PacificCPE

COURSE
21402A

Accounting for Colleges, Universities, and Healthcare Providers

Higher education institutions and healthcare providers each come with their own accounting complexities and regulatory expectations. This course covers industry-specific guidance from GASB for colleges and universities, explores how enterprise structures can be misused, and examines AICPA and FASB standards applicable to healthcare organizations. Whether you serve clients in education or healthcare, you will come away with a clearer understanding of the rules that shape their financial statements and reporting obligations.

CREDIT HOURS 2 | FIELD OF STUDY ACCOUNTING | EXAM QUESTIONS 10

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LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recognize the various accounting treatments for both public and private colleges and universities.
- Recall accounting treatments that are unique to the health-care industry.

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Chapter 1: COLLEGES AND UNIVERSITIES

Chapter Objective

After completing this chapter, you should be able to:

- Recognize the various accounting treatments for both public and private colleges and universities.

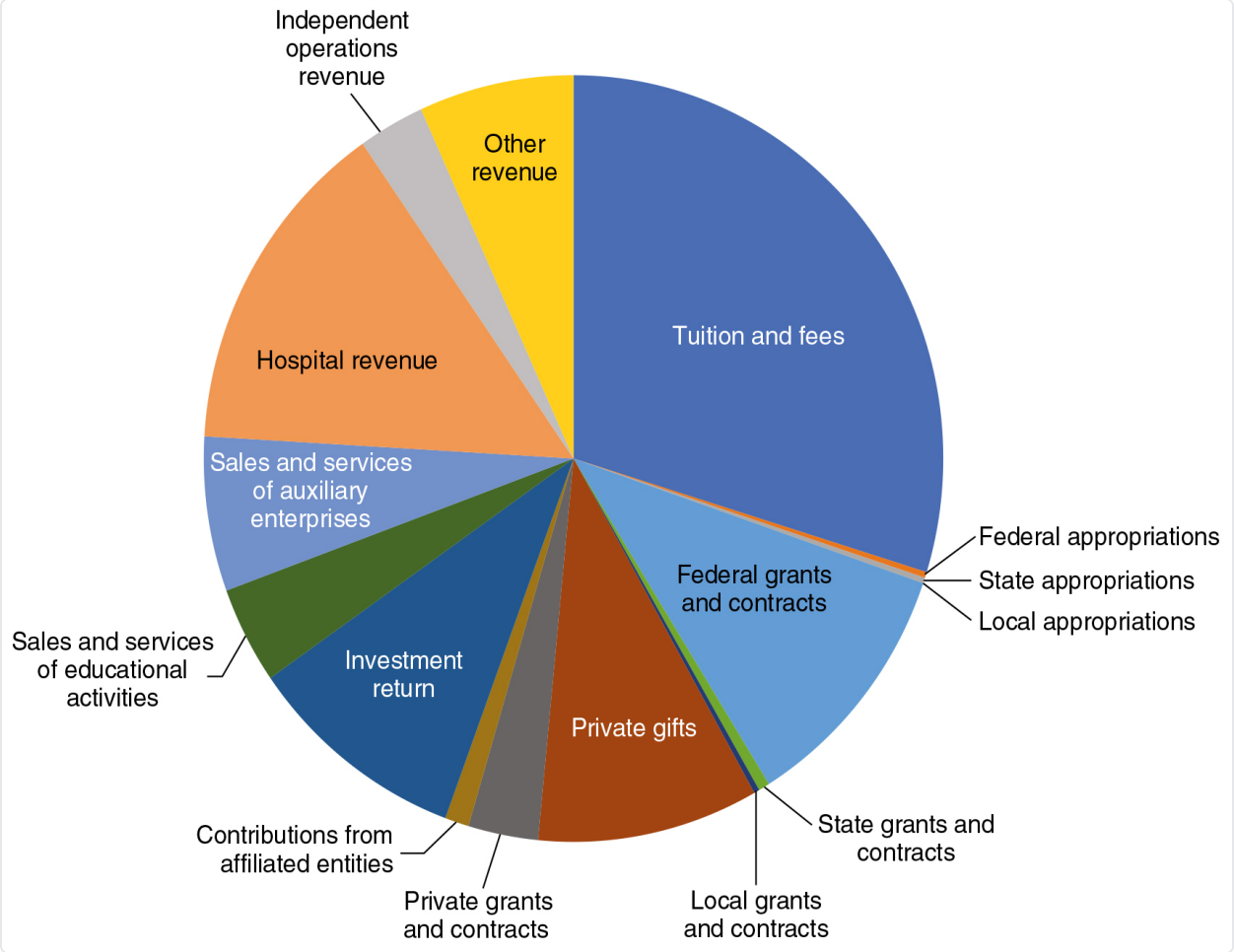
In this chapter, we address the special issues faced by colleges and universities. In addition, we take note of the key differences between private (not-for-profit) and public (governmental) educational institutions. FASB's Accounting Standards Update (ASU) (No. 2016-14) Not-for-Profit Entities and subsequent updates relating to not-for-profit entities apply to not-for-profit colleges and universities no less than they do to other types of not-for-profit entities.[1] Accordingly, there is little need to readdress the issues identified in Chapter 1 of course 21401C. We leave it to the reader to generalize from the discussion in that chapter and apply its principles to colleges and universities. For example, the accounting for exchange transactions, contributions and pledges, investment gains and losses, depreciation, split-interest agreements, and reporting entities are either not explicitly discussed in this chapter or only briefly commented on.

WHAT UNIQUE ISSUES DO COLLEGES AND UNIVERSITIES FACE?

U.S. higher education is characterized by diversity unparalleled in other countries. In 2021, there were 1,892 public degree-granting institutions and 1,754 not-for-profit private institutions.[2] Not only is our system dichotomized between public and private institutions, but colleges and universities also range in size from small liberal arts colleges of several hundred students (often church-related) to multicampus systems of over a hundred thousand students (e.g., University System of Georgia with 30 campuses) and revenues in billions of dollars. Figures 2-1 and 2-2 depict the sources of revenues for private and public colleges, respectively. As can be seen, public institutions receive a large share of their revenues from government **appropriations** and grants (from various levels), whereas private institutions are dependent to a large extent on student tuition, investments, and fees. Notably, revenues from university- operated hospitals represent an increasing share of total revenues for some, mainly large research- oriented universities.

In addition, there are community colleges that are governmental entities that may have the power to levy a special tax (e.g., the Houston Community College) on the residents for their source of revenue. There are also scores of proprietary (i.e., for-profit) colleges and universities (e.g., the University of Phoenix). These are accounted for as businesses and are beyond the scope of this text.

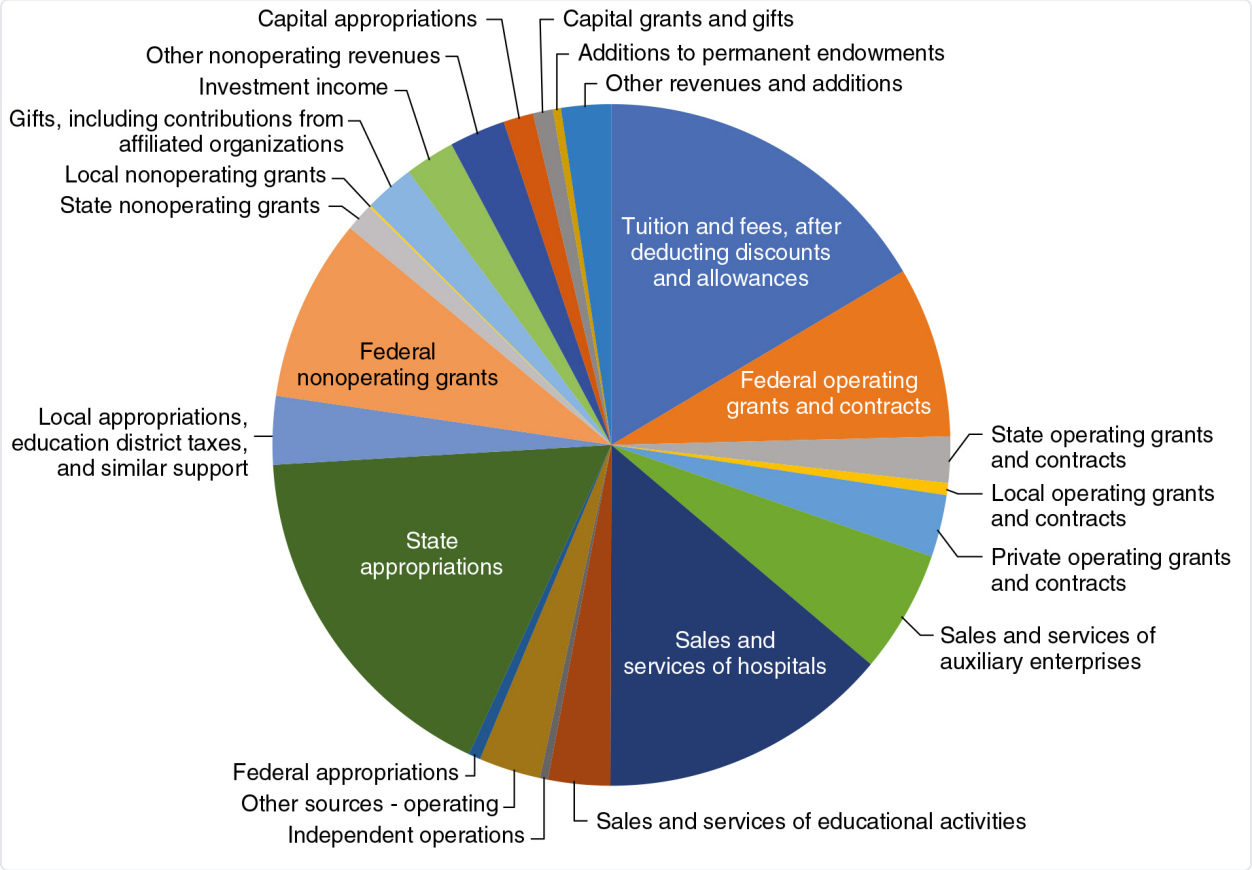
FIGURE 2.1. SOURCES OF REVENUES FOR PRIVATE COLLEGES AND UNIVERSITIES FOR 2021–2022.



Because of this diversity, standard setting has been beset by controversy, not only over specific accounting and reporting standards but even as to which bodies should have rule-making authority. When the GASB was being established in 1984, constituents of private colleges and universities contended that the FASB, not the GASB, should have jurisdiction over all colleges and universities, whereas those of public colleges and universities asserted that the GASB should have responsibility for government-operated institutions at a minimum. The issue was resolved by granting the FASB jurisdiction over all not-for-profit (private) colleges and universities and the GASB over all government (public) colleges and universities. Today, therefore, not-for-profit colleges and universities follow the FASB pronouncements pertaining to not-for-profit organizations. Government colleges and universities must adhere to the GASB pronouncements, no differently than other types of governments. In light of the similarity between government and not-for-profit

colleges and universities, this is hardly an ideal arrangement. However, it does represent a political compromise and has proven durable.

FIGURE 2.2. TOTAL REVENUES OF PUBLIC DEGREE-GRANTING INSTITUTIONS BY SOURCE OF FUNDS: 2021–2022.



STANDARDS FOR PUBLIC COLLEGES AND UNIVERSITIES

Accounting and financial reporting by colleges and universities posed especially thorny issues to the GASB owing to several considerations, some of which are:

1. Public colleges and universities have much in common with their private not-for-profit counterparts, so comparability is clearly desirable.
2. Most colleges and universities have a long tradition of using a distinctive accounting and reporting model that had been endorsed by the American Institute of Certified Public Accountants in an industry audit guide. However, some institutions, most notably community colleges, have used the standard government model.
3. Colleges and universities are unique institutions that differ from other government entities in how they are funded and managed. For example, although colleges and universities have both

donor-restricted funds and auxiliary enterprises, most do not budget by fund. Therefore, statement users may have only limited interest in fund-by-fund information. **Auxiliary enterprises** are the units of a college or university that carry out business-type activities and are funded mainly by user charges. They typically include intercollegiate athletics, dormitories, food services, and bookstores.

With these considerations in mind (and after much debate), the GASB decided that colleges and universities should be subject to the same reporting requirements as other special-purpose governments—but with a loophole.[3] The loophole is that most public colleges and universities satisfy Statement No. 34's criteria of entities that engage exclusively in business-type activities. They qualify as business-type enterprises because (per the standards for enterprise fund reporting) "enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services."[4] Therefore, public colleges and universities have a choice: They may elect to report as special-purpose entities engaging (1) only in business-type activities, (2) only in governmental activities, or (3) in both. Many colleges and universities successfully lobbied the GASB to be able to report as business-type entities and have opted to report as special-purpose governments engaged only in business-type activities.

A special-purpose government engaging only in business-type activities needs to prepare only a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. It need not present detailed fund statements.

The statement of net position and statement of revenues and expenses would, of course, have to be prepared on a full accrual basis. These statements must include capital assets and depreciation. The University of Virginia's required statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows are illustrated in Table 2-1A.

Statement No. 34 requires all governments that use enterprise fund accounting to present *segment* information in notes to the financial statements. It defines a segment as "any identifiable activity for which revenue bonds have been issued and which thereby has an identifiable revenue stream pledged in support of those bonds." For colleges and universities, segments are likely to include auxiliary enterprises such as dormitories, bookstores, and intercollegiate athletics. Required segment information includes key elements from the statement of net position, statement of activities, and statement of cash flows.[5]

The statement of revenues and expenses of a government that elects business-type reporting would usually be in object classification format. That is, its reported expenses would be items such as salaries, utilities, and supplies. To supplement this information the GASB encourages (but does not require) colleges and universities to present cost information about their various programs and activities.

TABLE 2-1A. UNIVERSITY OF VIRGINIA STATEMENT OF NET POSITION (IN THOUSANDS) AS OF JUNE 30, 2024

STATEMENT OF NET POSITION (in Thousands)
AS OF JUNE 30, 2024
UNIVERSITY OF VIRGINIA

ASSETS	
Current assets	
Cash and cash equivalents (Note 2)	$ 256,838
Short-term investments (Note 2)	7,912
Short-term investments held for others	—
Appropriations available	83,096
Accounts and pledges receivable, net (Note 3)	691,170
Due from component units	136,760
Due from the University of Virginia	—
Prepaid expenses	27,490
Inventories	75,669
Notes receivable, net (Note 4)	3,345
Total current assets	**1,282,280**
Noncurrent assets	
Cash and cash equivalents (Note 2)	335,306
Accounts and pledges receivable, net (Note 3)	240,584
Due from component units	84,606
Due from the University of Virginia	—
Notes receivable, net (Note 4)	22,512
Long-term investments (Note 2)	10,992,365
Long-term investments held for others	—
Capital assets—nondepreciable (Note 5)	630,863
Capital assets—other, net (Note 5)	4,876,861
Equity in affiliated companies (Note 9)	72,265
OPEB asset (Note 20)	23,209
Other assets	29,224
Total noncurrent assets	**17,307,795**
DEFERRED OUTFLOWS OF RESOURCES (Note 6)	**167,483**
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 18,757,558**
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities (Note 7)	$ 427,175
Accrued compensated absences (Note 11)	109,504
Due to component units	63,396
Due to the University of Virginia	—
Unearned revenue (Note 8)	77,519
Deposits held in custody for others	28,564
Investments held for others	—
Short-term debt (Note 10)	—
Long-term leases—current portion (Note 11)	18,406
Long-term subscription-based IT arrangements—current portion (Note 11)	27,074
Long-term debt—current portion (Note 12)	102
Other long-term liabilities—current portion (Note 11)	6,098
Total current liabilities	**757,838**

(*Continues*)