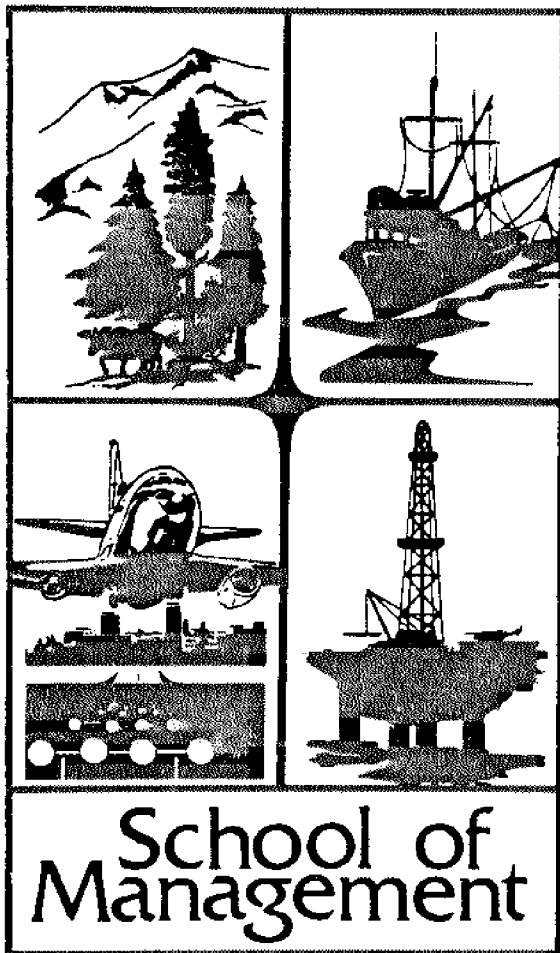


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# ACCOUNTING FOR ALASKA NONPROFIT SALMON ENHANCEMENT FACILITIES (Including a Chart of Accounts)

By  
E. Thomas Robinson

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10/78

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## ABSTRACT

This report is the culmination of the study of the Alaska nonprofit salmon enhancement laws, their implementation through the establishment of nonprofit business ventures within Alaska, and salmon enhancement activities. The report endeavors to serve a number of groups by providing background information on salmon enhancement as well as the accounting for nonprofit firms; providing a document that will serve individuals seeking more knowledge in these areas, a staff manual for employees of operating firms, for officers and directors of enhancement firms, for biologists and aquaculturists, for those people who may be providing financial support, and evaluation of the firm's establishment and operation.

The main purpose of this report is to provide an information gathering system for use by the enhancement firms that will first and foremost aid management in their operations, provide accountability, and facilitate uniform and consistent reporting of the salmon enhancement firm's activities. The report addresses the nonprofit form of business organization provided by the Alaska statutes, but the information system presented for operating activities would be readily adaptable to profit-seeking firms. One of the main concerns in the development of the information gathering system was that of flexibility, which permeates the system throughout.

Reflected in the report are the recommendations presented in the exposure draft of the American Institute of Certified Public Accountants on a "Proposed Statement of Position on Accounting Principles and Reporting Practices for Nonprofit Organizations Not Covered by Existing AICPA Industry Audit Guides." Although

this Statement of Position will not be finalized until after this report is published, there are no indications of any major changes that will be forthcoming. In any case, this Statement of Position, as well as subsequent reports and other appropriate literature of the AICPA and the Financial Accounting Standards Board, should be consulted when preparing financial statements for nonprofit corporations in accordance with generally accepted accounting principles.

Accounting for the enhancement firms would include a combination of many traditional commercial-type financial and fund accounting features. The use of the various funds would depend on the requirements of the individual firm. Although a number of possibilities are provided for, a given firm may only need to use the basic General Fund or Operating Fund. This operating group of accounts would use the more traditional commercial accounting practices of depreciation and accrual accounting. The basic operating costs, due to the many uncertainties, would be expensed as opposed to being deferred.

In addition, traditional fund accounting practices would be used for Restricted Funds as needed. The self-balancing set of accounts are presented for three restricted purpose type funds: Plant Replacement and Expansion Fund, Specific Purpose Funds, and Endowment Funds. To allow for unknowns, an "Other Fund" designation is provided.

General purpose financial statements by fund would be required, including a balance sheet; a statement of support, revenues, expenses, capital additions, and changes in fund balances; and a statement of changes in financial position on a cash basis.

The Chart of Accounts presented, as previously mentioned, provides a high degree of flexibility to allow management to tailor their system to provide the emphasis

desired while giving a degree of uniformity to reporting and accountability of the salmon enhancement firm. The numbering system provides for five significant digits using ten numerical figures--zero through nine. Indications are provided where expansions that may be necessary would use alpha letters. Traditional provisions are made for asset, liability and fund balance accounts. Revenue and expense accounts are given special emphasis, all by the particular fund to which they relate and allowing for segregation by physical enhancement site location.

The five digit account number code can be illustrated using the following example: the cost of rubber gloves (material and supplies) for egg take operations at a firm's second major enhancement facility (a hatchery). The proper account code would be 523.01.

<u>Significant digit</u>	<u>Code assigned</u>	<u>Meaning</u>
1	5	General Fund expense
2	2	Enhancement site #2
3 (Primary subclassification)	3	Enhancement operations-basic
	.	Decimal point for clarity
4 (Secondary subclassification)	0	Egg take
5 (Natural classification)	1	Material and supplies

To further illustrate the flexibility that management may desire to incorporate, the firm may use all of the significant digits, use only the first four digits, or use all except the fourth digit in which case the fourth digit would always be zero.

## ACKNOWLEDGMENTS

The author wishes to acknowledge the contributions of others to the effort reflected in this report. Foremost in this regard would be Armin Koernig, president of the Prince William Sound Aquaculture Corporation; Wallace Noerenberg, their consulting biologist, and many of the directors, officers and staff of the Cordova based pilot program. The Southern Southeast Regional Aquaculture Corporation and their executive director Jack Milnes also provided valuable suggestions and comments.

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Laboratory, National Marine Fisheries Service, NOAA, P. O. Box 155, Auke Bay, Alaska 99821). Also the authors of the "Salmon Rancher's Manual" William J. McNeil and Jack E. Bailey, took time from their busy schedules for interviews and assistance.

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Any errors or omissions are the sole responsibility of the author.

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#### AUTHOR'S NOTE

"Enhancement facility," "basic facility," "enhancement site," and "facility" are terms used throughout this paper to describe an activity in which the nonprofit firm is engaged which provides some direct benefits to the firm. This terminology is used to recognize that there may well be enhancement facilities other than just hatcheries which provide direct benefits to the firm. Provision is also made for enhancement "activities" that will not provide direct benefits to the nonprofit firm, but only to the common property fishery. See Chapter VI for further discussion and illustrations, in particular, primary sub-classifications 3, 5 and 6.

## CHAPTER I

### INTRODUCTION

In 1974, the Alaska State Legislature passed a law providing for the establishment of privately owned nonprofit salmon enhancement facilities "for the purpose of contributing, by artificial means, to the rehabilitation of the state's depleted and depressed salmon fishery." It was landmark legislation. Until that time, efforts to rebuild Alaska's dwindling salmon stocks had been largely the function of federal and state agencies. This new law (Ch. 111, SLA 1974), however, permitted action at the grass-roots level to aid in the renewal of this vital resource.<sup>1</sup>

Despite the risks and uncertainties involved in the new concept, action came swiftly. The dedication of some individuals and groups stirred the pot for interest and backing, and then kept the kettle brewing through long hours of toil, often at great personal sacrifice. Such dedication was, and is, reflected in the efforts of the Cordova Aquatic Marketing Association and its leaders in the establishment of the Prince William Sound Aquaculture Corporation and its pilot program. They have since been joined by many other groups, and assuredly, there will be more.

Limited by law to a nonprofit institutional form, these private corporations are placed in a difficult position. While a major portion of their efforts will benefit the common property fishery, those involved directly or indirectly

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<sup>1</sup> Robinson, E. Thomas, "Private Nonprofit Salmon Hatcheries in Alaska," Sea Grant Report 76-1, Alaska Sea Grant Program, University of Alaska, Fairbanks, January, 1976.

with the common property fishery may not necessarily be providing financial remuneration to the organization--a "free-rider" problem. In addition, large or small scale salmon enhancement production using the ocean ranching concept<sup>2</sup> is a new developing field with many biological, economic and social variables and uncertainties.

Basically, most firms will have enhancement facilities to artificially propagate, rear, and release juvenile salmon (fry or smolts) into the ocean where most of their growth occurs. When mature, those fish that have survived the ocean environment and predation, as well as the existing commercial fishery, make their way back to the "home" stream and the enhancement site, although some straying may occur. The percentage of this return is uncertain for any enhancement operation. However, the 1974 enabling legislation also required that the private enhancement facility "be operated without adversely affecting natural stocks of fish in the state and under a policy of management which allows reasonable segregation of returning hatchery-reared salmon from naturally occurring stocks."

Any revenues generated by the return of the salmon to the nonprofit facility are restricted by law (AS 16.10.450) to cover operating costs, including debt retirement, and for other enhancement-related activities. Although revenues from these operations may be significant, a recent study concludes that a continuous assessment program levied upon the direct beneficiaries of the enhancement returns would be required for economic feasibility: "Economic incentives to invest private funds in salmon ranching ventures

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<sup>2</sup> McNeil, William J. and Jack E. Bailey, "Salmon Ranchers Manual," Northwest Fisheries Center, Auke Bay Laboratory, National Marine Fisheries Service, NOAA, P. O. Box 155, Auke Bay, Alaska 99821.



are reduced by the free-rider problem and extreme uncertainty. The latter is exacerbated by failure of the public sector to clearly establish policies which allow reasonable estimates of private benefits."<sup>3</sup>

Since the passage of the original 1974 enabling act, there have been annual revisions of the statutes to encourage the development and expansion of the private nonprofit salmon enhancement program.<sup>4</sup> A state loan program, with favorable rates and amortization schedules, including interest relief, has been set up exclusively for private nonprofit enhancement facilities, whether they are small family operations or multimillion dollar investments. Other legislation provides for the establishment of regional associations and salmon authorities.

Qualified regional associations are eligible to receive grant monies from the state. In addition, the Statutes provide that a qualified regional association may request an assessment on the sale of salmon within the area. Voluntary assessments are also premitted by the Statutes.

While the loan, grant, and assessment programs are under the direction of the Alaska Department of Commerce and Economic Development, issuance of the enhancement permit falls under the jurisdiction of the Alaska Department of Fish and Game. Specifically, in 1971 the Division of Fisheries Rehabilitation,

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<sup>3</sup> Orth, F. L., "The Economic Feasibility of Private Nonprofit Salmon Hatcheries," Sea Grant Report 77-4, Alaska Sea Grant Program, University of Alaska, Fairbanks, June, 1977. p. ix.

<sup>4</sup> Robinson, E. Thomas, Sea Grant Report 77-6, "A Compilation of the Alaska Statutes as They Pertain to the Nonprofit Salmon Hatcheries (through the 1977 Session)." Alaska Sea Grant Program, University of Alaska, Fairbanks, July, 1977.

Enhancement, and Development (FRED) was created (Ch. 113, SLA 1971) and charged with all public enhancement activities, which include a number of existing and planned facilities designed for production and research. Under the Statutes, significant controls are exercised by the Alaska Department of Fish and Game over permit holders, including the location of the facility, the source of donor stock, and the sale of eggs and fry.<sup>5</sup>

Obviously, the demands upon the private nonprofit enhancement firm for the reporting of financial information and accountability are complex and far-reaching. This accountability would have to be made to state agencies (almost assuredly state funds, either in the form of loans or grants or both, would be involved), and to those providing financial support in the form of assessments or contributions, such as fishermen, processors, and other direct or indirect benefactors, including the public. In addition, the impact of the firms on the public, both economically and socially, would have to be taken into consideration, as well as the effect of these facilities in the developing field of aquaculture.

Even more important, however, is the need for the accumulation of relevant financial information to facilitate control and decision-making activities within the firm, and to provide management with the framework for accountability and full disclosure that is so vital to the efficient conduct and evaluation of the activities of any organization. Hence, the information provided by any accounting system, in the gathering of quantitative financial data, is essential for: (1) management accounting--effective planning, control, and

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<sup>5</sup> Robinson, 1977, Statutes, Article 8. p. 5.

decision making by management or those inside the organization, and (2) financial accounting--discharging the accountability of the organization to contributors, creditors, government agencies, and others.<sup>6</sup>

There are many different "systems" or "subsystems" within the total accounting information system of any organization--payroll, purchasing, internal control, etc. Of major concern in this report is the backbone of any organization's information-gathering system--a Chart of Accounts.

A Chart of Accounts is a list of account titles with numerical symbols designed for the compiling of financial data concerning the assets, liabilities, equity, revenues, and expenses of an organization. It must serve a multitude of needs for management and financial accounting. Although a Chart of Accounts is designed for use by bookkeepers and accountants, the discussion here is also tailored for those involved in the nonprofit enhancement program -- management, directors, fishermen, biologists, legislators, etc. -- who might have a limited accounting background. Since the major objective is to provide, on a flexible basis, financial information for these user groups, a somewhat less technical discussion is presented.

The use of uniform accounting classifications, accounting methods, and statistical definitions can provide a common standard of measurement, allowing for comparison and communication of new developments. However, the reader should keep in mind that the most important use of accounting data is to aid in effective planning, control, and decision making by management.

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<sup>6</sup> American Institute of Certified Public Accountants, "By-Laws, as amended February 20, 1969." (New York, 1969), p. 40.

Reporting of data for management can involve either a responsibility based system -- following a firm's organization structure and lines of responsibility and authority, or an activity based system -- following a certain flow of events, such as physical operating activity, revenue and/or cost centers, funds source or budget control as may be the case in a municipal environment, etc. Reporting could also be a combination of these systems. In any case, the Chart of Accounts proposed here was designed with these considerations receiving priority -- with the system providing flexibility so the individual firms can stress and achieve their own goals and emphasis, while at the same time providing for a degree of uniformity.<sup>7</sup> However, before a detailed look at the Chart of Accounts, it is important to consider some underlying concepts and unique features relevant to nonprofit salmon enhancement facilities -- the subject of the next chapter.

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<sup>7</sup> The actual numerical coding is similar to that used by hospitals. See: "Chart of Accounts for Hospitals," published by the American Hospital Association, Chicago, Illinois.

CHAPTER II  
ACCOUNTING AND REPORTING

Background

The overriding legislative purpose in the establishment of privately owned salmon enhancement facilities was to aid in the rehabilitation of the salmon fishery. Therefore, when the statutes were enacted, they specified that these private firms be in one form only--nonprofit--with rehabilitation the basic objective.

Accounting principles and reporting practices which would apply to these nonprofit firms are, at the time of this writing, still being finalized by the American Institute of Certified Public Accountants and the Financial Accounting Standards Board. Recommendations in this report, however, agree in basic content with the discussion and exposure drafts prepared and circulated.<sup>1</sup>

Nonprofit Firms

Typical unique characteristics in the financial structure of nonprofit firms include:

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<sup>1</sup> The discussion draft, "A Tentative Set of Accounting Principles and Reporting Practices for Nonprofit Organizations Not Covered by Existing AICPA Industry Audit Guides," prepared by the Accounting Standards Subcommittee on Nonprofit Organizations, was circulated for comment on Feb. 1, 1977. Subsequently, the exposure draft of the proposed Statement of Position, bearing the same title, was circulated for comment on April 1, 1978, by the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants. This Statement of Position, as well as subsequent reports and other appropriate literature of the AICPA and the Financial Accounting Standards Board, should be consulted when preparing financial statements for nonprofit corporations in accordance with generally accepted accounting principles.

- . Financial contributors do not necessarily receive any benefits.
- . The profit motive is not a dominant purpose, nor a major purpose, in their inception or operation.
- . Ownership is not normally evidenced by individually owned equity shares which may be marketed.

Specifically, the nonprofit enhancement firms would appear to exist to serve the interests of the public at large, with emphasis on the segment that is directly or indirectly dependent upon the salmon fishery. Other appropriate functions might be to conduct research programs for the benefit of the public and, as has already been done by the Prince William Sound pilot program and others, to hold educational forums, seminars, etc. on salmon enhancement. In addition, one might conclude that they would "lessen the burdens of government," since their legal purpose is the same as that of the State Department of Fish and Game's FRED division. All of these are typical nonprofit activities.

In profit-motivated organizations, "control" is exercised in the marketplace by the consumer. Poor management or bad business practices can lead to a loss of consumer confidence, and the firm ultimately will be forced out of business. In nonprofit firms, however, this direct consumer "control" is lacking--even though one of the organization's basic functions might be to serve the public at large. Without alternative controls, inefficient or ineffective management might continue to function, seemingly in perpetuity. Thus, more stringent legal controls and reviews are imposed on the reporting of activities and funds received by nonprofit firms.

Some examples of these increased controls might include:

- . strict adherence by management to budgets imposed by a board of directors or an executive board;
- . designated criteria as to the number and composition of the board of directors;
- . identification of resources and the manner in which these resources may be obtained;
- . restrictions upon the use of resources for designated specific items;
- . specified procedures for making disbursements, and
- . frequency of audits (including who is to perform the audits).

#### Accounting Objectives

Many similarities exist in accounting for profit and nonprofit organizations. As expressed by the American Accounting Association, the objectives of accounting are to provide information for:

1. Making decisions concerning the use of limited resources, including the identification of crucial decision areas and determination of objectives and goals.
2. Effectively directing and controlling an organization's human and material resources.
3. Maintaining and reporting on the custodianship of resources.

4. Contributing to the effectiveness of all organizations, whether profit-oriented or not, in fulfilling the desires and demands of all society for social control of their functions.<sup>2</sup>

The fundamental purpose of sound accounting for both profit and nonprofit firms can be summarized in this excerpt from the Accounting Principles Board Statement No. 4, "Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises."

"The basic purpose of financial accounting and financial statements is to provide quantitative financial information about a business enterprise that is useful to statement users.... This purpose includes providing information that can be used in evaluating management's effectiveness in fulfilling its stewardship and other managerial responsibilities."<sup>3</sup>

Although these purposes were directed at profit-seeking enterprises, they are also recognized for nonprofit firms. In review, the functional areas of difference between profit and nonprofit-seeking groups is two-fold: control and objectives. The accounting objectives, however, have many similarities. The student of accounting can continue from this point, more so now than in the recent past, the academic study of these similarities and differences.

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<sup>2</sup> American Accounting Association Committee to Prepare a Statement of Basic Accounting Theory. "A Statement of Basic Accounting Theory," Evanston, Illinois. AAA, 1966, p. 4.

<sup>3</sup> American Institute of Certified Public Accountants, Inc., "APB Statement No. 4, Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises," New York, N.Y.: AICPA, October, 1970, paragraph 73.



## Accounting Features

The accounting for the activities of these nonprofit firms in light of the purpose of salmon enhancement, should appropriately follow many commercial-type basic financial features,<sup>4</sup> including:

1. Accounting entity - all economic activities of the individual enhancement firm should be reflected, plus some basic fund accounting situations (see "Restricted Funds," discussed later).
2. Going concern - continuity of operations is assumed unless evidence to the contrary exists. This should be appropriate for the basic enhancement operations as they provide, and continue to provide salmon enhancement activities. This would not be relevant for expendable specific designated funds, discussed later.
3. Measurement of economic resources and obligations - a primary concern of accounting.
4. Time periods - activity information presented for relatively short time periods.
5. Measurement in terms of money.

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<sup>4</sup> OP cite paragraph 25.

6. Accrual basis - determination of periodic results of activities and financial position as changes occur, rather than simply recording receipts and disbursements of cash.
7. Exchange price - basis of measurement.
8. Approximation - inevitable in the allocations necessary in financial accounting.
9. Judgment - informed judgment required in financial accounting.
10. General purpose financial information should be presented.
11. Fundamentally related financial statements - statements of financial position and changes in financial position are fundamentally related.
12. Substance over form - results of economic events emphasized.
13. Materiality - only concerned with significant information.

### Fund Accounting

If a nonprofit enhancement facility is provided resources restricted as to use by parties outside of the organization, such restricted resources and related accounts should be maintained in accordance with the principles of fund accounting. Such restrictions and limitations are then clearly accounted

for by establishing a self-balancing set of accounts for recording the assets, liabilities, fund balance and changes in the fund balance by specific designated purpose. Although these separate accounts would be established and maintained for each fund, the reporting of these items in financial statements would allow the combining into groups those funds having similar characteristics. In essence, these are considered "Restricted Funds" and should be accounted for as such.

### Restricted Funds

Invisioned nonprofit salmon enhancement activities appear to fall into three basic restricted purpose type funds, which have been provided for in the design of the Chart of Accounts. A provision has also been made in the Chart of Accounts for the addition of some "Other Funds" that were not invisioned. The following are some considerations of the application of these three self-balancing funds, each of which would constitute a subordinate accounting entity:

1. Plant Replacement and Expansion Fund: This fund is maintained to account for resources provided by donors and restricted to use for additions to property, plant, and equipment (including leasehold improvements). As expenditures are made for the intended purpose, the resources from this restricted purpose fund should be transferred to the General Fund (discussed below). This transfer would be appropriate in the period of expenditure. It should be emphasized that the property, plant, or equipment acquired in accordance with provider restrictions would not be accounted for in this fund.

2. Specific Purpose Funds: Two of these funds would be established to account for resources provided for designated purposes -- one from government sources and the second from all other sources. Expenses funded by these donor-restricted amounts should be recorded in the General Fund as they occur, and the resources from these specific purpose funds should be transferred to the General Fund -- being reflected in "Other Operating Revenues" (see Chapter V, Other Operating Revenue). An example of the proper use of the "Specific Purpose Fund -- Government Designation" would be grant monies provided by the state to a qualified regional association for organizational and planning purposes (AS 16.10.510(9)).
  
3. Endowment Funds: This category is provided to account for resources given a nonprofit enhancement firm as a permanent fund or as a term endowment. As the endowment contract would have to be followed, any gains or revenues would be accounted for within those provisions. Basically, if revenues from the endowment were restricted for a specific purpose, those resources should be transferred to the appropriate restricted purpose fund. If those revenues from the endowment were not restricted, then a transfer should be made to the General Fund "Non-operating Revenues" account that is provided for this purpose (see Chapter V, Non-operating Revenues).

### General Fund

The General Fund is the operating fund. It accounts for all resources and equities that are not properly accounted for in the restricted funds

discussed above. Hence, all day-to-day activities of the enhancement facility and all activities that are not restricted by the terms of gifts, bequests, grants, or donations would be accounted for in the General Fund. Provision has been made to allow for more than one group of "General Funds." This was done to allow a firm, if it so desired, to establish a "fund-within-a-fund" to facilitate the accounting for "specific activities" or "internally designated" purposes.

An example of "specific activities" would be to account for construction activities, either in-house construction or outside contracted construction. An example of an "internally designated" purpose might be a case where the board of directors imposed restrictive designations on the use of certain resources. Such designations would not be accounted for in a restricted purpose fund, as the board could take action to reverse its decision. This may also be used where the board wanted to exercise strong budget controls on management. The Chart of Accounts would allow the actual "recording of the budget" within the accounts to impress on management those budgetary constraints. (See any basic text on fund accounting for a further discussion of this procedure -- a common method used in municipal accounting.)

### Financial Statements

The financial statements recommended here are of a general purpose nature and are designed for readers outside of the organization. This discussion is not intended to cover reports for internal use, although the Chart of Accounts gives priority consideration to management uses of information in its design. The required financial statements are those customarily used

by both profit and nonprofit organizations and would include appropriate notes and schedules facilitating their fair presentation. Although there are a number of schedules that might be considered appropriate (for example, a detailed schedule of donors or contributors), such additions will be left to the ingenuity of management.

The general purpose statements include:

1. A balance sheet showing the assets, liabilities, and fund balances of the general operating fund and the different restricted purpose funds, as appropriate, including combined totals for all funds of the organization.
  
2. A statement showing financial activity from the beginning of the period to the end of the period, including the support, revenue, expenses, capital additions, and changes in fund balances. (Capital additions, as referred to here, would include nonexpendable grants, gifts, and bequests restricted by parties outside of the organization either permanently or for an extended period of time.) As with the balance sheet, this statement should include the general operating fund and all appropriate restricted purpose funds, including totals. Although there should be revenues from the enhancement facilities and their related operating expenses, these items should not be compared individually on this statement, due to a matching problem that will be discussed in the following chapter. The excess (deficiency) of support and

revenue over expenses before capital additions, as well as the excess (deficiency) of support and revenue over expenses after capital additions, should be clearly labeled, using appropriate line captions.

3. A statement of changes in financial position, using the cash basis, is very important for nonprofit enhancement organizations. As described in current accounting literature, the ability of the firm to obtain support and provide cash from operations is a major consideration in its financing and investing activities, and in its efforts toward salmon rehabilitation. This statement should summarize all changes in financial position, again in detail by individual fund, showing a combined total for all funds. The cash basis concept is recommended (vs. the working capital concept) mainly due to the organization's preoccupation with cash as a means of working toward fulfillment of its stated purpose. In addition, the donors or contributors and other "user" groups tend to relate to this cash concept more readily than the working capital concept.

These statements and further recommendations on detailed statistical data are illustrated in the following chapter. In addition, some unique considerations for accounting and reporting of the nonprofit enhancement organizations are discussed.

TABLE 1

## LIFE CYCLES OF THE FIVE SPECIES OF PACIFIC SALMON IN ALASKA

(Exceptions to these general descriptions frequently occur)

Species of Salmon	Fresh-water habitat	Time spent in fresh water after emergence from gravel	Time spent at sea (Years)	Year of life at spawning	Average weight of adults (Pounds)	Average eggs per female (Thousands)
Pink	Short streams	Usually less than 1 day	1	2	4	2.0
Chum	Short and long streams	Less than 1 month	2-4	3-5	8	3.0
Sockeye	Short streams and lakes	12-36 months	1-4	3-6	6	3.5
Coho	Short streams and lakes	12-24 months	1-3	3-4	9	3.5
Chinook	Large rivers	3-12 months	1-4	3-6	20	4.0

Source: International North Pacific Fisheries Commission



## CHAPTER III

### SOME SPECIFIC ACCOUNTING AND REPORTING CONSIDERATIONS

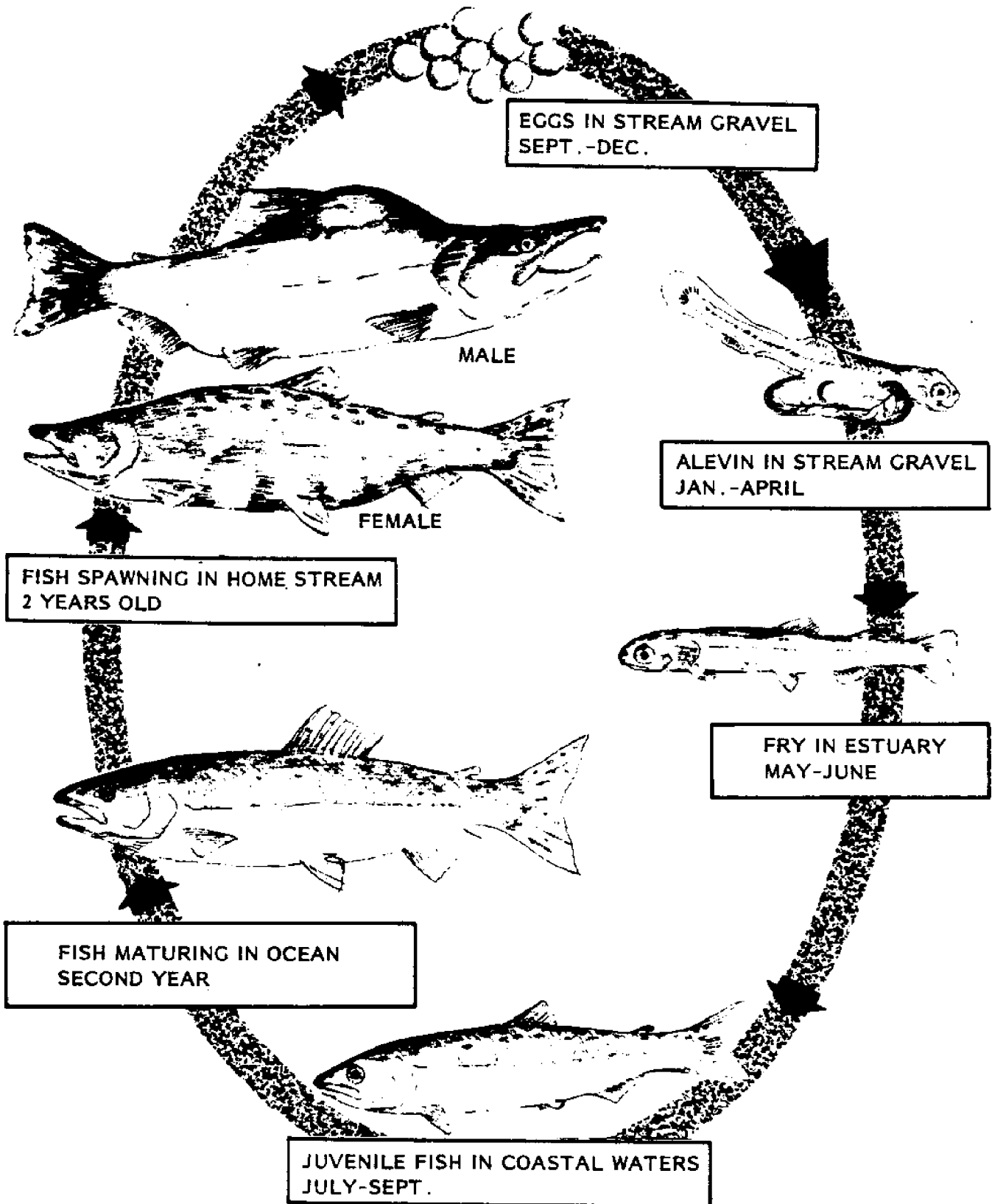
After looking at the general purpose financial statements and basic features in their reporting, let us again review the basic purpose and activities of the nonprofit enhancement corporations. All have a common purpose--to work toward the legislatively defined goal of salmon rehabilitation. They differ only in the breadth of their activities, depending on whether the firm is a small one-site, large one-site, or multi-site operation, or a regional corporation or "salmon authority." It is even possible that an enhancement facility would not be involved in the activities of these organizations, although most will have at least one enhancement site as a cornerstone of its operations.

#### The Salmon Cycle

The species of salmon granted all this attention will vary by location and the desires of the nonprofit organization's constituents and board of directors. There are five species of Pacific salmon in North America, each of which has its own unique life cycle (Table 1). Because it has the shortest life cycle (two years), the Pink salmon (Figure 1) would appear to be the most desirable species when considering the time value of money. However, the average weight of adult Pinks is the lowest (four pounds). Additionally and more importantly, the intent of the legislation authorizing nonprofit enhancement facilities was to improve depleted and depressed salmon runs of all species. Additional management and capital investment considerations that must be faced relative to the other four species of Pacific salmon will be a function of the organization's constituents.

FIGURE 1

LIFE CYCLE OF PINK SALMON



--From "Salmon Rancher's Manual,"  
by W. J. McNeil and J. E. Bailey, NMFS

## Reporting Period and the Salmon Cycle

No matter what species of salmon is involved, an accounting and reporting consideration must be given to their life cycles. Since Pinks have the shortest life cycle and all mature to spawn at two years, they will be used to illustrate this reporting consideration.

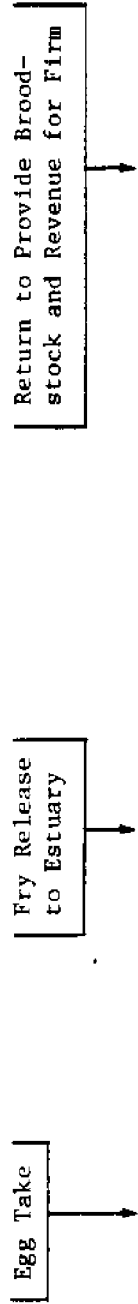
With the general purpose financial reports, the statement of activity and the statement of changes in financial position will cover a traditional one-year period. Hence, even with an enhancement facility dealing exclusively with Pink salmon, a statement of activity would always cover a period less than the full life cycle of the fish. This is illustrated in Table 2, along with the indication of facility cost incurrence and receipt of revenues during one brood cycle.

The accounting for these "Basic Facility Operating Costs" could be appropriately handled as deferred costs, set up as assets on the Balance Sheet, and then reclassified as expenses on the Statement of Activity for the period which would include the related revenues, if any, generated from the returning adult salmon. Using Table 2, this would involve deferring as assets those "basic facility operating costs" incurred in 19 x 0 and 19 x 1 and then approximately in September, 19 x 2, these costs would be reclassified as expenses. This illustrates an important feature in accounting, in that income determination should be made through a cause and effect process.

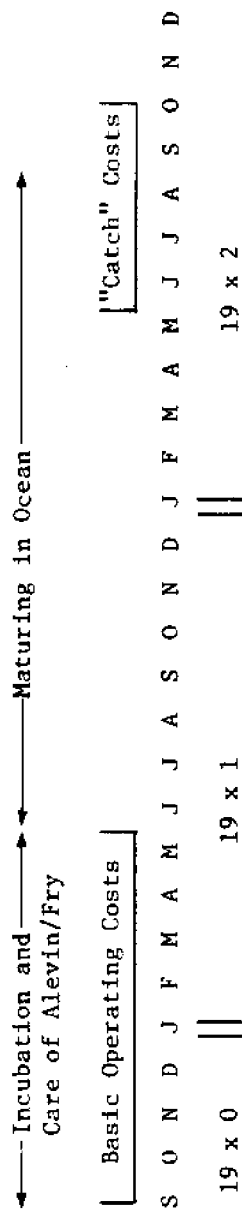
This "matching" process, as it is often called in accounting literature, appears possible for Pink salmon, but there are a number of readily apparent

TABLE 2

ILLUSTRATION OF PINK SALMON BROOD YEAR CYCLE WITH ENHANCEMENT FACILITY INVOLVEMENT



19 x 0 Brood Year Cycle



(Timing Approximate)

(Months, beg. Sept.)

Basic Operating Costs

S O N D J F M A M J J A S O N D J F M A M J J A S O N D

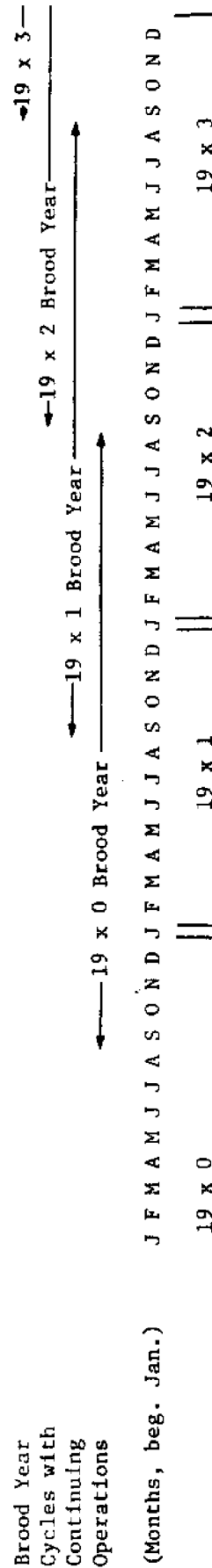
19 x 0 ||| 19 x 1 ||| 19 x 2

"Catch" Costs

S O N D J F M A M J J A S O N D

19 x 2

Brood Year Cycles with Continuing Operations



(Months, beg. Jan.)

J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D

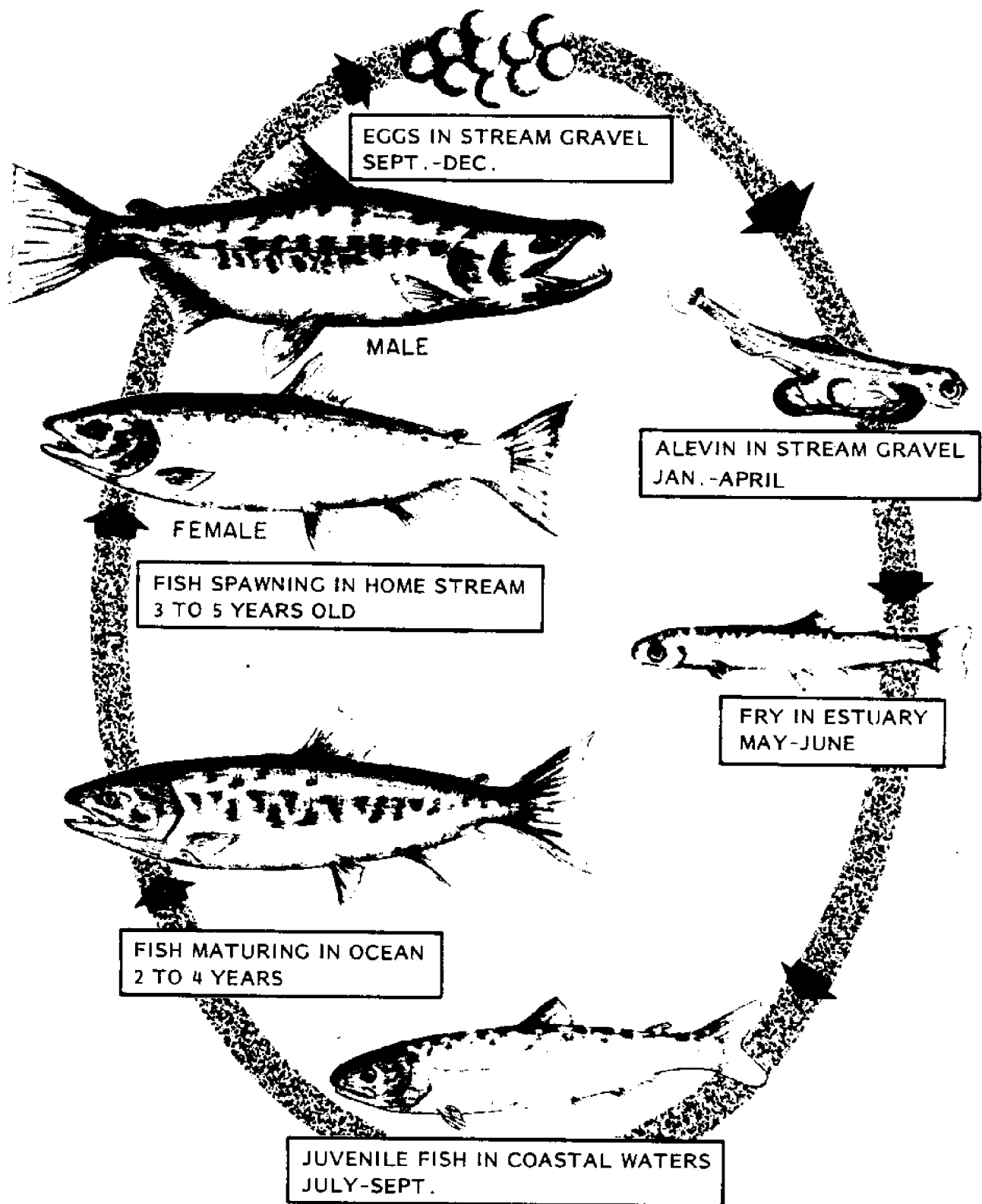
19 x 0 ||| 19 x 1 ||| 19 x 2 ||| 19 x 3

problems. First, the control of the salmon is not maintained by the firm (as would be the case in fish farming, for example) since they are released into the ocean for maturing and become "common property." Within this ocean environment, not only must they survive predation, but they must also go through existing commercial and sports fisheries before they return to the enhancement facility -- relating to the basic purpose of enhancement facilities being established. These fisheries can be managed by openings and closings, but the capability does not currently exist for managers to intervene to provide that everyone gets a share or a fair share -- let alone the ability to determine who should get what percent. The Alaska Department of Fish and Game has well published its position (and rightfully so) that it will not attempt to regulate the fisheries at an enhancement site any differently than it regulates fisheries to obtain a return of spawners to natural streams. In addition, it is known that straying will occur from stream-to-stream, and that the survival of released fry to returning adults is highly variable -- ranging from no returns to very favorable returns.

All these considerations and uncertainties are increased, or even compounded, as a firm becomes involved with species other than Pinks. For example, there could be a problem identifying what percentage of "basic facility operating costs" would be "matched" on a Statement of Activity for Chums, (refer again to Table 1 and see Figure 2), because the adults from any one brood cycle may return in three, four, or five years. Although statistics exist for these situations, there is a large degree of variability brought about by such factors as location, water quality, and weather conditions, to name a few.

FIGURE 2

LIFE CYCLE OF CHUM SALMON



--From "Salmon Rancher's Manual,"  
by W. J. McNeil and J. E. Bailey, NMFS

## Uncertainty

The whole area of uncertainty for private nonprofit salmon enhancement facilities was addressed in a recent feasibility study:

"A high degree of uncertainty is another factor affecting private incentives to invest in hatcheries. Uncertainty is derived from the unknowns surrounding the survival rate of hatchery fish in the natural environment, the difficulty of forecasting future market conditions for the inputs and the output of hatcheries, and the high degree of sensitivity of economic feasibility to both of these factors. Additional uncertainty derives from the instability of the evolving policies of the state with respect to resource management, the relative roles of the public and private hatchery programs and the methods and level of funding.

"In short, there are few givens in the biological, technological, political, and market dimensions with which a hatchery enterprise must be concerned. The combination of these uncertainties with those resulting from vaguely defined property rights and the free-rider problem creates an extremely uncertain economic environment for nonprofit hatchery firms. The practical significance of this uncertainty is, of course, that potential private investors (contributors) have little basis for projecting rates of return in comparison to other investment alternatives. Furthermore, the present nonprofit restriction forecloses the normal market mechanisms for obtaining high-risk capital and managerial talent."<sup>1</sup>

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<sup>1</sup> Orth, F. L. "The Economic Feasibility of Private Nonprofit Salmon Hatcheries," Sea Grant Report 77-4, June, 1977. University of Alaska, p. 9.

## Expense Recognition

The consideration of these uncertainties reflects on expense recognition. The accounting profession has addressed the question of expense recognition and has concluded that "to apply expense recognition principles, costs are analyzed to see whether they can be associated with revenue on the basis of cause and effect. If not, systematic and rational allocation is attempted. If neither cause and effect associations nor systematic and rational allocations can be made, costs are recognized as expenses in the period incurred or in which a loss is discerned. Practical measurement difficulties and consistency of treatment over time are important factors in determining the appropriate expense recognition principle."<sup>2</sup>

Following these considerations, it is recommended that unless a firm can determine otherwise, the "basic facility operating costs" be expensed in the period incurred. It is also recommended that the facility costs by brood year be maintained and, as supplemental notes to the Statement of Activity, these costs be presented, through the application of estimated return percentages, along with the revenues they apparently generated. This entire process (the direct expensing of basic facility costs and the supplemental note providing a statistical attempt to show the cause and effect relationship of expense and revenue) should be an integral point in the note to the general purpose financial statements disclosing the accounting policies of the firm. As an organization becomes established and/or if

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<sup>2</sup> American Institute of Certified Public Accountants, Inc., "APB Statement No. 4 Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises," New York, N.Y.: AICPA, October, 1970, paragraph 161.



changes in technology occur that would permit the matching of expenses and revenues on the cause and effect basis, the firm should subsequently make the accounting and reporting change.

#### Statistical Information

Although the presentation of operating data in regard to the number of returns, eggs taken, egg survival, fry survival, fry released, etc. would not be necessary for financial statement purposes, the inclusion of such information is highly recommended. If such statistics are presented, it is recommended that not only absolute numbers, but also percentages be made a part of the supplementary information. It is understood that certain of these statistics will be required to be reported to the Alaska Department of Fish and Game and, hence, would entail no additional "cost" for accumulation and reporting with the financial reports. Such reporting would also allow the presentation of a unit of measure of the organization's efforts at rehabilitation, which, used guardedly, could start an index of the firm's effectiveness and efficiency -- for example, cost per 1,000 fry released.

#### Donated Services, Materials, and Facilities

Although the extent of donations of in-kind services, materials, and facilities may vary by organization, these types of donations should be recorded at their fair value, provided there is a clearly measurable, objective basis for determining that value. As this is an acceptable practice for business firms in regard to fixed assets -- their acquisition or construction and

installation -- this is intended to refer to expense-type conditions. In this regard, services and materials should be reported both as support and expense in the period received. The value of donated facilities should be reported as support and expense in the period in which the facilities are used. The question of donated services was addressed in the report by the Accounting Standards Executive Committee referred to in Chapter II. Its criteria for the reporting of services included the existence of all of the following circumstances:

1. The services performed are significant and essential to the organization and would be performed by salaried personnel if volunteers were not available for the organization to accomplish its purpose and the organization would continue this program or activity if volunteers were not available.
2. The organization controls the employment and duties of the donors of the services. The organization is able to influence the activities of the volunteers in a way comparable to the control it would exercise over employees with similar responsibilities. That includes control over the time, location, duties, and performance of the volunteers.
3. The organization has a clearly measurable basis for the amount to be recorded.
4. The program services of the reporting organization are not principally intended for the benefit of the organization's

members. Contributed services would not normally be recorded by membership organizations, such as professional and trade associations, labor unions, political parties, fraternal organizations, and social and country clubs.<sup>3</sup>

Within this criteria for donated services, and also for donated materials and facilities, the failure to record and report significant identifiable amounts would not only understate assets, support, and expenses, but also indicate a failure on the part of management to fulfill its accountability and responsibility to the organization. The extent that donated items are recorded should be addressed in the "accounting policies" note to the financial statements.

#### Depreciation

As the operations of these nonprofit organizations will, by all indications, require significant long-term assets, it is considered important that over their useful life these assets be allocated to expense through depreciation accounting.

"Depreciation accounting is a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any) over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner.

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<sup>3</sup> Accounting Standards Executive Committee, "Proposed Statement of Position on Accounting Principles and Reporting Practices for Non-profit Organizations Not Covered by Existing AICPA Industry Audit Guides," AICPA, April 1978, New York, N.Y., p. 11.

It is a process of allocation, not of valuation. Depreciation for the year is the portion of the total charge under such a system that is allocated to the year. Although the allocation may properly take into account occurrences during the year, it is not intended to be a measurement of the effect of all such occurrences."<sup>4</sup>

Hence, depreciation accounting is a means of allocating costs. Clearly, when depreciation would not be recorded, the costs of the firm's activities would be understated. Therefore, for these enhancement firms with their significant exhaustible fixed assets, depreciation accounting should be employed.

#### Basic General Purpose Financial Statements

The three general purpose financial statements discussed in Chapter I are illustrated in Tables 3, 4, and 5. These statements should be reviewed in light of the discussions presented in this and the preceding chapter. The notes and supplemental information are not presented, but these have been addressed within the discussions, and suggestions have been made on certain unique features of the nonprofit enhancement facilities.

It should be noted that the Chart of Accounts will provide additional information that management may desire to present along with the general purpose financial statements. The following chapters will now address the recommended Chart of Accounts and its unique coding system.

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<sup>4</sup> Committee on Terminology, "Accounting Terminology Bulletin No. 1 Review and Résumé," AICPA, August, 1953, paragraph 56.

TABLE 3

EXAMPLE  
BALANCE SHEET  
DECEMBER 31, 197X

ASSETS	SPECIFIC PURPOSE FUNDS					TOTAL
	GENERAL FUND	PLANT RE-PLACEMENT & EXPANSION FUND	GOVERNMENT IGNATION	OTHER	ENDOWMENT FUND	
Current Assets:						
Cash	XX	XX	XX	XX	XX	XXX
Marketable Securities	XX	XX			XX	XX
Receivables and Pledges, Net of Allowance of XX	XX					XX
Inventories of Supplies	XX					XX
Other Prepaid Expenses	XX					XX
Due from Other Funds	XX					XX
Total	XXX	XX	XX	XX	XXX	XXX
Investments	XX					XX
Property, Plant, and Equipment Including Leaseholds, at Cost Less Accumulated Depreciation and Amortization of XXX	XXX					XXX
Other Assets:	XX					XX
TOTAL ASSETS	XXXX	XX	XX	XX	XXX	XXXX
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Current Liabilities:						
Notes Payable	XX					XX
Accounts Payable	XX					XX
Accrued Payrolls Payable	XX					XX
Payroll Taxes and Withholdings Payable	XX					XX
Accrued Expenses Payable	XX					XX
Due to Other Funds					XX	XX
Total	XXX				XX	XXX
Long-Term Notes Payable	XXX					XXX
TOTAL LIABILITIES	XXX				XX	XXX
FUND BALANCES	XXX				XXX	XXX
TOTAL LIABILITIES AND FUND BALANCES	XXXX	XX	XX	XX	XXX	XXXX

TABLE 4

EXAMPLE  
STATEMENT OF SUPPORT, REVENUES, EXPENSES, CAPITAL ADDITIONS AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 197X

	GENERAL FUND	SPECIFIC PURPOSE FUNDS			ENDOWMENT FUND	TOTAL
		PLANT RE- PLACEMENT & EXPAN- SION FUND	GOVERN- MENT DES- IGNATION	OTHER		
<b>SUPPORT AND REVENUES</b>						
Enhancement Operating Revenues						
Sale of fish	XXX					XXX
Sale of eggs	XX					XX
Other	XX					XX
Total	<u>XXX</u>					<u>XXX</u>
Support and Other Revenues:						
Grants	XX					XX
Contributions	XX					XX
Assessments	XXX					XXX
Donated Services and Materials	XX					XX
Investment Income	XX					XX
Specific Purpose Transfer	XX					XX
Total Support and Revenues	<u>XXXX</u>					<u>XXXX</u>
<b>EXPENSES</b>						
Central Administration	XXX					XXX
Facility Harvest Costs	XXX					XXX
Facility Basic Costs	XXX					XXX
Enhancement Operations	XX					XX
Research & Development	XX					XX
Interest	XXX					XXX
Other	XX					XX
Total Expenses	<u>XXXX</u>					<u>XXXX</u>
EXCESS (DEFICIT) OF SUPPORT AND REVENUE OVER EXPENSES BEFORE CAPITAL ADDITIONS	XX					XX
<b>CAPITAL ADDITIONS:</b>						
Contributions		XX			XX	XX
Investment income, gains		XX			XX	XX
EXCESS (DEFICIT) OF SUPPORT AND REVENUE OVER EXPENSES AFTER CAPITAL ADDITIONS	XX				XX	XX
FUND BALANCES - BEGINNING	XXX		XX		XXX	XXX
TRANSFERS		XX	(XX)		(XX)	(XX)
FUND BALANCES - ENDING	<u>XXX</u>	<u>XX</u>	<u>XX</u>		<u>XXX</u>	<u>XXX</u>

TABLE 5

EXAMPLE  
STATEMENT OF CHANGES IN FINANCIAL POSITION (CASH BASIS)  
FOR THE YEAR ENDED DECEMBER 31, 197X

	SPECIFIC PURPOSE FUNDS					TOTAL
	GENERAL FUND	PLANT RE- PLACEMENT & EXPAN- SION FUND	GOVERN- MENT DES- IGNATION	OTHER	ENDOWMENT FUND	
<b>SOURCES OF CASH:</b>						
Excess of Support and Revenue Over Expenses After Capital Additions	XX	XX	XX	XX	XX	XX
Add (deduct) Items Not Providing Cash - Depreciation, Amortization	XX					XX
Decrease in Due From Other Funds	XX					XX
Issuance of Debt	XX	XX			XX	XX
Proceeds From Sale of Investments	XX	XX			XX	XX
Transfer	<u>XXX</u>	<u>XX</u>		<u>XX</u>	<u>XX</u>	<u>XXX</u>
Total Cash Provided						
<b>USES OF CASH:</b>						
Increase in Receivables	XX					XX
Decrease in Accounts Payable and Accrued Expenses	XX					XX
Purchase of Investments	XX	XX			XX	XX
Purchase of Leasehold, Buildings, and Equipment	XXX					XXX
Payment of Debt	XX					XX
Transfers	<u>XXX</u>	<u>XX</u>	<u>XX</u>		<u>XX</u>	<u>XXX</u>
Total Cash Used						
<b>INCREASE (DECREASE) IN CASH</b>	<u>(XX)</u>	<u>XX</u>	<u>(XX)</u>	<u>XX</u>	<u>(XX)</u>	<u>(XX)</u>

## CHAPTER IV

### THE CODING SYSTEM AND DETAIL BALANCE SHEET ACCOUNT APPLICATION

As discussed in Chapter I, a Chart of Accounts is a list of account titles with numerical symbols designed for the compiling of financial data concerning the assets, liabilities, equity, revenues, and expenses of an organization. The numerical coding system described in this Chart of Accounts provides for the use of five digits. The use of the financial data for both external and internal reporting purposes was a major consideration in the design and coding described in this and the following chapters. Flexibility is provided throughout so management can "personalize" the application to various internal organizational designs and requirements. Digits could be added as a suffix if greater detail is desired.

The five digits with a decimal point separating the third and fourth digit are presented for balance sheet accounts in Table 6 and for revenue and expense accounts in Table 7. This chapter will discuss the application of the numerical coding to balance sheet accounts, while Chapters V and VI will discuss the details of revenue and expense accounts, respectively.

#### Balance Sheet Accounts

In balance sheet accounts, the first digit designates the financial statement classification of the account. As Table 6 indicates, the second digit is used for the different funds that may be required, as discussed in Chapter II, with the first five numerals available for general funds. This provision allows for a "fund-within-a-fund" in regard to General Fund activities, also discussed in Chapter II. The third digit identifies the



TABLE 6

BASIC NUMERICAL CODING SYSTEM - BALANCE SHEET ACCOUNTS

FIRST DIGIT	SECOND DIGIT	THIRD DIGIT	DECIMAL POINT	FOURTH DIGIT	FIFTH DIGIT
0	Not Used	0	.	0	0
1	Asset	1	.	1	1
2	Liability	2	.	2	2
3	Fund Balance	3	.	3	3
4		4	.	4	4
5		5	.	5	5
6	Statement of Activity (See Table 7)	6	.	6	6
7		7	.	7	7
8		8	.	8	8
9		9	.	9	9

TABLE 7

BASIC NUMERICAL CODING SYSTEM - REVENUE AND EXPENSE ACCOUNTS

FIRST DIGIT	SECOND DIGIT <sup>a</sup>	THIRD DIGIT	DECIMAL POINT	FOURTH DIGIT	FIFTH DIGIT
0	Not Used	0 Non-Enhancement Site (Central Office)	.	0	0
1	1 Basic Facility Site #1, Etc.	1	.	1	1
2	2 Balance Sheet Accounts	2	.	2	2
3	3	3	.	3	3
4	4 General Fund Revenues	4 Primary Subclassification	.	4 Secondary Subclassification	4 By Natural Classification
5	5 General Fund Expenses	5 Classification By Internal Source (Location)	.	5	5
6	6	6	.	6	6
7	7 Revenues <sup>a</sup> Other Than General Fund	7	.	7	7
8	8 Expenses <sup>a</sup> Other Than General Fund	8	.	8	8
9	9 Not Used	9 Basic Facility Site #9	.	9	9

Note: <sup>a</sup>The second digit for revenues and expenses relating to funds other than the General Fund would be as follows: 0-4, not used; 5, plant replacement and expansion fund; 6, specific purpose fund - government designation; 7, specific purpose fund - other designation; 8, endowment fund; 9, other funds.

<sup>b</sup>For additional sites, if needed, alpha letters should be used.

primary balance sheet classifications. The fourth digit identifies the secondary breakdown within each primary category. Identifying the use of the fifth digit is left to individual desires.

#### Revenue and Expense Accounts

In revenue and expense accounts (Table 7), the first digit distinguishes between General Fund revenue and expenses and other fund revenue and expense accounts. The second digit for "General Fund" accounts identifies location, while for "Other Than General Funds" accounts it identifies the related fund. The remaining three digits provide further classifications, the subject of the following two chapters.

#### Detail Balance Sheet Account Application

The balance sheet accounts are designed to be flexible to meet financial and management requirements in a wide variety of circumstances, situations, and fund combinations. Therefore, basic classifications are recommended for standardization through the fourth digit, while individual requirements will be the basis for assigning fifth and any additional digits. Table 8 identifies the use of the third digit which follows the traditional balance sheet classifications.

#### The Use of the Fourth Digit in The Coding System for Balance Sheet Accounts

##### CURRENT ASSETS:

For the primary subclassification of "0 - Current Assets," the secondary subclassification or fourth digit would be used as follows:

- 0 - Cash. Included in this classification would be all cash available for current activities, with the exception of petty cash (imprest cash accounts) which would be in the next classification. A suggested use of the fifth digit would be classification by purpose (e.g., general checking, payroll, construction, etc.) or location, or a combination thereof.
- 1 - Imprest Cash Funds. Office petty cash, expediting petty cash, enhancement site petty cash, and similar cash funds would be examples of this classification.
- 2 - Marketable Securities. Stocks and investments expected to be converted to cash, or otherwise used in current operations.
- 3 - Employee Advances and Receivables. Any amounts owed to the firm by employees.
- 4 - Receivables. Amounts owed to the firm by outsiders from the regular operations (including notes), and for pledges, gifts, bequests, and grants that would be collectible in the current year.
- 5 - Allowance for Uncollectible Receivables. This classification would be used in conjunction with the above classifications to enable the valuation of these receivables at an amount expected to be collected.
- 6 - Due From Other Funds. Current amounts receivable.

TABLE 8

CODING SYSTEM FOR BALANCE SHEET - PRIMARY SUBCLASSIFICATION

FIRST DIGIT	SECOND DIGIT	PRIMARY SUBCLASSIFICATION THIRD DIGIT	DECIMAL POINT	FOURTH DIGIT	FIFTH DIGIT
0	0	Current Assets	.	0	0
1	1	Long-Term Investments	.	1	1
2	2	Property, Plant, and Equipment	.	2	2
General Funds					
3	3	Accumulated Depreciation	.	3	3
4	4	Other Assets	.	4	4
5	5	Plant Replacement & Expansion Fund	.	5	5
6	6	Specific Purpose Fund - Govt. De- signation	.	6	6
7	7	Specific Purpose Fund - Other De- signation	.	7	7
8	8	Endowment Fund	.	8	8
9	9	Other Funds	.	9	9

Secondary  
Subclassification

Classification  
According to In-  
dividual Require-  
ments

- 7 - Inventories. Although Enhancement firms may develop operating inventories in the future, this classification of current assets would presently be used for "inventory type" prepaid expenses - e.g., fuel, fish food, laboratory supplies, etc.
- 8 - Prepaid Expenses. This classification would be used for "non-inventory type" prepaid expenses - expenses that have been paid for in advance, such as rent and insurance.
- 9 - Not currently assigned.

LONG-TERM INVESTMENTS:

For the primary subclassification of "1 - Long-term Investments," the secondary subclassification or fourth digit would be used as follows:

- 0 - Securities. Stocks, bonds, and other securities that are to be held for a number of years.
- 1 - Land. Land acquired and held as an investment and not currently used in operations.
- 2 - Due From Other Funds. Amounts due but not currently receivable from other funds.
- 3 through 9 - Not currently assigned.

PROPERTY, PLANT, AND EQUIPMENT:

For the primary subclassification of "2 - Property, Plant, and Equipment," the secondary subclassification or fourth digit would be used as follows:

- 0 - Land. The cost of land acquired and used in operations.
  
- 1 - Land Improvements. All depreciable land expenditures.
  
- 2 - Buildings. The cost of all buildings and attachments used in operations.
  
- 3 - Leasehold Improvements. All expenditures for the improvement of leased land and buildings used in enhancement operations.
  
- 4 - Fixed Equipment. The cost of depreciable items attached to a building and not readily subject to transfer or removal. The life of the item should be less than the structure to which it is affixed, and the item should be used in operations. Examples: generators, pumps, boilers.
  
- 5 - Major Movable Equipment. The cost of depreciable equipment that is movable, as distinguished from fixed. These assets should be controlled by identification tags and have a minimum life of three years or more. Examples: forklifts, boats, outboard motors, some incubators, desks, radio equipment, copy machines, trucks, airplanes, etc.

6 - Minor Equipment. Equipment relatively small in physical size and minor in amount that would have a useful life of three years or less. Examples would include some egg-take equipment; pots, pans, and silverware for temporary crews; some laboratory equipment; some maintenance equipment, etc.

7 and 8 - Not currently assigned.

9 - Construction In Progress. The costs of on-going construction would initially be classified here and then transferred to appropriate accounts upon completion.

#### ACCUMULATED DEPRECIATION:

For the primary subclassification of "3 - Accumulated Depreciation," the secondary subclassification or fourth digit would be used as follows:

0 - Not used.

1 - Accumulated Depreciation - land improvements.

2 - Accumulated Depreciation - buildings.

3 - Accumulated Amortization - lease hold improvements.

4 - Accumulated Depreciation - fixed equipment.

5 - Accumulated Depreciation - major movable equipment.



6 - Accumulated Depreciation - minor equipment.

7 through 9 - Not used.

#### OTHER ASSETS:

For the primary subclassification "4 - Other Assets," the secondary subclassification or fourth digit would be used as follows:

0 - Deferred Charges. All deferred charges not specifically covered below.

1 - Organization Costs. Basic costs of incorporation and organization that would benefit future periods. The costs would be amortized over periods that would terminate after the second full cycle at the firm's first basic enhancement site(s).

2 - Intangible Assets. Unamortized cost of intangible assets not otherwise covered.

3 - Other Assets. Non-current assets not covered in the above classifications.

4 through 9 - Not currently assigned.

#### CURRENT LIABILITIES:

For the primary subclassification of "5 - Current Liabilities," the secondary subclassification or fourth digit would be used as follows:

0 - Notes Payable. Current notes payable.

- 1 - Accounts (or vouchers) Payable. Amounts due trade and other creditors for purchases.
- 2 and 3 - Not currently assigned.
- 4 - Accrued Payroll Payable. Current salaries and wages payable.
- 5 - Payroll Taxes and Withholdings Payable. Current liabilities for all related payroll withholdings and taxes. The fifth digit is recommended for detail as desired in each specific firm.
- 6 - Due to Other Funds. Current amounts payable.
- 7 - Interest Payable.
- 8 - Other Accrued Expenses. The current liabilities for expenses not otherwise reflected.
- 9 - Other Current Liabilities. Deferred revenues, construction contracts payable and any related retainages, etc. of the current period.

LONG-TERM LIABILITIES:

For the primary subclassification of "6 - Long-Term Liabilities," the secondary subclassification or fourth digit, would be used as follows:

- 0 - Deferred Credits. To be used as a need arises for non-current deferred credits.

1 - Other Liabilities. Non-current liabilities not provided for in specific categories.

2 - Not used.

3 - Long-Term Debt. Liabilities that have maturity dates beyond a year from the balance sheet date. Current portions of long-term debt should be reclassified.

4 - Due to Other Funds. Long-term amounts payable.

5 through 9 - Not used.

FUND BALANCE - CONTRIBUTED:

For the primary subclassification of "7 - Fund Balance - Contributed," the secondary subclassification or fourth digit would be used as follows:

0 - Grants.

1 - General Contributions.

2 - Assessments.

3 and 4 - Not currently assigned.

5 - Donated Services and Materials.

6 through 9 - Detailed as desired by management.

The above specified secondary classifications follow from the "Non-Operating Revenue" accounts (see Chapter V).

FUND BALANCE - FROM ACTIVITIES OF THE ORGANIZATION:

For the primary subclassification of "8 - Fund Balance-From Activities of the Organization," the secondary classification would be used for all General Fund activities of the firm and include the residual balance not reflected in primary subclassification 7 above. Any secondary subclassification detail is left to management discretion.

FUND BALANCE - OTHER:

The primary subclassification, "9 - Fund Balance-Other," is provided for other than General Fund groups. Detail is to be dictated by individual requirements.

## CHAPTER V

### REVENUE ACCOUNTS

Revenue accounts should reflect all increases in aggregate net assets of the organization, other than capital additions and non-expendable gifts, grants, bequests, and other income. Non-expendable gifts, grants, and bequests restricted externally (by parties outside of the organization) to endowment, plant, or loan funds either permanently or for an extended period of time are considered capital additions. These additions are resources not available for expenditure purposes because of donor restrictions. Hence, capital additions do not include restricted gifts, grants, bequests, or gains that are expendable for current activities, but simply refer to resources externally restricted as non-expendable.

As a business entity, nonprofit Alaska salmon enhancement firms will have, as a major source of revenue, the sale of salmon and salmon eggs. In addition, other revenues may be generated by the firm directly from the basic enhancement site. The corporation may also be engaged in other non-enhancement site activities that could generate operating revenues. Hence, the primary subclassification of revenues by the use of the third digit follows this logical operating activity, as identified in Table 9.

#### The Use of the Fourth and Fifth Digits in the Coding System for Revenue Accounts

##### ENHANCEMENT OPERATING REVENUES:

For the primary subclassification of "1 - Enhancement Operating Revenues," the secondary subclassification or fourth digit would be used as follows:

TABLE 9

CODING SYSTEM FOR REVENUES - PRIMARY SUBCLASSIFICATION

FIRST DIGIT	SECOND DIGIT <sup>a</sup>	PRIMARY SUBCLASSIFICATION THIRD DIGIT	DECIMAL POINT	FOURTH DIGIT	FIFTH DIGIT
0	0	Non-Enhancement Site (Central Office)	.	0	0
1	1	Basic Facility Site #1	.	1	1
2	2	Basic Facility Site #2, etc.	.	2	2
3	3	Other Operating Revenues	.	3	3
4	4	General Fund Revenues	.	Secondary Subclassification	By Natural Classification
5	5	Non-Operating Revenues	.	5	5
6	6	Classification by Internal Source (Location) as Applicable	.	6	6
7	7	Revenues Other Than General Fund <sup>a</sup>	.	7	7
8	8	Basic Facility Site #9	.	8	8
9	9	Interest Revenue	.	9	9

Note: <sup>a</sup>For revenues of funds other than the General Fund (seven hundred sequence) the second digit would denote the particular fund: 0-4, not applicable; 5, plant replacement and expansion fund; 6, specific purpose fund - government designation; 7, specific purpose fund - other designation; 8, endowment fund; 9, other funds.

<sup>b</sup>For additional sites, if needed, alpha letters should be used.

- 0 - Sale of Fish. Revenues generated from the sale of good, high quality fish for human consumption.
- 1 and 2 Not currently assigned.
- 3 - Sale of Carcasses. Revenues provided by the sale of carcasses from egg-take operations.
- 4 - Sale of Fish for Other Than Human Consumption. Revenues derived from sales of fish for uses other than human consumption (excluding sale of carcasses).
- 5 - Not currently assigned
- 6 - Sale of Eggs to Other Enhancement Firms. (Does not include eyed eggs, covered in next classification).
- 7 - Sale of Eyed Eggs.
- 8 - Sale of Eggs for Other Than Enhancement Facility Use. Revenues from all other egg sales.
- 9 - Sale of Salmon Fry.

The use of the fifth digit, for a natural classification by species, would be up to management discretion. The following is suggested:

- 0 - Pink or Humpback Salmon
- 1 - Chum or Dog Salmon
- 2 - Sockeye or Red Salmon
- 3 - Coho or Silver Salmon
- 4 - Chinook or King Salmon
- 5 - 9 - Not currently assigned.

OTHER OPERATING REVENUES:

For the primary subclassification of "3 - Other Operating Revenues," the secondary subclassification or fourth digit would be used as follows:

0-5: These classifications would be set aside for the purpose of reflecting revenues brought about by transfers from restricted funds to match expenses incurred by the unrestricted funds, as each situation dictates, and for the use of the other fund account group revenues, detail based on management discretion dictated by the different funds required in each situation.

6-9: These four classifications would be set aside for other operating revenue accounts of the General Fund (other than basic enhancement facilities operations and non-operating items) for use based on management discretion.

The fifth digit usage would be left to management discretion.



NON-OPERATING REVENUES:

For the primary subclassification of "5 - Non-Operating Revenues," the secondary subclassification or fourth digit would be used as follows:

- 0 - Grants. All grants reflected by appropriate fund based on each situation.
- 1 - General Contributions. Contributions other than grants, assessments, and donated services or materials.
- 2 - Assessments. All revenues earned from assessments on the sale of salmon, made in accordance with Alaska Statutes.
- 3 and 4 - Not currently assigned.
- 5 - Donated Services. The fair value amount for services that would normally have been expended had the service not been donated. These items would also be reflected as expenditures appropriately classified.
- 6 - Donated Materials. The fair value amount for materials and facilities donated. Included here as revenue and reflected as expenditures appropriately classified.
- 7 - Income and Gains from Investments. All income and gains from investments other than interest.

8 - Gain on Disposal of Long-Lived Assets. All gains on assets retired, discarded, and sold.

9 - Unrestricted Income from Other Funds. As appropriate; a General Fund classification only.

The use of the fifth digit, for a natural classification by external source, would be left to management discretion. As a suggestion, the following is presented:

- 0 - Federal government
- 1 - State government
- 2 - Other governmental units
- 3 - Processors
- 4 - Organized fishermen's groups - Seiners
- 5 - Organized fishermen's groups - Gillnetters, both drift and set net, as applicable
- 6 - Organized fishermen's groups - Trollers
- 7 - Organized fishermen's groups - Sports fishers, including Isaac Walton and others
- 8 - Other organized groups (e.g., Sierra Club, etc.)
- 9 - A specific program or major private source, and others.

Although detail recognition of donors by management would probably be made in supplemental information to financial statements, the actual recording of such detail in accounts would be left to management discretion.

INTEREST REVENUE:

For the primary subclassification of "9 - Interest Revenue," the further classification would be at management's discretion.

CHAPTER VI  
EXPENSE ACCOUNTS

The expenses of the salmon enhancement facility represent the expired costs resulting from the activities for an accounting period. The manner in which these expenses are accumulated and reported should serve two basic groups of people: those within the firm itself and those outside the organization. As previously discussed, these purposes should be jointly served by the information gathering system.

In the design of the Chart of Accounts, the area of expired costs became a focal point of consideration. A delicate balance of standardization and flexibility resulted, based on the interaction with those two basic groups of people, reaching from novice to expert and inexperienced to experienced. Flexibility is not only designed in major groupings with provisions for additions, but also in detail group considerations.

The primary subclassification for expenses is identified in Table 10. The use of this subclassification is best understood from the discussion of the secondary subclassification which follows. It is important to point out that the secondary subclassification may or may not be used by management in all assigned categories, or in just one or more. In any case, the use of the fourth digit, the secondary subclassification, is considered especially important for primary subclassification 3, "Facility Operations-Basic."

The Use of the Fourth Digit in the Coding System for Expense Accounts

TABLE 10

CODING SYSTEM FOR EXPENSES - PRIMARY SUBCLASSIFICATION

FIRST DIGIT	SECOND DIGIT <sup>a</sup>	PRIMARY SUBCLASSIFICATION THIRD DIGIT	DECIMAL POINT	FOURTH DIGIT	FIFTH DIGIT
0	0	Non-Enhancement Site (Central Office)	.	0	0
1	1	Basic Facility Site #1	.	1	1
2	2	Basic Facility Site #2, etc.	.	2	2
3	3	Facility Operations - Basic	.	3	3
4	4	Not Currently Assigned	.		
5	5	Enhancement Activities Other Than Basic Facilities; Research & Development	.	5	5
6	6	Research & Development Activities	.	6	6
7	7	Conferences & Workshops	.	7	7
8	8	Other Non-operating Expenses	.	8	8
9	9	Financing Costs	.	9	9

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Note: <sup>a</sup>For expenses of funds other than the General Fund (eight hundred sequence) the second digit would denote the particular fund: 0-4, not applicable; 5, plant replacement and expansion fund; 6, specific purpose fund - government designation; 7, specific purpose fund - other designation; 8, endowment fund; 9, other funds.

<sup>b</sup>For additional sites, if needed, alpha letters should be used.

CENTRAL ADMINISTRATION:

For the primary subclassification of "0 - Central Administration," the fourth digit would be assigned as follows:

- 0 - General Administration. This cost center would be for all activities necessary in support of overall firm operations, other than those specified below, but would not include administration costs incurred at a specific site. For example, labor costs would include all salaries and wages paid to an executive director, general manager, secretary, bookkeeper, etc., but would not include the wages of a enhancement facility manager or clerk at a specific site, which would be classified as part of "Facility Operations-Basic."
- 1 - Not currently assigned.
- 2 - Personnel Recruitment. Costs reflected in this group would be those specifically identified with the recruiting and hiring of personnel. No salary or wage charges would be appropriate unless a full-time or part-time individual served in the personnel area. Appropriate charges would be travel and per diem costs in interviewing, agency fees, advertising costs, etc.
- 3 - Professional Services. Accounting, legal, and other general professional services. These costs would include all charges billed, such as services, travel and per diem reimbursements. In general, this category would not be used for engineering or a biologist's services, as those costs would be more appropriate in other classifications, e.g., research and development, site selection, buildings, facility operations, etc.

- 4 - Regional Planning Team. Only costs specifically related to the regional planning team and its general or committee meetings would be charged in this grouping.
- 5 - Board of Directors. Travel and per diem costs reimbursed to board members for meetings and other direct charges for directors' general and committee meetings would be appropriately classified here.
- 6 - Public Relations. Costs incurred for general public relations activities, other than specific fund-raising events. Examples include direct costs incurred to inform the public of activities, testifying at legislative committee hearings, providing tours of enhancement sites, and publication of an annual report.
- 7 - Fund-Raising Activities - Specific Programs. This category would be used for direct costs of a specific program(s) to raise funds, e.g., a salmon bake, fees paid to a professional organization, and all related costs.
- 8 - Assessment Election. All direct costs of holding an assessment election would be accumulated in this category, including advertising, professional fees, temporary clerks, etc.
- 9 - Other. Central administration costs not appropriately classified in any of the previous groups would be charged here. This would include, as an example, direct costs for attendance at meetings such as UFA and others not appropriately classified in other categories. Direct costs of conferences and workshops are accumulated separately (see primary subclassification 7).

#### CONTRA-ACCOUNT:

The primary subclassification "1 - Contra-Account" would be used for those who desire to allocate supportive-type costs to areas that are benefited. Credits for those allocations would be accumulated under this classification. There are two schools of thought concerning the accounting of costs incurred that provide benefits to more than one activity or function: (1) the reassigning or allocating of the costs, using some base, to those areas that received the benefits, or (2) not making somewhat arbitrary allocations. The author is in support of the latter, as cost control is of more concern than the clerical reshuffling of costs. However, this classification is presented for those of the former persuasion. In any case, this practice should be a subject mentioned in the footnote concerning accounting policies and practices required to be presented with the firm's audited financial statements.

No specific secondary subclassification is recommended. If this practice is followed however, classifications could be made by areas to which the costs are allocated.

#### FACILITY OPERATIONS - HARVEST COSTS:

For the primary subclassification "2 - Facility Operations - Harvest Costs," the fourth digit would be assigned as follows:

- 0 - Enumeration of Returning Fish. This group of costs would include all related direct costs incurred in this evaluation process. Also properly included would be related costs incurred at a non-site location in the



evaluation of the facility's fish caught and sold before on-site enumeration could take place. In any case, these direct costs would be identified with the particular facility for which they were incurred.

- 1 - Harvest of Returning Fish by Firm. Properly included in this category would be all direct costs involved in the capture of fish for sale for human consumption or other use that are incurred by employees of the firm. If this activity were to be contracted, it should not be accounted for here, but in the next classification. Costs related to the capture of brood fish, or direct costs incurred in preparing eggs or carcasses for sale would be accumulated separately and not be charged here. Labor and related costs, equipment rentals (boats, nets, etc.), and/or depreciation of firm equipment, fuel, materials, supplies, etc. incurred for this purpose would be examples of specific costs.
- 2 - Harvest of Returning Fish by Contract. As above, but this category would be used only if this activity, in whole or in part, is contracted out. Gross revenues would properly be reflected as such, with only the contract cost or commission charged here.
- 3 - Costs of Preparing Carcasses for Sale. Any and all direct costs of accumulating, preparing, and generating the sale of fish carcasses from the enhancement facility brood stock, and any other carcasses that the firm would have the right to sell.
- 4 and 5 - Not currently assigned.

6 - Costs of Preparing Eggs for Sale to Other Enhancement Firms.

Any direct costs related to this activity. Generally, the majority of these costs would be amassed with "Facility Operations - Basic, Egg Take." This classification would not alter that classification as this category would only accumulate those costs directly incurred to fill specific orders.

7 - Costs of Preparing Eyed Eggs for Sale. As in 6 above, this category would accumulate only the specific costs of preparing eyed eggs for sale. It would not include related direct charges in taking the eggs or their eyeing within the enhancement facilities. These costs are accumulated in "Facility Operations - Basic."

8 - Costs of Preparing Eggs for Sale for Other Than Enhancement Facility Use. Only readily identifiable specific costs of preparing eggs for non-enhancement facility use.

9 - Not currently assigned.

#### FACILITY OPERATIONS - BASIC:

For the primary subclassification of "3 - Facility Operations - Basic," the fourth digit would be assigned as follows:

0 - Egg Take. This cost center would include any and all related costs incurred, from the location of brood stock (in the case of a remote egg take) through the loading of the incubators.

- 1 - Incubation and Care of Eggs to Fry Stage. Included in this category would be all costs incurred from the time the eggs are loaded in the incubators, through egg pick and to fry emergence.
- 2 - Rearing. This category would accumulate only the costs incurred in the rearing process, whether short-term or long-term.
- 3 - Enumeration, Marking, or Tagging. This cost grouping would involve the direct costs of enumeration of emerging fry and would include any costs related to the marking and/or tagging, on a sample basis or otherwise, of fish beyond the alevin stage.
- 4 - Water Supply System. The separation of this cost center is an indication of its importance to the enhancement facility operations. Any and all related costs of the physical water supply system would be charged here. Operating costs incurred relating to dams, water pipeline, head tanks, pumps, etc. would be examples. The costs of taking water temperature and water analysis would not be properly charged here. In a gravity-fed water supply system, these costs may be very minor.
- 5 - Power Generation/Utilities. Accumulated in this cost category would be any and all charges relating to the generation of power for the enhancement site. This group would include costs related to any back-up power systems. At an urban site, this may simply be the charge from a utility company. If a pelton wheel were involved, the costs properly included would relate only to the pelton wheel; costs of the

water supply system would remain part of the previous secondary subclassification.

- 6 - Basic Enhancement Facilities. This cost grouping would cover all the basic enhancement facilities, with the exception of the support facilities (properly included in the following subclassification).
- 7 - Support Facilities. Temporary crew quarters and quarters for enhancement site personnel (e.g., enhancement facility general manager, biologist, fish culturist, maintenance) would be properly included in this category. All other basic facilities would be properly accounted for in the previous category.
- 8 - Administration -- Enhancement Site. This category would be used on a very limited basis for general administration costs incurred at a specific site. As an example, labor costs should not be charged to this category by an on-site biologist, fish culturist, or maintenance person if an enhancement site manager is retained to perform general administrative tasks. This manager's labor cost would be the only proper labor charge, and then only for his time not specifically identified with any other categories. The other on-site personnel would charge this group only at the direction of general management. If no enhancement site manager were employed, then the one person serving in that capacity, as directed by general management, would charge this group of costs accordingly.
- 9 - Other. This subclassification would be available to accumulate minor charges not appropriately classified elsewhere, or for a specific item

or program that general management would desire to accumulate for closer evaluation, e.g., the costs of a specific disease control program, or a special labor intensified fry release program.

The primary subclassification of 4 is not currently assigned. It would be available for management's discretionary use.

#### OTHER ENHANCEMENT ACTIVITIES:

For the primary subclassification "5 - Enhancement Activities Other Than Basic Facilities and Research & Development," the fourth digit would be assigned as discussed below. The purpose of this primary subclassification is for accumulation of costs for enhancement activities that will provide no direct benefits to the firm but only to the common property fishery.

- 0 - Planting of Eggs in Streams. The direct costs of this operation. Management may desire to establish separate classifications by stream involved.
- 1 - Planting and Stocking. The direct costs of planting and stocking operations at other than basic site locations. Rearing costs would not be appropriate in this group.
- 2 - Stream Improvement. Costs of stream bed improvement, cleaning, etc. of waters at other than a basic site location would be properly charged to this group.

3 through 9 - Not currently assigned. These groupings would be available to accumulate costs as management desires for planned project activities.

#### RESEARCH AND DEVELOPMENT ACTIVITIES:

For the primary subclassification "6 - Research and Development Activities," the fourth digit would be assigned to particular projects approved by the board of directors and/or the regional planning team management, etc. For the second digit, representing location, "0" would be used for all general approved research and development activities conducted at other than enhancement facilities, while the digits 1 through 9 and alpha letters would be available to accumulate costs, as desired by management, for planned project activities at these particular sites.

#### CONFERENCES AND WORKSHOPS:

For the primary subclassification "7 - Conferences and Workshops," the fourth digit would be assigned to accumulate costs as desired by management for planned activities presented or participated in by the firm. Only direct costs specifically related to each program would be accumulated here. Costs of regional planning team meetings and board of director meetings would not be properly charged here (see Central Administration).

#### OTHER NON-OPERATING EXPENSES:

The fourth digit would be used only as needed or as the occasion arises for the primary subclassification "8 - Other Non-Operating Expenses." This classification would be used for other than General Fund expenses as would be necessary or appropriate.

#### FINANCING COSTS:

The fourth digit would be used only as management desires for the primary subclassification "9 - Financing Costs." This classification is for interest charges on financing, and a subclassification which management may desire to use would be by source.

#### The Use of the Fifth Digit for All Expense Accounts

The reader should keep in mind that this system is designed to provide flexibility for the management of each firm and to allow each firm to emphasize control for its particular circumstances. As the fifth digit is used for costs by natural classification, a rather important classification for any operating activity, some firms may desire to use this classification in conjunction with the other classifications or more exclusively. In other words, this classification may be used without the use of the secondary subclassification or, possibly, without the use of either the primary or secondary subclassifications. In fact, this would be highly appropriate and recommended in certain situations. Again this is left to management discretion.

All of the expense accounts would use the fifth digit as follows:

- 0 - Labor. All salaries and wages paid employees of the organization, including related payroll taxes and fringe benefits.
- 1 - Materials and supplies. All materials and supplies except fuel and foodstuffs (see 4 below).
- 2 - Transportation Services. All boat, air, and ground transportation charges.
- 3 - Contractual Services. All contractual services, except for transportation (see 2 above).
- 4 - Fuel, Foodstuffs. All charges for fuel and foodstuffs. Food allowances for remote site employees, as well as actual charges for foodstuffs, including fish meal, etc., would be included here.
- 5 - Inspection and testing costs required and billed by state agencies only (e.g., AS 16.10.420(9)).
- 6 - Insurance. All insurance charges other than payroll related.
- 7 - Depreciation/Amortization.



- 8 - Rent. All charges for items that are leased or based on rental agreements.
  
- 9 - Other. All costs not properly classified in the above categories.



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ACCOUNTING FOR ALASKA NONPROFIT SALMON ENHANCEMENT FACILITIES  
(Including a Chart of Accounts)

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