I. GOVERNMENTAL ACCOUNTING (Part B)

A. Government-wide financial statements are prepared on the accrual basis reflecting the economic resources measurement focus.

B. Funds have financial statements prepared using their specific accounting method in order to better demonstrate compliance with government leaders' decisions (fiscal accountability); the government-wide financial statements display achievement of operating objectives (operational accountability).

C. The integrated approach requires reconciliation between operational and fiscal accountability objectives (the fund financial statements are reconciled to the government-wide financial statements).

D. The sequence of financial reporting presentation is:
   1. Governmental entity's financial statements start with management's discussion and analysis (MD&A).
   2. Government-wide financial statements and fund financial statements follow (including a reconciliation of modified accrual governmental funds to the government-wide financials on the full accrual basis). Governmental funds (GRaSPP) require a balance sheet and a statement of revenues, expenditures, and changes in fund balances. Proprietary funds (SE) require a statement of net position; a statement of revenues, expenses, and changes in fund net position; and a statement of cash flows. Fiduciary funds (PAPI) require a statement of fiduciary net position and a statement of changes in fiduciary net position.
   3. Notes to the financial statements.
   4. Required supplementary information (RSI) (other than MD&A) and other supplementary information.

E. The financial reporting entity is the primary government entity and all component units that should be included with it. General purpose governments (e.g., states, counties, and cities) are almost always considered a primary government and therefore have their own financial statements.

F. Special purpose local governments will be treated as a primary governmental entity if it has separately elected leaders, are legally separate entities, and are fiscally independent. It stands by it-SELF.

G. Component units do not meet the SELF criteria and may be blended with the primary government if they are "intertwined" with it (the component unit is not a separate legal entity, the boards of the component unit and primary government are substantially the same, or the component unit serves the primary government exclusively). A discrete presentation is required if the component is legally separate but financially accountable to the primary government. Most component units should use discrete presentation.

H. MD&A must be an easily readable summary of the financial statements and will likely include a description of major initiatives and analyze material variances.
I. Government-wide financial statements (GWFS) are presented in net position format
   \( A - L = NP \). Net position consists of three components:
   
   1. Invested in capital assets net of accumulated depreciation and related debt.
   
   2. Restricted net position consists of restricted assets reduced by related liabilities and
defered resource inflows (external restrictions).
   
   3. Unrestricted net position includes net assets that are not included in net investment in
capital assets or the restricted component (no external restrictions).

J. Capitalized assets in the GWFS will include infrastructure-type assets unless the
government elects to use the modified approach. The modified approach includes
infrastructure data in RSI: 1) a condition assessment of assets; and 2) an annual estimate
of the amounts required to maintain the assets.

K. Depreciation is required; however, if the modified approach is used for infrastructure
assets, ordinary maintenance is expensed, and additions or improvements are capitalized.

L. Donated artwork and historical treasures should be capitalized at their fair values but
capitalization is optional if they will be exhibited, preserved, and the proceeds of any sale
will be used to acquire other assets for the collection.

M. The government-wide statement of activities will include program revenues (SOC) resulting
from exchange-type (charges for services) or non-exchange-type transactions such as
operating or capital grants.

N. Fund financial statements require establishing the criteria for major funds. There are two
criteria (10 percent of GRaSPP funds or enterprise funds and 5 percent of GRaSPP funds
or enterprise funds) that must be met for a fund to be considered major. The general fund
is always major, and internal service funds are excluded from major fund consideration.

O. A reconciliation between modified accrual governmental funds and government-wide full
accrual basis financial statements must be performed, including: differences in the fund
balances of government funds and net position in the government-wide financial
statements; and differences in the net change in fund balances of governmental funds and
the change in net position for governmental activities.

P. Required supplementary information other than MD&A may include pension data,
infrastructure data, and budgetary comparisons of the original and final budgets as well as
the actual amounts. Computing variances is optional.

Q. Interfund activity may include interfund loans (due to/from), interfund services provided or
used, and nonreciprocal interfund transfers or reimbursements.

R. Within the governmental activities and business-type activities columns we will eliminate
interfund activity, and between columns we will not eliminate interfund activity.

II. **NOT-FOR-PROFIT ORGANIZATIONS IN GENERAL**

A. Not-for-profit entities frequently depend significantly on donations or contributions. The
accounting rules for these entities come from the FASB. These entities include: health care
organizations (e.g., hospitals), educational institutions (e.g., universities), voluntary health
and welfare organizations (e.g., United Way), and other nongovernmental, not-for-profit
entities (e.g., museums).
B. All of these entities use full accrual basis of accounting.

C. The required financial statements include the statement of financial position, statement of activities, statement of cash flows, and (for voluntary health and welfare organizations) statement of functional expenses.

D. Net assets are composed of three elements:
   1. Unrestricted net assets (no external restrictions)
   2. Temporarily restricted net assets (external restrictions as to time of use or manner used)
   3. Permanently restricted net assets (principal cannot be used)

E. Know that internal board-designated funds are considered unrestricted.

F. When a donor-imposed restriction is satisfied, the amount ceases to be temporarily restricted and is reclassified to unrestricted.

G. Program services represent the major or main activities of the organization performed in furtherance of the organization’s mission. Support services represent administration-type functions within the organization.

H. Combined costs need to be allocated between program and support services using any reasonable means.

I. In the statement of cash flows (SOCF), transactions are classified in a manner consistent with commercial accounting. There are three SOCF classifications, including operating activities, financing activities, and investing activities, with the direct or indirect presentation allowed for reporting operating activities.

J. Contributions of unrestricted revenue that is board designated for future construction or the purchase of long-lived assets is classified as an operating activity on the SOCF.

K. The statement of functional expenses displays three major categories of expenses: program support, fundraising, and management and general.

L. Resource inflows are classified as either revenues or other support. Revenues usually reflect “exchange-type” transactions. Other support usually includes operating income that is donated.

M. Unconditional promises (pledges) are recorded as revenues for the portion considered collectible after treating the entity's estimate of uncollectibility as an allowance for uncollectible accounts. Conditional promises are not recognized as revenue until the condition has been satisfied.

N. Donated services are only recognized as revenue and an equal and offsetting expense SOME of the time. The donated service must generally be a specialized service, otherwise needed and measured easily.

O. Donated collection items are subject to the same rules as for governments (e.g., capitalized at fair value); however, this is optional if the collection is exhibited, preserved, and proceeds of any sale are to be used to acquire other assets for the collection.

P. Donated materials (if deemed significant) increase assets and support (revenues) at fair value at the time of the donation.
Q. Agency transactions result in an asset and a liability. These amounts are really the property of another party. If a not-for-profit (NFP) does not have "variance power" over the asset (does not have discretion over how the asset is used), it is an agency transaction.

R. Gifts in-kind (noncash) are accounted for at fair value. The cost of premiums in an exchange transaction is a fundraising expense.

S. Transfers of assets to an NFP organization or charitable trust that holds contributions for others are treated as "an extension of the equity method of accounting." If variance power is present, treat inflows as revenue. If no variance power is present, treat inflows as liabilities (an agency transaction). Beneficiaries recognize their rights to assets held by others unless the recipient is explicitly granted variance power.

T. Investments in securities are reported at fair value. Gains and losses are reported in the statement of activities as increases or decreases in unrestricted net assets unless use is restricted (by donor).

III. SPECIFIC INDUSTRY APPLICATIONS: COLLEGES AND UNIVERSITIES

A. Colleges and universities use accrual basis of accounting.

B. Tuition revenues are recorded at gross amounts. For the exam, know that gross revenue from tuition and fees is determined by subtracting canceled classes from assessed student tuition and fees.

C. Any price breaks given to students such as scholarships or tuition waivers because of any relationship to faculty/staff may be treated as an allowance that reduces revenues or as an expense.

D. The main category of revenue comes from tuition and fees. Nonoperating revenues include government aid, government grants, government contracts, private gifts and grants, and endowment income. Other operating revenue includes "peripheral" types of revenue (e.g., bookstore).

IV. SPECIFIC INDUSTRY APPLICATIONS: HOSPITALS

A. Patient service revenues are recorded at gross amounts but displayed on the statement of activities net of deductions.

B. Discounts given to third-party payers are called contractual allowances and are treated in a manner similar to sales discounts.

C. Charitable services (charity care or other deep discounts that are generally provided based on poverty guidelines) are not recorded as revenues because there was no intention to collect.

D. Other operating revenue includes donated supplies/equipment, cafeteria revenue, parking fees, and gift shop revenue.

E. Nonoperating revenue includes all unrestricted gifts and donations plus donated services.
V. SPECIFIC INDUSTRY APPLICATIONS: VOLUNTARY HEALTH AND WELFARE ORGANIZATIONS

A. Most resources of VHWOs are obtained through contributions and pledges from the general public.

B. VHWOs use full accrual accounting.

C. VHWOs are required to report a statement of functional expenses.