of the Project

14. In August 1992, the Board added a project to its technical agenda to provide guidance on accounting and financial reporting for proprietary activities. The GASB's Business-Type Activities Task Force provided input on the alternatives that the Board considered. The Board issued an Exposure Draft (ED), *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, in April 1993.

15. The Board received eighty-two written letters of comment on the ED. A slight majority of the respondents were not in support of the ED for various reasons. Although some respondents offered alternatives to the standards proposed in the ED, there was no clear consensus on what action the Board should take.

Appendix B

BASIS FOR CONCLUSIONS

Introduction

16. 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.

17. The Board has on its technical agenda a project to address proprietary (business-type) activities. The project includes reexamination of the definition of proprietary activities, including enterprise funds, and reexamination of the accounting and financial reporting model used for proprietary activities. A Discussion Memorandum, *Measurement Focus of Governmental Business-Type Activities or Entities*, was issued in September 1988. The Board expects to resume discussion on the project in 1994.

18. Because the GAAP hierarchy for state and local governmental units has changed and because that change has resulted in uncertainty over the accounting and financial reporting standards applicable to proprietary activities, the Board determined that it was necessary to provide interim guidance until the project on the accounting and financial reporting model for proprietary activities is completed.

19. Certain Board members are concerned about the growing divergence between standards that apply to governmental funds and those that apply to proprietary activities. For example, the FASB has issued several pronouncements related to its ongoing project on financial instruments: FASB Statements No. 105, *Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk*; No. 107, *Disclosures about Fair Value of Financial Instruments*; and No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. The first two Statements require additional disclosures about financial instruments; the third requires that certain securities be reported at market value. Currently, if a government has a proprietary fund, it is required to make FASB Statements 105 and 107 disclosures about financial instruments and, when FASB Statement 115 becomes effective, perhaps to change the reported value for financial instruments in

[Completely Superseded]

proprietary funds but not for similar financial instruments reported in any governmental fund. These Board members do not believe that it is beneficial to have new FASB pronouncements, such as FASB Statements 105, 107, and 115, apply to all proprietary activities unless the GASB has made those standards equally applicable to governmental funds.

20. The Board wants to minimize the possibility that evaluating new FASB pronouncements for applicability to governmental funds and proprietary activities may divert efforts and resources from the GASB's own agenda at a time when the Board is working on fundamental model issues. GASB Statements No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*; No. 12, *Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers*; and No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, are all the result of the GASB's review of FASB pronouncements for applicability to governmental entities. Similarly, the Board wants to avoid the practice of "negative" standards setting, which has resulted in the issuance of GASB Statements No. 4, *Applicability of FASB Statement No. 87, "Employers' Accounting for Pensions," to State and Local Governmental Employers*, and No. 8, *Applicability of FASB Statement No. 93, "Recognition of Depreciation by Not-for-Profit Organizations," to Certain State and Local Governmental Entities*. The Board does not intend to issue "negative" standards on the FASB Statements and Interpretations that are applied to proprietary activities using paragraph 7 of this Statement.

21. The GASB mission statement provides that the Board should "consider the applicability of its standards to the separately issued general purpose financial statements of governmentally owned special entities. The GASB specifically evaluates similarities of special entities and of their activities and transactions in both the public and private sectors, and the need, in certain instances, for comparability with the private sector."⁸ Several respondents commented that the provisions of the ED, which included two approaches to accounting and financial reporting for proprietary activities, were appropriate in light of the GASB mission statement. However, others believed that allowing two approaches compromises comparability between governments and between funds in a financial reporting entity. Nevertheless, there was no clear consensus among

⁸Excerpted from the "Guiding Principles" section of "The Mission of the Governmental Accounting Standards Board" (GASB mission statement).

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respondents on which approach proposed in the ED should be required exclusively; support for each approach was nearly equal. Although the Board would prefer to require only one approach at this time, it believes that its project on the accounting and financial reporting model for proprietary activities should be completed before a final decision is reached. In the interim, the Board believes that adoption of FASB pronouncements issued after November 30, 1989, as permitted under paragraph 7, provides an appropriate solution. It considers the needs of those who seek comparability with the private sector.

22. Some respondents were concerned that this guidance would become long-term or permanent. However, the Board considers this Statement temporary. Furthermore, until the project on the accounting and financial reporting model for proprietary activities is completed, the Board does not anticipate any fundamental changes in business-type accounting and financial reporting.

Cut-Off Date

23. The Board members agreed on the November 30, 1989, *issuance date* of pronouncements as a cut-off date for the provisions in paragraphs 6 and 7 for several reasons. This is the date of the 1989 Jurisdiction Determination, in which the Financial Accounting Foundation trustees reaffirmed the GASB's status as the standards setter for all state and local governmental entities. The 1989 Jurisdiction Determination prompted the issuance of SAS 69. This cut-off date is also consistent with paragraph 4a of GASB Statement No. 15, *Governmental College and University Accounting and Financial Reporting Models*.⁹

24. The 1989 Jurisdiction Determination states that "the hierarchy of generally accepted accounting principles in effect on November 30, 1989 shall continue in effect until such time as a new statement on auditing standards setting forth hierarchy becomes effective." For this reason, the Board members considered using a cut-off date of March 15, 1992, which is the effective date of SAS 69. However, because this Statement amends accounting and financial reporting guidance for proprietary activities only and does not

⁹GASB Statement 15, paragraph 4a, defines the AICPA College Guide model for governmental colleges and universities as the accounting and financial reporting guidance recognized by the AICPA College Guide, "as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989. . . ."

[Completely Superseded]

amend the GAAP hierarchy, the Board members believe that the use of the effective date of SAS 69 would not be as appropriate as the November 30, 1989, date.

Pronouncements Issued on or before the Cut-Off Date

25. FASB pronouncements issued on or before November 30, 1989, include those up to and including FASB Statement No. 102, *Statement of Cash Flows—Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale*, and FASB Interpretation No. 38, *Determining the Measurement Date for Stock Option, Purchase, and Award Plans Involving Junior Stock*. This Statement does not change the applicability of any FASB pronouncements issued on or before November 30, 1989. For example:

- a. FASB Statement No. 12, *Accounting for Certain Marketable Securities*, provides that it is not applicable to governmental entities.¹⁰ Therefore, FASB Statement 12 and related FASB Interpretations¹¹ are not applicable to proprietary activities. (However, FASB Statement 115, which supersedes FASB Statement 12, is applicable to proprietary activities applying paragraph 7, unless the GASB provides its own guidance, such as that provided for valuation of investments of public entity risk pools in GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*.)
- b. As discussed in paragraph 9, this Statement does not change the applicability of FASB Statement 71 and related pronouncements issued on or before November 30, 1989; they may be applied to proprietary activities that meet the criteria of those pronouncements for reporting as regulated enterprises. Related pronouncements issued after November 30, 1989, are subject to the provisions of paragraph 7.
- c. FASB Statement No. 87, *Employers' Accounting for Pensions*, is not applicable to proprietary activities because of GASB Statement 4, paragraph 10: "State and local governmental employers, including proprietary and similar trust funds, should not change their accounting and reporting of pension activities as a result of the issuance of FASB Statement 87" (footnote reference omitted).

¹⁰FASB Statement 12, paragraph 5, states: "This Statement does not apply to not-for-profit organizations. . . ." Footnote 2 to that paragraph further states: "For this purpose, not-for-profit organizations are those described in the third sentence of paragraph 5 of the Introduction to *ARB No. 43*." *ARB No. 43, Restatement and Revision of Accounting Research Bulletins*, "Introduction," defines not-for-profit organizations as "religious, charitable, scientific, educational, and similar non-profit institutions, municipalities, professional firms, and the like" (paragraph 5; emphasis added).

¹¹Related interpretations include FASB Interpretations No. 11, *Changes in Market Value after the Balance Sheet Date*; No. 12, *Accounting for Previously Established Allowance Accounts*; No. 13, *Consolidation of a Parent and Its Subsidiaries Having Different Balance Sheet Dates*; and No. 16, *Clarification of Definitions and Accounting for Marketable Equity Securities That Become Nonmarketable*.

[Completely Superseded]

- d. FASB Statement No. 95, *Statement of Cash Flows*, and related pronouncements (including FASB Statement 102) are not applicable to proprietary activities because those activities are required to follow the guidance in GASB Statement 9.
- e. FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, may be, but is not required to be, applied by proprietary activities because GASB Statement 12, paragraph 13, provides that “. . . until the GASB has completed its project on recognition and measurement of OPEB [other postemployment benefits], state and local governmental employers are not required to change their accounting and financial reporting of OPEB.” GASB Statement 12, paragraph 29, further explains that the Board anticipated that an FASB Statement on OPEB would be issued. That pronouncement is FASB Statement 106.
- f. FASB Technical Bulletin No. 85-3, *Accounting for Operating Leases with Scheduled Rent Increases*, is not applicable to proprietary activities because of the issuance of GASB Statement 13.

Pronouncements Issued after the Cut-Off Date

26. From time to time new FASB pronouncements are issued to amend or supersede existing pronouncements that were issued on or before November 30, 1989. Unless the GASB specifically adopts the FASB Statement or Interpretation that amends a pronouncement issued on or before November 30, 1989, the FASB pronouncement should be applied only by those proprietary activities that elect, under paragraph 7, to apply all FASB pronouncements issued after November 30, 1989.

27. FASB Statements and Interpretations issued after November 30, 1989, that conflict with or contradict GASB pronouncements should not be adopted by proprietary activities that elect to apply FASB pronouncements under paragraph 7.

28. The Board believes that a proprietary activity should apply none or all (unless they conflict with or contradict GASB pronouncements) of the FASB pronouncements issued after November 30, 1989. The Board intends neither to encourage nor to preclude governments from changing accounting and financial reporting methods for proprietary activities, as appropriate and in conformity with GAAP; rather, the Board wishes to prevent “picking and choosing” individual accounting standards. For example, paragraph 7 could not be applied to a proprietary activity to determine that FASB Statement 105 is required to be followed at the same time that paragraph 6 is applied to justify *not* following FASB Statement 107.

[Completely Superseded]

Individual Fund and Component Unit Accounting and Financial Reporting

29. Citing lack of comparability, several respondents disagreed with the provision in the ED that explicitly allowed a different approach to be applied to each individual fund and component unit of a financial reporting entity. That provision is consistent with GASB Statement No. 14, *The Financial Reporting Entity*, which provides flexibility in the reporting of component units (paragraphs 42 through 51). For example, GASB Statement 14 permits discretely presented component units with different measurement focuses and bases of accounting to be combined into a single column. Nevertheless, the Board encourages governments to apply either paragraph 6 or paragraph 7 to all proprietary activities, including component units, in the general purpose financial statements of the financial reporting entity to enhance comparability within the financial reporting entity.

Disclosures

30. The Board omitted from this Statement the disclosure requirements that had been proposed in the ED. The Board believes that existing guidance on disclosure is sufficient. NCGA Statement 1, in footnote 7 and in paragraph 144, requires that notes to the financial statements should include a summary of significant accounting policies, as defined by APB Opinion No. 22, *Disclosure of Accounting Policies*. Furthermore, with regard to component units, GASB Statement 14, paragraph 61, requires that disclosures “should include a discussion of the criteria for including the component units in the financial reporting entity and how the component units are reported. . . .”

Effective Date and Transition

31. The Board believes that making this Statement effective either on issuance or retroactively to November 30, 1989, would not give some constituents sufficient time to apply the provisions of the Statement. Accordingly, the Board has established a date that will allow time for constituents to make appropriate modifications to their financial reporting.

[Completely Superseded]

Status of Other Sources of Established Accounting Principles

32. The emphasis of this Statement is on the applicability of FASB Statements and Interpretations, APB Opinions, and ARBs to proprietary activities. The Board acknowledges, however, that there are other sources of accounting guidance that may be applicable to proprietary activities, including FASB Technical Bulletins, AICPA Statements of Position (SOPs), and AICPA Industry Audit and Accounting Guides. These other sources of accounting guidance are not specifically covered because GASB Statements address only category (a) guidance in the GAAP hierarchy.

33. The Board presumes that the logic of the provisions of this Statement will be applied to other sources of accounting guidance. For example, if a new AICPA pronouncement (SOP or Industry Audit and Accounting Guide) does not include governmental entities in its scope, then it is *other accounting literature* in the GAAP hierarchy for proprietary activities that apply paragraph 6 of this Statement. However, if that AICPA pronouncement does not include governmental entities in its scope but it has been cleared by the FASB, then it would be considered category (b) guidance for proprietary activities that apply paragraph 7. An AICPA SOP or Industry Audit and Accounting Guide that includes governmental entities in its scope is category (b) guidance for all applicable governmental entities, including proprietary activities, if the GASB has cleared it.

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Appendix C

CODIFICATION INSTRUCTIONS

34. The sections that follow update the June 30, 1993, *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.

* * *

FUND ACCOUNTING

SECTION 1300

.102 [Revise the third sentence of subparagraph b, as follows:] The generally accepted accounting principles here are generally those applicable to similar businesses in the private sector, as defined in Section P80, “Proprietary Activity Accounting and Financial Reporting”; the measurement focus is on determination of *net income, financial position, and cash flows*. [NCGAS 1, ¶18, as amended by GASBS 6, ¶13, GASBS 9, ¶6, and GASBS 20, ¶6 and ¶7; January 1984 GASB Structural Agreement]

* * *

BASIS OF ACCOUNTING

SECTION 1600

.125 [Revise the first sentence as follows:] Revenues earned and expenses incurred are recognized in a government’s proprietary funds in essentially the same manner as in commercial accounting, as defined in Section P80, “Proprietary Activity Accounting and Financial Reporting.” [NCGAS 1, ¶74, as amended by GASBS 20, ¶6 and ¶7; January 1984 GASB Structural Agreement]

* * *

THE BUDGET AND BUDGETARY ACCOUNTING

SECTION 1700

.128 [Revise the second sentence as follows:] Further, as noted in Section 1800, paragraph .122, the accounts and financial reports of proprietary funds should be maintained and prepared in essentially the same manner as those of similar business

[Completely Superseded]

enterprises, as defined in Section P80, “Proprietary Activity Accounting and Financial Reporting.” [NCGAS 1, ¶127, as amended by GASBS 20, ¶6 and ¶7]

* * *

CLASSIFICATION AND TERMINOLOGY

SECTION 1800

.122 [Revise the first sentence as follows:] Revenues and expenses of proprietary funds should be classified in essentially the same manner as similar business organizations, trusts, or activities, in accordance with the provisions in Section P80, “Proprietary Activity Accounting and Financial Reporting.” [NCGAS 1, ¶117, as amended by GASBS 20, ¶6 and ¶7; January 1984 GASB Structural Agreement]

.127 [Revise the first sentence as follows:] Use of the term “reserve” in proprietary fund accounting should parallel commercial accounting and reporting, as defined in Section P80. [NCGAS 1, ¶122, as amended by GASBS 20, ¶6 and ¶7; GASBS 10, ¶21]

* * *

COMPREHENSIVE ANNUAL FINANCIAL REPORT

SECTION 2200

.906 [Revise the first sentence of subparagraph a as follows:] Proprietary fund financial reporting generally parallels commercial financial reporting, as defined in Section P80, “Proprietary Activity Accounting and Financial Reporting.” [Delete the second sentence.] [NCGAS 1, Appendix A, Example 4, as amended by GASBS 14 and GASBS 20]

* * *

[Completely Superseded]

[Add a new section as follows:]

PROPRIETARY ACTIVITY ACCOUNTING AND FINANCIAL REPORTING

SECTION P80

Sources: NCGA Statement 1
GASB Statements 2 through 7
GASB Statements 9 through 10
GASB Statements 12 through 16
GASB Statement 18
GASB Statement 20
GASB Interpretation 1

Scope of This Section

.101 [GASBS 20, ¶5] [Change “Statement” to “section”; delete the final sentence.]

Introduction

.102 Proprietary funds are used to account for a government’s ongoing organizations and activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government’s business and quasi-business activities—where *net income and capital maintenance are measured*—are accounted for through proprietary funds. The generally accepted accounting principles here are generally those applicable to similar businesses in the private sector; the measurement focus is upon determination of *net income, financial position, and cash flows*. [NCGAS 1, ¶18, as amended by GASBS 9, ¶6]

.103 Revenues earned and expenses incurred are recognized and classified in a government’s proprietary funds in essentially the same manner as in business-type accounting and financial reporting. Only minor adaptations are involved in applying the revenue realization and expense recognition principles in the government environment. [NCGAS 1, ¶74 and ¶117]

[Completely Superseded]

Proprietary Activity Accounting and Financial Reporting

.104–.107 [GASBS 20, ¶6–¶9] [Change “Statement” to “section” and change paragraph references, as appropriate.]

.108 Unless otherwise specified, the requirements of these Codification sections, which are based on GASB pronouncements, apply to all state and local governmental proprietary activities:

- 2100, “Defining the Financial Reporting Entity”
- 2300, “Notes to the Financial Statements”
- 2450, “Cash Flows Statements”
- 2600, “Reporting Entity and Component Unit Presentation and Disclosure”
- C20, “Cash Deposits with Financial Institutions”
- C60, “Compensated Absences”
- D20, “Debt Extinguishments”
- D25, “Deferred Compensation Plans (IRC Section 457)”
- D30, “Demand Bonds”
- I50, “Investments, including Repurchase Agreements”
- J50, “Accounting for Participation in Joint Ventures and Jointly Governed Organizations”
- L10, “Landfill Closure and Postclosure Care Costs”
- L20, “Leases,” paragraphs .108–.111
- P20, “Pension Activities—Employer Reporting”
- P50, “Postemployment Benefits Other Than Pension Benefits”
- R10, “Reverse Repurchase Agreements”
- S40, “Special Assessments”
- Co5, “Colleges and Universities”
- Pe6, “Pension Funds—Disclosure”
- Po20, “Public Entity Risk Pools.” [GASBS 2–7, 9–10, 12–16, 18, and 20; GASBI 1]

* * *

[Completely Superseded]

COLLEGES AND UNIVERSITIES

SECTION Co5

Sources: [Add the following:] GASB Statement 20

.102 [Add the following to the list:]

P80, “Proprietary Activity Accounting and Financial Reporting”²

[GASBS 2-9, 12-16, 18, and 20; GASBI 1]

²[Insert new footnote 2, as follows, and renumber remaining footnotes:] Section P80 applies to the proprietary activities of governmental colleges and universities that report their transactions and balances within the Governmental model. However, Section P80 is not required to be applied to governmental colleges and universities that follow the AICPA Industry Audit Guide, *Audits of Colleges and Universities*. [GASBS 20, ¶5]

* * *

HOSPITALS AND OTHER HEALTHCARE PROVIDERS

SECTION Ho5

Sources: [Add the following:] GASB Statement 20

.101 [Revise the second sentence as follows:] The generally accepted accounting principles here are generally those applicable to similar businesses in the private sector, as defined in Section P80, “Proprietary Activity Accounting and Financial Reporting”; the measurement focus is on determination of *net income, financial position, and cash flows*. [NCGAS 1, ¶18, as amended by GASBS 9, ¶6 and GASBS 20, ¶6 and ¶7; January 1984 GASB Structural Agreement]

.103 [Add the following to the list:]

P80, “Proprietary Activity Accounting and Financial Reporting”

[GASBS 2–7, 9, 12–14, 16, 18, and 20; GASBI 1]

* * *

[Completely Superseded]

PUBLIC BENEFIT CORPORATIONS AND AUTHORITIES

SECTION Pu5

Sources: [Add the following:] GASB Statement 20

.101 [Revise the second sentence as follows:] The generally accepted accounting principles here are generally those applicable to similar businesses in the private sector, as defined in Section P80, “Proprietary Activity Accounting and Financial Reporting”; the measurement focus is on determination of *net income, financial position, and cash flows*. [NCGAS 1, ¶18, as amended by GASBS 9, ¶6 and GASBS 20, ¶6 and ¶7; January 1984 GASB Structural Agreement]

[Add the following to the list in footnote 1:]

P80, “Proprietary Activity Accounting and Financial Reporting”

[GASBS 2–10, 12–14, 16, 18, and 20; GASBI 1]

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UTILITIES

SECTION Ut5

Sources: [Add the following:] GASB Statement 20

.101 [Revise the second sentence as follows:] The generally accepted accounting principles here are generally those applicable to similar businesses in the private sector, as defined in Section P80, “Proprietary Activity Accounting and Financial Reporting”; the measurement focus is on determination of *net income, financial position, and cash flows*. [NCGAS 1, ¶18, as amended by GASBS 9, ¶6 and GASBS 20, ¶6 and ¶7; January 1984 GASB Structural Agreement]

.102 [Add the following to the list:]

P80, “Proprietary Activity Accounting and Financial Reporting”

[GASBS 2–7, 9, 12–14, 16, 18, and 20; GASBI 1]