MONTANA UNIVERSITY SYSTEM
Implementation Plan
For Complying With GASB Statements 34 & 35

Presented to the Montana Board of Regents
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Introduction

The Governmental Accounting Standards Board (GASB) issued Statement No. 34 in June 1999. According to GASB, when implemented, Statement No. 34 will "create new information and will restructure much of the information that governments have presented in the past. We developed these new requirements to make annual reports more comprehensive and easier to understand and use." GASB Statement No. 35, issued in November 1999, is an amendment of GASB Statement No. 34 that incorporates colleges and universities into the basic financial documents mandated by GASB Statement No. 34. GASB 35 has a significant impact on colleges and universities specifically, while GASB 34 affects governmental reporting entities in general.

MUS GASB Task Force

In October of 2000, a Task Force of representatives from all campuses of the Montana University System, and the Office of the Commissioner, was formed. **Appendix A** lists the members of our GASB Task Force. The objectives of our Task Force were to coordinate all efforts and decisions with the State, and all units of the MUS, to implement and/or adjust all Banner System attributes and reports, University policies and procedures, financial practices, and related operations, as necessary to:

1. fully implement our preparation for compliance with the GASB 35 reporting standards;
2. meet an effective implementation date of July 1, 2001;
3. create a new Financial Statement format that is GASB 35 compliant for FY02;
4. prepare a Single Consolidated Financial Statement for each University, with Appendices of supporting documents for each individual campus and its affiliated agencies, for FY02; and,
5. develop an automated, or system-facilitated, report that utilizes Banner attributes and capabilities as much as possible, and which serves as the basis for the new financial statements.

In addition to the appointed members from the MUS, representatives from the State Accounting Bureau and from the Legislative Audit Division have also attended Task Force meetings and have been engaged in detailed discussions dealing with changes needed in both the Banner and SABHRS systems, as well as in making decisions regarding presentation and coordination with the State's Comprehensive Annual Financial Report (CAFR) process.

Implementation Date

The Montana University System must implement its compliance with GASB 35 when the State of Montana is required to do so, which is **in fiscal year 2002**. Even if the MUS was not a component unit of a primary government, based on total annual revenues, our universities would be required to implement this standard by FY2002.

Implementation Plan

The purpose of this document is to provide an on-going record of the interpretations, decisions, and commitments of the MUS GASB Task Force, which constitute our plan for achieving compliance with these new standards. **This is intended to be a dynamic document**. The MUS Controllers Committee will utilize this document in the coming years as their guide, and revise it as necessary, to reflect changes and enhancements to our compliance plan.

Reporting Format Requirements

Under the standards of GASB Statements 34 and 35, special purpose governments were given an option for a reporting model. The Montana University System has chosen to report as a **Business Type Activity** (BTA) for the purposes of these standards. Business type activities are financed in whole or part by fees charged to external parties for goods or services. BTA financial statements are prepared on an institutional-wide basis using an economic resources measurement focus and the full accrual basis of accounting. We believe this category best fits the Montana University System. The MUS has submitted a letter to the State Accounting Bureau stating its intent to file as a BTA (see **Appendix B**).

The reporting format requirements for institutions reporting as BTA's are as follows:

1. Management's Discussion and Analysis (MD&A);
2. Statement of Net Assets;
3. Statement of Revenue, Expenses, and Changes in Net Assets;
4. Statement of Cash Flows; and,
5. Notes to the Financial Statements.

These elements of the Financial Statement will be addressed in subsequent sections of this Plan.

Management's Discussion and Analysis (MD&A)

Overview

The first major requirement of GASB Statements 34 and 35 is the Management's Discussion and Analysis (MD&A). Under these new standards, the MD&A is a required component of our financial reporting. The purpose of the MD&A is to present a discussion, *in laymen's terms*, of current year results in comparison with the prior year. This is defined as required supplemental information, and has very specific procedures and expectations attached to it as part of the financial statement.

In GASB 34, it was stated that the MD&A should include, *at a minimum*, a discussion of the topics listed in the standard. This created an inference that the MD&A could discuss other related topics not specifically listed in the standard. For that reason, the MUS Task Force explored other related topics that could be included in the MD&A, to provide readers (such as the Regents) further information about the finances of the campuses. Although this interpretation of GASB 34 was widely held throughout higher education, it was not the intent of the Government Accounting Standards Board. To correct this interpretation, GASB 37 was just issued. In this standard, GASB clearly states that the MD&A should only address the specific topics listed in GASB 34. The concern of the GASB Board was that the lack of specificity could have resulted in the inclusion of information that was not objective, or did not lend itself to analysis consistent with GASB standards.

Specific MD&A Requirements

1. The MD&A should provide an objective and easily readable analysis of the university's financial activities based on currently known facts, decisions, or conditions. The MD&A provides the university with an opportunity to present both a short- and a long-term analysis of its activities.

2. The MD&A should discuss the current-year results in comparison with the prior year, with emphasis on the current year. This fact-based analysis should discuss the positive and negative aspects of the comparison with the prior year. The use of charts, graphs, and tables is encouraged to enhance the understandability of the information.

In the near future, the Commissioner's staff will likely convene a meeting of MUS CFOs to establish a certain standard set of expectations regarding the use of charts, graphs and tables.

3. MD&A requirements established by this Statement are designed to encourage financial managers to effectively report only the most relevant information and avoid "boilerplate" discussion. Specifically, the MD&A should include:

4. A brief discussion of the basic financial statements, including the relationships of the statements to each other, and the significant differences in the information they provide.

5. Condensed financial information derived from the financial statements comparing the current year to the prior year. At a minimum, the universities should present the information needed to support their analysis of financial position and results of operations required in c, below, including these elements:

    a) Total assets, distinguishing between capital and other assets
    b) Total liabilities, distinguishing between long-term liabilities and other liabilities
    c) Total net assets, distinguishing among amounts invested in capital assets, net of related debt; restricted amounts; and unrestricted amounts
    d) Program revenues, by major source
    e) General revenues, by major source
    f) Total revenues
    g) Program expenses, at a minimum by function
    h) Total expenses

6. Excess (deficiency) before contributions to term and permanent endowments or permanent fund principal, special and extraordinary items, and transfers.

    a) Contributions
    b) Special and extraordinary items
    c) Transfers
    d) Change in net assets
    e) Ending net assets

7. An analysis of the university's overall financial position and results of operations to assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations. The analysis should include reasons for significant changes from the prior year, not simply the amounts or percentages of change. In addition, important economic factors that significantly affected operating results for the year should be discussed.

8. An analysis of balances and transactions, which should address the reasons for significant changes in fund balances or fund net assets and whether restrictions, commitments, or other limitations significantly affect the availability of fund resources for future use.

9. An analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund (or its equivalent). The analysis should include any currently known reasons for those variations that are expected to have a significant effect on future services or liquidity.

10. A description of significant capital asset and long-term debt activity during the year, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services.

11. A description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net assets) or results of operations (revenues, expenses, and other changes in net assets).

<u>Supplementary Information</u>

GASB suggests that those who wish to include information that may be more subjective should do so as supplementary information. Many universities do prepare supplementary schedules, which accompany the basic financial statements, for the purpose of providing readers (such as the Regents) with additional analytical information, often defined as "strategic indicators."

Given that the two MUS universities will be preparing single, consolidated financial statements in the future, the MUS GASB Task Force believes that a certain amount of individual campus data should be presented with the basic financial statements, as supplementary schedules. The types of individual campus information that could be provided, would be as follows:

- revenue, by major source
- expense, by function (Program)
- Current fund excess/deficit
- Number of applicants, percent of admits, and enrollment
- Student faculty ratio
- Percent of employees who are faculty
- Distribution of tenure status in faculty
- Financial Aid statistics

The MUS GASB Task Force believes that the Commissioner and the Regents should be solicited for their input before a standard set of supplementary schedules is finalized.

Reporting and Chart of Accounts

Goals and Objectives

The Reporting and Chart of Accounts Subcommittee was formed from the Task Force membership with the following goals and objectives.

- Ensure financial statement reporting formats are compliant with GASB Statements 34/35 and implemented July 1, 2001.
- Review Banner system and chart of accounts to produce automated or system-facilitated reports as the basis for new financial statements.
- Develop adhoc queries as needed to produce the financial statements and reports.
- Ensure uniform presentation for MUS financial statements and footnote disclosures that are compliant with CAFR requirements.
- Review segment reporting requirements.
- Review summer session reporting requirements.

Background

The Montana University System (MUS) financial statements and footnote disclosures are currently prepared according to the American Institute of Certified Public Accountants' (AICPA) College Guide Model and are included as a component unit in the State of Montana Comprehensive Annual Financial Report (CAFR). Currently, the financial statements are prepared on the accrual basis of accounting, but do not provide for depreciation of plant facilities and equipment. The current financial statements include a Balance Sheet; Statement of Changes in Fund Balances; Statement of Current Funds Revenue, Expenditures and Other Changes; and the Notes to the Financial Statements.

The Governmental Accounting Standards Board (GASB) established new financial reporting requirements for state and local governments with the issuance of GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. GASB Statement 35, *Basic Financial Statements –and Management Discussion and Analysis – for Public Colleges and Universities* amended GASB Statement 34 to include public colleges and universities as special purpose governments.

Accrual based accounting recognizes revenues when they are earned and become measurable and recognizes expenditures in the period incurred, if measurable. This method is similar to that used in the private sector. However, prior to GASB Statements 34/35, no provision was made for depreciation of plant facilities and equipment in accordance with GASB Statement 8, which was superceded by GASB Statements 34/35. Capitalization of assets and depreciation methodologies are addressed in the MUS Capital Assets Subcommittee's section of this report.

The significant changes for MUS financial reporting will include preparation of a Management Discussion & Analysis (MD&A), the preparation of a cash flow statement, the recognition of infrastructure assets, the recording of depreciation expense and accumulated depreciation, recording operating revenues net of scholarship discounts and allowances, and recording state appropriations as nonoperating revenue. The basic financial statements will be presented as one total column, instead of the current multiple fund type reporting columns. Fund balances will be referred to as net assets.

Basic Financial Statements

For institutions reporting as a BTA, GASB Statements 34/35 require three basic financial statements:

New Name	Old Name
Statement of Net Assets	Balance Sheet
Statement of Revenues, Expenses and Changes in Net Assets	Statement of Current Funds Revenues, Expenditures and Other Changes and Statement of Changes in Fund Balances
Statement of Cash Flows	Not a required presentation

Statement of Net Assets

The statement of net assets is designed to display the financial position of the reporting institution and replaces the Balance Sheet. GASB Statements 34/35 allow two different methods of presentation:

Statement Type	Accounting Equation
Old Method – Balance Sheet Format	Assets = Liabilities + Net Assets
New Method – Net Assets Format	Assets – Liabilities = Net Assets

In consultation and coordination with the State Accounting Bureau (see **Appendix C**), the MUS has opted to continue with the traditional Balance Sheet method of Assets = Liabilities + Net Assets (formerly Fund Balances).

The Statement of Net Assets will present assets and liabilities in a classified format to distinguish between current and long-term assets and liabilities. The current portion is defined as that portion which is readily liquidated and has a life cycle of one year or less.

In order to minimize the "grossing up" effect on assets and liabilities, interfund receivables, interfund payables, and internal due to's and due from's will be eliminated when preparing the Statement of Net Assets.

Net assets will be displayed in three broad components:

1. Invested in Capital Assets, Net of Related Debt.

   This component consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of these assets. Capital assets include land, land improvements, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure and all other tangible or intangible assets used in operations with initial lives extending beyond a single reporting period. Capital assets must be recorded at historical cost and, unless they are inexhaustible, must be depreciated over their estimated useful lives.

   If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds should not be included in this calculation. Rather, that portion of the debt should be included in the same net assets component as the unspent proceeds.

   The calculation will be as follows:

Cost of Capital Assets	$x,xxx,xxx
Less: Accumulated Depreciation	xxx,xxx
Less: Outstanding Related Debt	xxx,xxx
Invested in Capital Assets, Net of Related Debt	$x,xxx,xxx

2. Restricted Net Assets.

   Restricted net assets have constraints imposed externally by creditors, grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation. Decisions by management to apply certain funds to a specific purpose do not constitute restriction of those funds under GASB Statements 34/35 reporting requirements. Examples of restricted net assets would be grants or donations given with specific restrictions or purpose for the expenditure of the funds.

   This category includes permanent endowments that should be displayed in two additional components—expendable and nonexpendable. Nonexpendable net assets are those where the principal (corpus) is required to be retained in perpetuity.

   Restricted net assets will be distinguished by major categories of restrictions. Common groupings of major restrictions may include:

   Scholarships and fellowships
   Research
   Instructional department uses
   Loans
   Capital projects
   Debt Service

3. Unrestricted Net Assets.

   This component is a residual category for net assets that do not meet the definition of restricted or invested in capital assets, net of related debt. Internal restrictions made by management or governing boards are not considered restricted, but may be reported in a footnote.

   Please refer to **Appendix D** for an illustrative example of the traditional Balance Sheet restated as the new Statement of Net Assets. This example was provided by NACUBO at the GASB Statement 35 Reporting Model Implementation workshops.

Statement of Revenues, Expenses and Changes in Net Assets (SRECNA)

The SRECNA is the operating statement for institutions reporting as a Business Type Activity. This statement replaces the Statement of Changes in Fund Balance and the Statement of Current Funds Revenues, Expenditures and Other Changes.

Revenues are reported by major source (e.g. student tuition and fees, grants and contracts, auxiliary enterprises) net of discounts and allowances. Revenues used as security for revenue bonds are separately identified. The requirement to report revenues net of discounts and allowances is a significant change in the reporting of student tuition and fees and financial aid. Instead of reporting the tuition and fees as revenue and the financial aid as expenditure as was done under the AICPA model, financial aid will now be netted against revenue and reflected as a discount rather than an expense. The MUS will follow the alternate method for calculating scholarship discounts and allowances as described in NACUBO Advisory Report 2000-05. This issue is addressed in the MUS Student Tuition Discounts and Allowances Subcommittee's section of this report.

GASB Statement 34 requires that all revenues and expenses must be distinguished as operating or nonoperating. The SRECNA will have separate subtotals for operating revenues and operating expenses, resulting in operating income. Nonoperating revenues and expenses are reported after operating income. Revenues from capital contributions and additions to the principal of permanent and term endowments, special and extraordinary items, and transfers are reported separately, after nonoperating revenues and expenses.

Revenue recognition of capital contributions and additions to permanent and term endowments and all other nonexchange revenues are based on the requirements of GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Institutions are required to establish a policy that defines operating revenues and expenses appropriate to the nature of the activity being recorded that is used consistently and disclosed in the footnotes.

Guidance is provided in GASB Statement 9 to aid in determining whether revenues and expenses are operating or nonoperating. The same classification will generally be used in the Cash Flow Statement. State appropriations are classified as nonoperating revenues, which is a major change for public colleges and universities. To aid in presentation, an additional subtotal of operating income/loss and state appropriations can be shown.

GASB Statement 34 permits the option of displaying operating expenses using either natural (e.g. salaries, benefits, utilities, supplies) or functional (e.g. instruction, research, public service) categories. The MUS has chosen to use the functional category. This option has been approved by the State Accounting Bureau (see **Appendix C**). A matrix showing the correlation of natural and functional classification in the footnotes is encouraged by NACUBO in Advisory 2000-08.

Depreciation expense may be allocated to various functional program classifications, included as part of operations and maintenance of plant, or identified as a separate program classification. The MUS has chosen to display depreciation as a separate program classification.

Please refer to **Appendix E** for an illustrative example of the current Statement of Revenues, Expenditures, and Other Changes in Fund Balance format restated as the new Statement of Revenues, Expenses, and Changes in Net Assets. This example was provided by NACUBO at the GASB Statement 35 Reporting Model Implementation workshops.

Statement of Cash Flows

I. Overview

Under the AICPA college guide model, the Statement of Cash Flows is not a required basic financial statement for public colleges and universities. Consequently, this statement has not previously been a part of the basic financial statements presented by MUS reporting entities. GASB Statement 35 amends GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, to include public colleges and universities.

The purpose of the Statement of Cash Flows is to provide information about the cash receipts and cash payments of the reporting entity during a period. When used with other information presented in the financial statements, cash flow information should help financial report users:

1. Identify the institution's ability to meet obligations.
2. Determine if the institution needs external financing.
3. Assess the entity's ability to generate future cash flows.
4. Assess the effect on the entity's financial position of both its cash and noncash investing activities, capital, and financing activities during the period.

There are four required classifications in the Statement of Cash Flows:

1. Operating Activities
2. Noncapital Financing Activities
3. Capital and Related Financing Activities
4. Investing Activities

GASB Statement 9 indicates that information about gross amounts of cash receipts and cash payments is generally more relevant than information about the net amounts of cash receipts and disbursements. Netting is only permitted in the following cases:

1. Where turnover is quick, amounts are large, and maturities are short. Examples include loans receivable, debt, or transactions where the original maturity of the asset or liability is three months or less.

2. Where cash flows relate to highly liquid investments and if:
   - During the period, substantially all of the institution's assets were highly liquid, or
   - The institution had little or no debt, based on the debt outstanding during the period, in relation to total net assets.

Cash as defined in GASB Statement 9 includes cash equivalents. Cash equivalents are defined as short term highly liquid investments that are both readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

Please refer to **Appendix F** for an illustrative example of a Statement of Cash Flows provided by NACUBO at the GASB Statement 35 Reporting Model Implementation workshops.

II. Statement Preparation

The Statement of Cash Flows is a new financial statement for the MUS. Initial preparation of the Statement of Cash Flows may be time consuming, especially for the first year or two the statements are prepared. Changes made to the MUS chart of accounts for purposes of preparing the other basic financial statements under GASB Statement 35 will help facilitate preparation of the Statement of Cash Flows. It appears that no major accounting system modifications will be required to generate this statement. However, query tools and a standardized spreadsheet format still need to be developed to ensure compliance to the reporting requirements and consistency in statement presentation. Query tools will be used primarily to analyze specific accounts for purposes of grossing up certain cash flow activities.

III. Review of Required Statement Classifications

Operating Activities

GASB Statement 34 prescribes the **direct method** of presenting cash flows from **operating activities** for public institutions reporting as business-type activities. To prepare this section of the statement, accrual data must be converted into a cash basis. A reconciliation of this conversion using the indirect method must be presented at the bottom of the statement. The calculations using the indirect method are largely performed by analyzing changes in balance sheet accounts.

GASB Statement 9 defines operating activities as those that "result from producing and delivering goods and services". The direct method reports cash inflows and outflows by the major classes of activities.

The following are examples of activities that are considered operating inflows and outflows:

OPERATING ACTIVITIES	
INFLOWS	**OUTFLOWS**

o Sales of goods and services
o Receipts for services presented in component units:
    Tuition and fees
    Auxiliary revenues
    Stores operations
o Certain federal appropriations – only if contract for service
o Certain grants and contracts – only if contract for services
o Perkins and faculty, student and staff loan payments
o Unrestricted gift receipts that do not finance capital projects
o Other operating cash inflows
	o Payments to Employees
	o Payments of Employee Benefits
	o Payments to Vendors and Suppliers **–** includes utilities, contractors, books, food, operating leases
	o Cash payments to acquire materials for providing services
	o Program loans and advances to students
	o Cash payments for grants to other governments (subcontracts)
	o Non-capital grants and contracts
	o Cash payments for taxes, duties, fines, and other fees or penalties
	o Other operating cash outflows

Non-Capital Financing Activities

Non-capital financing activities includes borrowing money for purposes other than to acquire, construct or improve capital assets and repaying those amounts including interest. By far the most controversial portion of the Statement of Cash Flows is the placement of the State operating appropriations in this section of the statement. State appropriations for operating activities are seen as being the equivalent of grants or subsidies to finance operating deficits.

In addition to activities mentioned above, the following are examples of non-capital financing activities inflows and outflows:

NON-CAPTIAL FINANCING ACTIVITIES	
INFLOWS	**OUTFLOWS**
o Certain other intergovernmental receipts and payments, such as: o Cash receipts from grants or subsidies except (1) those specifically restricted for capital purposes and (2) those for specific activities of the grantor government o Grants and contracts – non-operating o Gifts o Endowment o State appropriation o Institutional foundation o Alumni or other booster organizations o Unrestricted gifts – non-capital	o Repayments of amounts borrowed for purposes other than acquiring, constructing or improving capital assets o Interest payments to lenders on amounts borrowed for purposes other than acquiring, constructing, or improving capital assets o Cash paid as grants or subsidies to other organizations o Grant and contract (subcontracts or pass through) o Annuity Payments o Life income payments o Agency transactions

Capital and Related Financing Activities

As defined in GASB Statement 9, capital and related financing activities include (a) acquiring and disposing of assets used in providing services or producing goods; (b) borrowing money for acquiring, constructing, or improving capital assets and repaying or improvi ng capital assets and repaying the amounts borrowed, including interest; and (c) paying for capital assets obtained from vendors on credit.

The following are examples of capital and related financing activities inflows and outflows:

CAPTIAL AND RELATED FINANCING ACTIVITIES	
INFLOWS	**OUTFLOWS**
o Proceeds from issuing or refunding bonds, mortgages, notes and other short or long term borrowing o Receipts of capital grants o Grant and contract grants for capital purposes o Capital appropriations o Receipts of contributions made by other funds, other governments and other organizations and individuals for the specific purpose of defraying the cost of acquiring, constructing or improving capital assets o Receipts from sales of capital assets	o Payments to acquire, construct or improve capital assets o Purchases of capital assets o Payments to contractors for construction or acquisition of capital assets o Principal paid on capital debt and leases o Deposits with capital debt payment trustee o Interest paid on capital debt and leases

Investing Activities

Investing activities include making and collecting loans and acquiring debt or equity instruments.

The following are examples of investment activities inflows and outflows:

INVESTING ACTIVITIES	
INFLOWS	**OUTFLOWS**
o Receipts from the collection of loans o Sales and maturities of investments o Interest and dividends received as returns on debt instruments of other entities, equity securities, and cash management and investment pools o Interest on investments o Withdrawals from investment pools	o Loans to other State agencies o Payments to acquire equity and debt instruments o Purchase of investments o Deposits into investment pools

The applicable accounting standards and various implementation guides will need to be referenced in addition to the information contained herein, when preparing the Statement of Cash Flows.

Notes to the Financial Statements

The Notes to the Financial Statements are an integral part of the basic financial statements. The notes communicate information not displayed on the face of the statements that is essential for fair presentation of the financial statements.

GASB Statement 34 does not require significant changes to the notes. However, it does add required note disclosures about capital assets and long-term liabilities. The information should be provided in major classes. In addition, GASB Statement 38 has just been issued, and it also contains standards relating to Notes, which must be further studied.

Capital assets not being depreciated are grouped separately from those that are being depreciated. Works of art and historical treasures collections that are not capitalized will be disclosed separately, providing a description of the collection and the reasons these assets are not capitalized.

The capital asset footnote will include: 1) beginning and end of year balances with accumulated depreciation presented separately from historical cost; 2) capital acquisitions; 3) sales or other dispositions; and 4) current year depreciation expense.

The long-term liabilities footnote will disclose long-term debt and other long-term liabilities and will include: 1) beginning and end of year balances; 2) increases and decreases; and 3) current portions due within one year.

Donor restricted endowments must also be disclosed in a separate footnote displaying amount of net appreciation available for expenditure, how these amounts are reported in net assets, laws regarding ability to spend and the policy for authorizing and spending investment income.

GASB Statement 34 requires some additional disclosures in the summary of significant accounting policies note:

- Description of the statements
- Measurement focus and basis of accounting
- Policy for applying FASB pronouncements after 11/30/89
- Policy for capitalizing assets and for estimating useful lives for depreciation
- Policy for defining operating and nonoperating revenues
- Policy regarding application of restricted or unrestricted resources when expense is incurred and both restricted and unrestricted net assets are available

NACUBO has developed an Accounting Disclosure Checklist for Public Colleges and Universities Reporting as Special Purpose Governments Engaged only in Business Type Activities (FARM Release 00-4) that can be used as a guideline to ensure all applicable disclosures are presented.

Segment Information Disclosure

GASB Statement 34 requires segment note disclosure for identifiable activities for which one or more revenue bonds or other revenue-backed debt instruments are outstanding if related expenses, gains and losses, assets and liabilities can be identified. An exposure draft proposes to amend GASB Statement 34 to clarify the reporting requirements. The exposure draft clarifies that segment reporting will be required only if related expenses, gains and losses, assets and liabilities are required to be separately accounted for (e.g. by bond covenant) and that "grouping" of activities can be done to take into account "cross-collaterization" of revenue bonds.

Segment information will include the types of goods and services provided by the segment; identifiable activity pledged for revenue bonds; and condensed statements of net assets, statement of revenues, expenses and change in net assets and cash flows.

Summer Session

Accrual accounting for BTAs requires revenues and expenses to be recognized as they are earned or incurred. Summer session tuition presents a conundrum since part of the summer sessions occur prior to June 30 (the end of the fiscal year) and part of the sessions occur after July 1 (the start of the new fiscal year). Under current reporting, revenues and expenses related to summer sessions have been deferred to the new fiscal year.

NACUBO guidance indicates "the revenue and expenses for a summer session should be split between the two fiscal years, with appropriate amounts being recognized in the accounting period in which they are earned or incurred and become measurable."

The question becomes how to split the revenues and expenses over the two fiscal years. The Reporting and Chart of Accounts Subcommittee has been assigned the task of developing an accounting method to separate fiscal year data and do GAAP and financial statement adjustments to record revenue and expense pertaining to each year.

Transition period – restatement of prior years, comparative information

The MUS financial statements do not present comparative years. Institutions are not required to restate prior periods in the first period that GASB Statement 35 is applied. The cumulative effect of applying GASB Statement 34 & 35 adjustments will be reported as a restatement of beginning net assets.

Component Units

GASB Statements 34 & 35 do not change the definition of component units, but defines their presentation. Since the MUS does not have component units, this will not result in any changes in presentation.

Scholarship Discounts and Allowances

Overview

GASB Statement Number 35 Footnote 41 states "Revenues should be reported net of discounts and allowances with the discount or allowance amount parenthetically disclosed on the face of the statement or in a note to the financial statements. Alternatively, revenues may be reported gross with the related discounts and allowances reported directly beneath the revenue amount." The criteria for classification as a scholarship allowance applies to tuition and fees, housing and meal plans as well as to provision of educationally related supplies acquired from an institutional bookstore. Revenues from all exchange transactions should be reported net of discounts since amounts paid by students for institutional services are exchange transactions, they are subject to the same criteria as other exchange transactions for determining a discount.

Background

Reporting tuition and fee revenues net of scholarship discounts and allowances will have a significant impact on the financial statements. The principal effect of classifying scholarship discounts and allowances as a contra-revenue is to reduce both student financial aid expenses and tuition and fee revenues. A scholarship allowance is defined as the difference between the stated charge for goods and services provided by the institution and the amount that is paid by the student and/or third parties making payments on behalf of the student. Whether disclosed on the face of the financial statement or in the notes to the financial statements, the amount of the scholarship allowance should be disclosed for all revenues impacted by such scholarship discounts and allowances.

Only amounts expected to be received from students and third-party payers to satisfy student tuition and fees, room and board payments, or bookstore payments will be reported as tuition and fee revenue, room and board revenue, or bookstore revenue. Institutional resources provided to students as financial aid will be recorded as allowances in amounts up to and equal to amounts owed by the students to the institution and refunded to the students will be recorded as an institutional expense.

Implementation

The entities of MUS apply financial aid en masse precluding determination of scholarship allowances and student aid expenses by category. For example, whether a Pell application becomes a scholarship allowance or a student aid expense becomes dependent on the application order of other financial aid. In response to the issue, NACUBO issued Advisory Report 2000-05 which offers an alterative method. This alternative method is a rational, documented allocation methodology to determine that portion of applicable financial aid support to be applied as scholarship allowances and student aid expenses. The alternative approach is a simple proportionality algorithm based on the application of total financial aid after authorized students' elections. The information necessary for MUS is readily available in Banner.

Property, Plant & Equipment

General Overview

In 1973 the American Institute of Certified Public Accountants (AICPA) issued "Audits of Colleges and Universities"(College Guide). This issuance incorporated desegregated fund accounting that most colleges and universities currently use to report financial position. What the College Guide required was a dual perspective. That is, colleges and universities were to report financial statements at the entity wide level as well as at a significantly lower level, the fund level. After ascertaining that "most business officers and others in higher education" opposed this dual perspective reporting, GASB 34 and 35 were moved forward. Implementing the two statements became GASB's main focus. In March of 1999, 14 years later, the new reporting model became a reality when the GASB Board unanimously agreed to "abandon a separate financial reporting model for public colleges and universities'.

The MUS has established that the new reporting model has three distinct components; Reporting, the Management Discussion and Analysis, and accounting for property, plant and equipment. The intent of this report is to further clarify report findings and identify problematic issues or the property, plant and equipment component.

The overall definition of *Property, Plant and Equipment* encompasses two broad categories, Capital Assets and Infrastructure.

- Subclasses of capital assets include but are not limited to; Land, land improvements, easements, Buildings, Building Improvements, vehicles, telecom equipment, moveable equipment, furnishings, fixtures, works of art and historical treasures.
- Subclasses of infrastructure includes but are not limited to; roads, bridges, tunnels, drainage systems, streets, walkways, water lines and fiber optic cables.

The significant changes for the MUS, outlined in GASB 34 and 35 includes the segregated capitalization of capital assets, infrastructure and the associated recording of depreciation. Capitalization indicates that an asset has been recorded as an asset and that recognizing depreciation expense for that asset is eminent. To date, the MUS has not utilized depreciation expense except to determine the indirect cost rate and for our public radio stations' financial statements. Though the use of depreciation expense has not been used, most of the capital assets have been recorded in one asset category or another in the General Fixed Asset Account Group.

Early in the analysis of the GASB pronouncement it was decided that the MUS would be considered a Business Type Activity (BTA). As a BTA, MUS is required to report all capital assets and infrastructure by the 06/30/2002 implementation date. Reporting as a BTA precludes the use of the phase in period that may be utilized by non-BTA's

Historical information for capital assets and infrastructure varies widely from campus to campus. Meeting the new pronouncement requirements will be a daunting yet feasible task. Capitalizing and accounting for Historical Treasures and Works of Art and Other Tangible and Intangible Assets will pose a unique challenge

All campuses within the MUS consider it beneficial to maintain uniformity in the following standards, and have committed to do so.

- Capitalization thresholds and polices;
- Depreciation methodologies; and,
- Useful life schedules.

Section 1.
Buildings, Building Improvements, Land Improvements, and Infrastructure Assets

Overview of GASB Requirements

The GASB pronouncement identifies examples of major classes of capital assets, but does not require the use of any specific category. If available, original or historical cost should be segregated from subsequent improvements. In the event that historical cost data is not available other “approved” methods for determining an estimated historical cost should be employed. For example, determine what the cost of the asset is today and indexing back (inflationary index) to the date the asset was placed in service. Historical cost should include ancillary charges that are directly attributable to the asset’s acquisition and the costs necessary to place the asset in service. Donated assets should be reported at their estimated fair market value at their time of the donations, inclusive of ancillary charges.

Background

The units of the MUS have capitalized the majority of capital assets; however, infrastructure has not been capitalized to a large extent where the item was not associated with an existing building or other improvement.

The following represents, to a large extent, what has been included in the building sub-category of capital assets:

- The original cost of a building
- Building improvements
- Ancillary cost (site prep, professional fees, demolition)
- Works of Art
- Land improvements
- Furniture and fixtures.
- Infrastructure (i.e. sidewalks adjacent a building)
- Design fees

Some MUS campuses can identify these additional costs and are encouraged to use that information to further classify these assets into more specific subclasses.

Recommended Plan of Action

1. Each campus will segregate assets acquired in 1980 or later into the major asset categories established by the State Department of Administration. Under this course of action, it must be noted that methodologies will differ, based on the availability and completeness of individual campus records.

2. To the extent possible, each campus will segregate pre-1980 asset values into the major asset categories established by Department of Administration (except as noted in Item 3).

    - When lack of records and workload is prohibitive, methods that balance materiality, cost, and time will be utilized.
    - In many cases, segregating these assets will require applying recent project cost breakdowns retroactively.
    - Methodologies will differ based on availability and completeness of individual campus records.

3. Each campus will capitalize infrastructure and improvement projects that have not been recorded as an addition to a building and that are not fully depreciated.

4. Each campus will substantiate materiality and determine whether the recognition of fully depreciated assets is feasible. This will require analysis of acquisition date, historical cost, and useful lives, among others. The final interpretation of the “Major Infrastructure Rule” may require future segregation of and capitalization of infrastructure.

5. Campuses that have more detailed information are encouraged to provide further segregation.

6. Comprehensive audit trails will be maintained.

GASB 34 & 35 Implementation Impact

The MUS GASB Task Force believes that the impact of this approach does not have a material effect on the Total Net Asset Value.

Building Componentization

- This method is used to maximize indirect cost rates.
- It segregates buildings into separate identifiable components (i.e. shell, HVAC, roof, etc).
- This approach does not have to be adopted system-wide.
- Nor does it have to be applied to all buildings (only those that are research intensive).
- This approach may be implemented in the future, provided it coincides with the IDC cycle.
- This approach should be used if the benefits derived from the IDC rate warrant the additional work required.
    i. The Bozeman campus will not be using componentization at this time.
    ii. The Missoula campus is still considering the use of componentization.

Depreciation Method

The Task Force has determined that the straight-line depreciation method will be utilized.
- This is the preferred method of the Task Force.
- This method is simpler, and cost-effective.
- Also, the use of this method coincides with previous methods used by those campuses which are governed by OMB Circular A-21.

Infrastructure Reporting

The Historical Cost/Depreciation approach will be utilized for infrastructure reporting rather than the modified approach. The modified approach requires the use of an asset management system that documents that assets are being preserved at or above a condition level established by the government. The modified approach also would require:
- The installation of a comprehensive asset management system; and,
- An O&M funding commitment.

Capitalization Threshold

The Task Force has decided to, at this time, capitalize only those items that are at or above the current threshold level of $5,000.

The State is evaluating the impact of increased threshold levels for capital assets and infrastructure.
- An increase in the capital threshold level would greatly assist in the GASB transition.
- However, the MUS is subject to OMB Circular A-21, and consultation with the federal cognizant agency would have to occur before changing capital thresholds.

Financial Statement Impact

The Net fund balance will be significantly lower the first year because of depreciation. The effect of depreciation through June 30, 2001, will be shown as an adjustment to beginning fund balance, and actual depreciation expense for the year ending June 2002 will be shown as a separate expense line.

Recommendations from State Department of Administration

Based upon discussion and review of this plan with the State D of A, the MUS is committed to maintain communication between Task Force members and the D of A in regard to the following:

1. An in depth listing of agreed upon useful life tables;
2. A common policy regarding the use of full or partial year depreciation for assets acquired during the year;
3. A final determination of the capitalization threshold for this group of assets; and,
4. The incorporation of any new asset classifications developed by the State.

Section 2.
Land

Overview of GASB Requirements

Land is considered an inexhaustible capital asset and is not depreciable. Land is to be capitalized at its historical or estimated original cost, inclusive of ancillary charges that are directly attributable to the asset's acquisition. Donated assets are to be reported at their estimated fair market value at their time of donations, inclusive of ancillary charges. Land improvements that produce permanent benefits, for example fill and grading costs that ready the land for the erection of structures, or landscaping, are to be included in land.

Background

The MUS campuses have capitalized Land. However, some issues that must still be explored, and resolved are:

1. Evaluating whether donated land has been valued at its fair market value at time of donation; and,
2. Whether in some cases, depreciable land improvements and infrastructure have been included in the Land Category

The Task Force is confident that land records can be developed to satisfy GASB requirements.

Section 3.
Easements and Rights-of-Way

Overview of GASB Requirements

GASB requires the recognition of easements and rights-of-way. These are not depreciable and can be included in the Land Category.

Background

The MUS campuses have not capitalized easements and rights-of-way.

The Task Force is confident that these records can be developed to satisfy GASB requirements.

Section 4.
Works of Art and Historical Treasures

Overview of GASB Requirements

Except as noted below, works of art, historical treasures, and similar assets should be capitalized at their historical cost or fair value at date of donation whether they are held as individual items or in a collection. Governments are encouraged, but not required to capitalize a collection whether donated or purchased, if that collection meets all the following conditions:

a. It is being held for public exhibition, education, or research in furtherance of public service, rather than financial gain;
b. It is being protected, kept unencumbered, cared for and preserved; and,
c. It is subject to an organizational policy that requires that proceeds from sales or collection items be used for collections.

GASB standards clearly state that governments should disclose information about works of art and historical collections.

Background

To date, the MSU campuses have not capitalized works of art or historical treasures. Given this, inventories and historical costs will need to be developed.

The MUS campuses are in the evaluation phase for this category of assets.

UM campuses do capitalize works of art and historical treasures.

Section 5.
Equipment

Overview of GASB Requirements

This category includes vehicles, telecom equipment, moveable equipment, furnishings and fixtures. Any policy changes must be noted in the MD&A.

Background

The MUS campuses have capitalized this group of assets.

- The capitalization threshold for equipment will remain at $5,000 per State and University System policies, and the current federal cognizant agency agreement.
- Continuing into the future, the MUS campuses will capitalize only those items that are at or above the current threshold level of $5,000.

The Task Force is confident that these records can be developed to satisfy GASB requirements.

Section 6.
Other Tangible and Intangible Assets

Overview of GASB Requirements

This category includes all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. These assets are to be capitalized at their historical or estimated original cost, inclusive of ancillary charges that are directly attributable to the asset's acquisition. Donated assets are to be reported at their estimated fair market value at their time of donations, inclusive of ancillary charges.

Because most library collections consist of a large number of books with modest values, group or composite methods may be appropriate.

Background

Current asset groups capitalized in this category include Software and Library Books. Some other categories that may need to be considered are in-house developed software, patents, trademarks, non-competition agreements, and royalties.

The MUS campuses are in the evaluation phase for this category of assets.

Sources of Guidance

- GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments
  - Reporting model ¶ 91-105
  - Required financial statements ¶91
  - Measurement focus and basis of accounting ¶92-95
  - Special purpose government ¶134
  - Business Type Activity ¶138
  - Statement of Net Assets ¶18-29; ¶30-37; ¶57-58; ¶97-99
  - SRECNA ¶30-35; ¶41-46; ¶100-103; GASB Statement No. 9
  - Cash Flows ¶105
  - Notes to Financial Statements ¶113-121
  - Segment Reporting ¶122-123
- GASB Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities
- GASB 35 Implementation Guide
- GASB Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus
- GASB Statement 9 Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting
- Commonwealth of Massachusetts Institutions of Higher Education GASB 35 Implementation and Financial Reporting Guide
- NACUBO FARM Release 00-3 General Purpose External Financial Statements for Public Colleges and Universities
- NACUBO FARM Release 00-4 Accounting Disclosure Checklist for Public Colleges and Universities Reporting as Special Purpose Governments Engaged Only in Business Type Activities
- NACUBO GASB 35 Reporting Model Implementation Workshop
- NACUBO Advisory 2000-5 Accounting and Reporting Scholarship Discounts and Allowances to Tuition and Other Fee Revenues by Public Institutions of Higher Education
- NACUBO Advisory 2000-8 Recommended Disclosure of Alternative Expense Classification Information for Public Higher Education Institutions

Appendix A
MUS GASB Task Force Members

Montana University System
GASB TASK FORCE
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Dan Jenko: Chair UM
Laurie Neils: CHE Representative

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Appendix B
MUS Letter to State Department of Administration

MEMORANDUM

TO: Cathy Muri, Administrator
Accounting and Management Support Division

FROM: Laurie Neils, Office of the Commissioner of Higher Ed
Director of Budget and Accounting

DATE: October 20, 2000

SUBJECT: GASB Statements 34-35

The Montana University System plans to report as a Business Type Activity (BTA) for purposes of the GASB Statements 34 and 35. We believe the Montana University System best fits into that category of special purpose government. We will proceed with this assumption unless we hear that you have changed your mind since we talked in Butte. If you disagree with our determination of a BTA, please let me know prior to November 13, 2000. Campus representatives will be meeting in Missoula that week to organize our implementation teams.

Appendix C
State D of A Letter to Montana University System

TO: Montana University System

FROM: Cathy Muri, Administrator
Administrative Financial Services Division
Department of Administration

DATE: July 6, 2001

RE: GASB 35 Discussion Items

The Montana University System (MUS) has been diligent in its efforts to create an efficient and successful conversion to the new reporting standards established by the Governmental Accounting Standards Board (GASB) in Statement 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities. The MUS accounting staff participating in the implementation process has kept the Department of Administration's Accounting Bureau personnel informed of critical decisions and has sought input and approval for decisions that have potential impacts on the State of Montana's Comprehensive Annual Financial Report (CAFR). Specifically, the University System has requested Accounting Bureau's input on decisions relating to the financial statement reporting options, the use of a functional versus natural classification scheme on the Statement of Revenues, Expenses, and Changes in Net Assets, and the required format for presenting the Statement of Net Assets.

The first major issue relates to reporting options. GASB Statements 34 and 35 provide colleges and universities with three reporting options. According to GASB 35 paragraph 43, colleges and universities can report as "special-purpose governments either engaged in only business-type activities, engaged in only governmental activities, or engaged in both governmental and business-type activities." Furthermore, based on the criteria established in Statement 34 paragraph 67, the Department of Administration feels it is acceptable for Montana universities to report as special-purpose governments engaged only in business-type activity. While Accounting Bureau personnel were not directly involved in the Universities' decision to report as a BTA, we are confident that the MUS has devoted adequate research into determining which method best suits the universities. We concur with the Montana University System's decision to present financial statements as special-purpose governments engaged in only business-type activities.

The University System's second major concern relates to Accounting Bureau's preference of classification method for reporting revenue and expenditures on the Statement of Revenues, Expenses and Changes in Net Assets. Expenses are reported using either a natural classification (by expense type, i.e. personal services and contractual services) or a functional classification (by major services provided by a governmental unit). Revenue can be reported by function or by revenue classification. Under the current GASB 34, the CAFR will only report proprietary component units in the entity-wide financial statements. In the Statement of Activities, expenses will be reported using a functional format where all university expenses should be lumped under one function. Program revenue will be reported by function and general revenue by source. The current design of SABHRS allows Accounting Bureau to report expenses by either natural or functional classification. Based on examples provided in various sources of accounting literature, it seems reasonable for university units to report expenses using the functional classification. However, Accounting Bureau requests that the current accounting structure, which utilizes account code and a combination of business unit and sub-class (program), remain intact to allow for reporting under either classification method.

The third major issue raised by the university system relates to the format of the Statement of Net Assets. GASB 34 provides two formats, the traditional balance sheet approach and the net asset approach. According to GASB 34 paragraph 30, "governments are encouraged to present the statement in a format that displays assets less liabilities equal net assets, although the traditional balance sheet format (assets equal liabilities plus net assets) may be used." Accounting Bureau is planning to use the traditional balance sheet format; the format used on past CAFRs. In an effort to promote consistent reporting and to facilitate a smoother transition from the university fund statements to the entity-wide statements, Accounting Bureau requests that the university units also use the traditional balance sheet format.

In summary, Department of Administration's Accounting Bureau staff has made the following determinations:

1) Accounting Bureau concurs with the University System's decision to report as a BTA.

2) The University System can use either a functional or natural classification on the Statement of Revenues, Expenses and Changes in Net Assets so long as Accounting Bureau maintains the ability to report using either method.

3) The traditional balance sheet format should be used for the Statement of Net Assets.

We realize that implementing GASB Statements 34 and 35 will be a tremendous undertaking and Accounting Bureau's goal is to help make the transition on all state agencies as uncomplicated as possible. However, we also realize that implementing the standards will be a learning process for everyone. There may be instances where we have made decisions that will need to be revised based on new findings encountered throughout the year. Accounting Bureau will make every effort to keep agencies involved in decisions and policies that arise out of GASB 34. Again, we greatly appreciate the efforts of your staff and are always available to provide assistance to ensure that the financial reports of each agency as well as the State's CAFR continue to meet the highest reporting standards.

cc: Laurie Neils, Director of Budget and Accounting, Commissioner of Higher Education

Appendix D
Example of Statement of Net Assets

ABC University
Statement of Net Assets
June 30, 2002

Total
$4,595,418
15,278,981
6,412,520
0
585,874
4,254,341
21,548,723
2,394,498
432,263
6,426,555
158,977,329
$220,906,502
$4,897,470
0
4,570,213
1,124,128
35,693,913
46,285,724
126,861,400
10,839,473
3,767,564
2,803,756
5,202,732
938,571
2,417,101
4,952,101
4,254,341
403,632
12,180,107
174,620,778
$220,906,502

	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

Appendix E
Example of Statement of Revenues, Expenses, and Change in Net Assets

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

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

Appendix F
Example of Statement of Cash Flows

SEE NEXT PAGE

ABC University

Statement of Cash Flows

For the Year Ended June 30, 2002

Cash Flows from Operating Activities	
Tuition and fees	$36,968,596
Grants and contracts	14,312,691
Payments to suppliers	(12,514,494)
Payments for utilities	(16,433,048)
Payments to employees	(70,208,349)
Payments for benefits	(18,412,870)
Payments for scholarships and fellowships	(3,809,374)
Loans issued to students and employees	(410,230)
Collection of loans to students and employees	317,287
Auxiliary enterprise charges	
Resident halls	27,864,581
Bookstore	9,140,093
Sales and service of educational	29,302
Other receipts (payments)	142,738
Net cash provided (used) by operating activities	**(33,013,077)**
Cash Flows from Noncapital Financing Activities	
State appropriations	39,760,508
Gifts and grants for other than capital purposes;	2,135,443
Private gifts for endowment purposes	85,203
William D. Ford direct lending	0
PLUS loans	0
Split-interest transactions	0
Student organization agency transactions	22,617
Net cash provided by noncapital financing activities	**42,003,771**
Cash Flows from Capital Financing Activities	
Proceeds from capital debt	4,125,000
Capital appropriations	2,075,750
Capital grants and gifts received	690,813
Proceeds from sale of capital assets	0
Purchases of capital assets	(7,896,650)
Principal paid on capital debt and leases	(3,788,102)
Interest paid on capital debt and leases	(1,330,126)
Deposit with trustee	(920,935)
Net cash used by capital financing activities	**(7,044,250)**

Cash Flows from Investing Activities	
Proceeds from sales and maturities of investments	61,945,270
Interest on investments	2,182,921
Purchase of investments	(64,041,329)
Net cash provided by investing activities	**86,862**
Net increase in cash	2,033,306
Cash - beginning of the year	2,562,112
Cash - end of year	**$4,595,418**

Reconciliation of net operating revenues (expenses) to	
net cash provided (used) by operating activities:	
Operating income (loss)	($39,625,460)
Adjustments to reconcile net income (loss) to net cash	
provided (used) by operating activities:	
Depreciation expense	6,847,377
Changes in assets and liabilities:	
Receivables , net	(385,522)
Inventories	(7,814)
Other assets	(5,764)
Accounts payable	42,699
Deferred revenue	60,952
Deposits held for others	14,992
Compensated absences	138,406
Loans to students and employees	(92,943)
net cash provided (used) by operating activities:	**($33,013,077)**

Noncash Transactions

Equipment	$523,597	Lease Transaction
Capital lease	($523,597)	Lease Transaction