

This document reflects the result of analyses, discussions and review by UCOP staff and PricewaterhouseCoopers (PwC) to date. The document is subject to change pending additional discussions with PwC; however, it represents the best information available to date.

University of California GASB 35 Financial Statement Presentation

Issues Resolution Memo No. 128

Procedures to Identify the Current and Noncurrent Balances and Activities Associated with Other Noncurrent Liabilities

Define Issues

In order to comply with the reporting standards established by GASB Statements No. 34 and 35, the University must develop procedures to:

- determine which accounts are reported as Other Noncurrent Liabilities in the Statement of Net Assets;
- properly classify liabilities as current and noncurrent; and
- obtain the details of the activity for all noncurrent liabilities for preparing the appropriate footnote to the Statement of Net Assets.

The accounts to be included on the *Other Noncurrent Liabilities* line will, at a minimum, include accrued vacation leave and severance, in addition to any other liability accounts that campuses or UCOP assign to the account group codes supporting this line item on the Statement of Net Assets.

The procedures established in this IRM will be used to complete the Other Noncurrent Liability Activity closing schedule appendix that will support the Other Noncurrent Liabilities footnote in the University's financial statements.

Background

During 1999, the Government Accounting Standards Board (GASB) introduced GASB Statements 34 and 35. These Statements substantially revised the standards for external financial reporting by public institutions. The new reporting standards are required for the fiscal year beginning July 1, 2001, with comparative information for the prior year.

According to the new standards, the separately issued financial statements of public colleges and universities must include:

- Management’s Discussion and Analysis (MD&A)
- Statement of Net Assets
- Statement of Revenues, Expenditures and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements

Financial statements must be prepared in accordance with GAAP (generally accepted accounting principles) and are subject to audit under GAAS (generally accepted auditing standards).

The MD&A and the notes to the financial statements are developed by UCOP using information provided by campuses (refer to IRM No. 101, *GASB Statements No. 34 and 35 Presentation Format—Footnotes*, IRM No. 105, *Required Changes to Support the Other Noncurrent Liabilities Disclosure*, and IRM No. 200, *Requirements for Management’s Discussion and Analysis (MD&A)*). The information is provided to UCOP on exhibits and appendices completed during the annual fiscal closing process.

IRM No. 105 sets forth the procedures necessary to produce the Other Noncurrent Liabilities disclosure, including the Other Noncurrent Liability Activity closing schedule appendix. The purpose of this appendix is to identify all noncurrent liabilities included in the *Other Noncurrent Liabilities* line item on the Statement of Net Assets, as well as the current portion associated with those liabilities. The Other Noncurrent Liability Activity closing schedule appendices are also included as Exhibits 1 and 1A of this IRM.

Current UC Policy—Vacation Leave

The University’s *Personnel Policies for Staff Members*, Section 41, Paragraph 6 states:

Maximum Accrual. Vacation leave may be accrued to a maximum of two times the annual full-time earning rate whether the employee holds a full or part-time position...

Because the vacation leave accrual for each individual may represent the liability associated with payments that would be made beyond one year, the University must identify and report the current and noncurrent portion of the accrued liability.

The University’s Accounting Manual, Chapter P-196-13, *Payroll: Attendance, Time Reporting, and Leave Accrual Records*, outlines an assessment procedure to fund the cost of vacation leave to all fund sources. Section IV.A.1., Sub-Paragraphs 4 and 5 state:

Sub-Paragraph 4—The assessment rates should be designed to accumulate in the Vacation Leave Liability account only enough funds to cover the current fiscal year expenditures for vacation leave usage and related employee benefit payments. Thus, the liability account is not considered a fully-funded reserve.

Sub-Paragraph 5—The assessment rates should be reviewed and adjusted each year with the goal of achieving a zero balance in the Vacation Leave Liability account at the end of the fiscal year.

This annual assessment analysis performed by campuses identifies the portion of total accrued vacation leave that should be classified as a current liability, separate from the noncurrent liability.

Current UC Policy—Compensatory Time

The University's *Personnel Policies for Staff Members*, Section 32, Paragraph 4 states:

Compensatory time off for overtime accrued at the premium rate. No more than 240 hours (160 hours of actual overtime work at time and one-half) of compensatory time may be accrued. For employees in protective service titles, the maximum accrual is 480 hours, or 320 hours at time and one-half. An employee shall be paid for hours of premium overtime that exceed the maximum accrual limit. Accrued hours of premium overtime shall be paid at the employee's rate at the time of payment:

- a. if not taken as compensatory time off within 6 months, or an extended period authorized by local guidelines; or
- b. upon separation.

Compensatory time must be taken or paid within six months of accrual and, therefore, will be considered a current liability.

Current UC Policy—Severance

The University's *Personnel Policies for Staff Members*, Appendix II—Senior Management Personnel Policies (SMSPP), Section 71.D, Senior Management Severance Pay Plan states that Senior Managers who are eligible for the SMSPP benefit will receive a lump-sum payment of accrued severance pay and interest earnings upon separation from the University. Beginning in FY 1996-1997, campuses were required to record the SMSPP liability (including interest) at year-end.

This liability will generally be classified as a noncurrent liability unless there are significant material known pay-outs that warrant a reclassification from noncurrent to current. Such instances may be rare because there are annual caps on payments to any one individual.

Authoritative Guidance

GASB Statement No. 34, Paragraph 119 prescribes the information that should be presented for long-term liabilities:

GASB 34, Paragraph 119—Information about long-term liabilities should include both long-term debt (such as bonds, notes, loans, and leases payable) and other long-term liabilities (such as compensated absences, and claims and judgements). Information presented about long-term liabilities should include:

- a. Beginning- and end-of-year balances (regardless of whether prior-year data are presented on the face of the government-wide financial statements)
- b. Increases and decreases (separately presented)
- c. The portions of each item that are due within one year of the statement date
- d. Which governmental funds typically have been used to liquidate other long-term liabilities (such as compensated absences and pension liabilities) in prior years.

Recommended Approach

The Other Noncurrent Liability Activity closing schedule appendix will be excluded from the Indebtedness exhibits in order to recognize the separate presentation in the University's footnotes to the financial statements (refer to the re-issued IRM No. 103 and IRM No. 105 which recognize Other Noncurrent Liability activity as separate from Indebtedness).

IRM No. 105 indicates that the Other Noncurrent Liability Activity closing schedule appendix will not be required to be completed and submitted to UCOP until FY 2001-2002. However, in order to be able to complete the appendix for FY 2001-2002, campuses will need to identify the ending current and noncurrent balances for June 30, 2001. Therefore, the Other Noncurrent Liability Activity closing schedule appendix will be incorporated into the FY 2000-2001 annual closing schedule and campuses should complete the ending-balances column only (as of June 30, 2001).

Vacation Leave

Procedures for June 30, 2001

- Campuses are not required to identify the activity for the year; however, they must establish the balance of liability at June 30, 2001.
- Campuses will allocate to current vacation leave liability the amount equal to the projected payments for FY 2001-2002, as determined by the analysis for setting the vacation accrual rate for FY 2001-2002. The remainder of the total liability as identified by the Payroll Personnel System (PPS) shall be recorded as noncurrent.
- Campuses should continue to record the total vacation leave liability at year-end on a reversing journal, but should record the current and noncurrent liability separately:

Debit Expense Account—Salary Object Code 1950

Credit Current Vacation Leave Liability (maps to account group code 164741)

Credit Noncurrent Vacation Leave Liability (maps to account group code 165530)

Procedures Beginning in Fiscal Year Ending June 30, 2002

- Most of the information required to identify the current and noncurrent vacation leave activity is contained in PPS, however, the information is not available in current PPS reports. UCOP will develop the requirements definition for a report to be produced out of PPS that will provide campuses with the information on vacation leave liability activity.
- Campuses will obtain information from PPS (as revised) to determine the following for annual vacation leave:
 - Beginning balance—The total beginning balance provided from PPS will not distinguish between current and noncurrent activity. However, the current and noncurrent beginning balance will be carried forward from the prior year’s analysis (see the procedures for June 30, 2001, above).
 - Earned vacation—All vacation earned during the year will increase the noncurrent liability.
 - Annual payments—All annual payments (current year payments) will decrease the current liability.
 - Ending balance—The total ending balance provided from PPS will not distinguish between the current and noncurrent liability.
- Campuses will analyze the ending PPS balance to determine the assessment rates (as required in Accounting Manual chapter P-196-13, Section IV.A.) and to reclassify the appropriate portion of the year-end PPS total liability from noncurrent to current.
- Exhibit 2 provides an illustration of how PPS information and the assessment rate analysis can be used to complete the vacation leave portion of the Other Noncurrent Liability Activity closing schedule appendix.
- Campuses should continue to record the total vacation leave liability at year-end on a reversing journal, but should record the current and noncurrent liability separately:

Debit Expense Account—Salary Object Code 1950

Credit Current Vacation Leave Liability (maps to account group code 164741)

Credit Noncurrent Vacation Leave Liability (maps to account group code 165530)

Compensatory Time

- Compensatory time accrual and activity will include paid time off.
- Campuses will obtain information from PPS to determine the total annual compensatory time liability.
- Because of the policy regarding the accrual and pay-out of compensatory time, the entire amount will be considered a current liability and will not be required to be presented in the Other Noncurrent Liability exhibit.
- Campuses should continue to record compensatory time liability at year-end on a reversing journal:

Debit Expense Account—Salary Object Code 1960

Credit Current Compensatory Time Liability (maps to Account Group Code 164742)

Severance

- In general, the annual severance liability will be considered to be a noncurrent liability.
- Significantly material and known pay-outs that the campus expects to occur in the following fiscal year should be reclassified as a current liability from a noncurrent liability.
- However, because the current portion of the severance liability is considered immaterial, campuses may elect to reclassify 20 percent of the total severance liability from noncurrent to current in lieu of investigating significantly material and known pay-outs.
- Exhibit 3 provides an illustration of a suggested approach to the severance portion of the Other Noncurrent Liability Activity closing schedule appendix.
- Campuses should continue to record the total severance liability at year-end on a reversing journal, but should record the current and noncurrent liability:

Debit Expense Account—Salary Object Code 1970

Credit Current Severance Liability (maps to account group code 164750)

Credit Noncurrent Severance Liability (maps to account group code 16552)

Other Miscellaneous Liabilities

- Other miscellaneous liabilities should be considered current unless approved by the campus Controller.
- Campuses should identify each noncurrent other liability coded as Other—Miscellaneous and determine the activity for the year (additions, deductions, reclassifications from noncurrent to current) in order to complete the Other Noncurrent Liabilities closing schedule appendix.

- Campuses should continue to record the total miscellaneous liabilities at year-end on a reversing journal, but should record the current and noncurrent liability separately:

Debit Expense Account—Appropriate object code

Credit Current Liability (maps to account group code 164760)

Credit Noncurrent Liability (maps to account group code 165510)

Required Modifications and Additions to Financial Statement IRMs

The recommended approach set forth in this IRM requires that previously issued IRMs to be modified or re-issued, as well as adding a new IRM (IRM No. 105).

- **IRM No. 100—GASB Statements No. 34 and 35 Financial Statement Presentation Format—Primary Statements**
The Statement of Net Assets portion of Exhibit 1 will be updated. The *Compensated Absences* line item (i.e., vacation leave, compensatory time, paid time off, and severance) will not be separately identified under Noncurrent Liabilities, but will roll up under the *Other Noncurrent Liabilities* line item.
- **IRM No. 101—GASB Statements No. 34 and 35 Presentation Format—Footnotes**
IRM No. 101 has been re-issued. An additional draft template for the Other Noncurrent Liabilities footnote will be added as an exhibit.
- **IRM No. 103—Required Changes to Support the Indebtedness Disclosure**
IRM No. 103 has been re-issued. The Compensated Absences Activity closing schedule appendix will be deleted from IRM 103. The closing schedule will be re-titled Other Noncurrent Liabilities Activity and included in IRM No. 105.
- **IRM No. 105—Required Changes to Support the Other Noncurrent Liabilities Disclosure**
IRM No. 105 has been added to outline the University’s decision to separate Other Noncurrent Liabilities from the Indebtedness disclosure. In addition, the IRM includes the Other Noncurrent Liabilities closing schedule appendices that will be used to support the Other Noncurrent Liabilities footnote and the Other Noncurrent Liabilities section of the MD&A.
- **IRM No. 125—Required Changes to Support the Statement of Net Assets**
Exhibit 1 of IRM No. 125 will be updated to reflect the update to Exhibit 1 of IRM No. 100. That is, *Compensated Absences* will not be a separate line item under Noncurrent Liabilities, but will roll up under *Other Noncurrent Liabilities*. Additional account group codes will be added to identify current vacation leave and compensatory time (all current).

Next Steps—Required Actions

Responsibility (C, OP)	Required Completion Date	Action Item/Task
OP	12-Apr-01	Finalize Closing Schedule Appendix —Finalize the Other Noncurrent Liability Activity closing schedule appendix.
OP	1-May-01	Requirements Definition to Modify PPS —Develop the requirements to be used to modify PPS to produce reports that will generate information needed to complete the Other Noncurrent Liability Activity closing schedule.
OP/C	31-May-01	Complete Analysis of Liabilities Accounts —Complete the analysis that categorizes liability accounts into account group codes. Campus Controllers must approve accounts that roll up into Other Noncurrent Liabilities account group codes.
C	3-Aug-01	Record in the General Ledger —Record other noncurrent liabilities, as well as the current portion associated with other noncurrent liabilities on reversing journals.
C	15-Aug-01	Submit Current and Noncurrent Ending Balances for June 30, 2001 —Submit current and noncurrent ending balances for Other Noncurrent Liability Activity for June 30, 2001 to UCOP.
OP	30-Jun-01	Complete Programming Changes to PPS —Complete the programming changes to PPS in order to produce the reports necessary to complete the Other Noncurrent Liability Activity closing schedule.
OP	1-Mar-02	Incorporate Closing Schedule Appendix into FY 2002 Annual Closing Process —Modify FY 2002 annual closing process to incorporate the Other Noncurrent Liability Activity closing schedule appendix.
C	16-Aug-02	Complete Other Noncurrent Liability Activity Appendix —Complete the Other Noncurrent Liability Activity closing schedule appendix and submit to UCOP (Exhibit 1 of this IRM).
OP	2-Sep-02	Consolidate Other Noncurrent Liability Activity Appendices —Consolidate the information provided by campuses in the Other Noncurrent Liability Activity appendices to support the development of the University’s FY 2001-2002 Annual Report.

IRM No. 128—Exhibit 1

Other Noncurrent Liability Activity Closing Schedule Appendix

Campus: _____
 Prepared by: _____
 Telephone No.: _____

Current and Noncurrent Liability Activity
OTHER NONCURRENT LIABILITY ACTIVITY--DRAFT
For Fiscal Year Ending June 30, 2002

Appendix XX
 2001-2002 Closing Schedule
 (Closing Step XX)

Description	Account Group Code	Account	Balance 6/30/01	Annual Increase to Liability	Reclassification from Noncurrent to Current (1)	Annual Payments Against Liability	Campus Transfers/Adj (2)	Balance 6/30/02
Current								
Vacation Leave	164741		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Severance	164750		-	-	-	-	-	-
Miscellaneous-Total (3)	164760		-	-	-	-	-	-
Sub-Total			-	-	-	-	-	-
Noncurrent								
Vacation Leave	165530		-	-	(-)	-	-	-
Severance	165520		-	-	(-)	-	-	-
Miscellaneous-Total (3)	165510		-	-	(-)	-	-	-
Sub-Total			-	-	-	-	-	-
Total								
Vacation Leave			-	-	-	-	-	-
Severance			-	-	-	-	-	-
Miscellaneous-Total (3)			-	-	-	-	-	-
Total			-	-	-	-	-	-

(1) Activity in the "Current" section must be the offset to activity in the "Noncurrent" section.
 (2) Attach a narrative fully explaining any activity included in this column.
 (3) Detail for Total Miscellaneous should be listed on a separate schedule (see Exhibit 1A).

IRM No. 128—Exhibit 1A

Detail Support to the Other Noncurrent Liability Activity Closing Schedule Appendix

Campus: _____
 Prepared by: _____
 Telephone No.: _____

Current and Noncurrent Liability Activity
OTHER NONCURRENT LIABILITY ACTIVITY--DETAIL--DRAFT
For Fiscal Year Ending June 30, 2002

Appendix XX
 2001-2002 Closing Schedule
 (Closing Step XX)

Description	Account	Balance 6/30/01	Annual Increase to Liability	Reclassification from Noncurrent to Current (1)	Annual Payments Against Liability	Campus Transfers/Adj (2)	Balance 6/30/02
<u>Current--Miscellaneous</u>							
Account Title		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Account Title		-	-	-	-	-	-
Account Title		-	-	-	-	-	-
Account Title		-	-	-	-	-	-
Account Title		-	-	-	-	-	-
Sub-Total		-	-	-	-	-	-
<u>Noncurrent--Miscellaneous</u>							
Account Title		-	-	(-)	-	-	-
Account Title		-	-	(-)	-	-	-
Account Title		-	-	(-)	-	-	-
Account Title		-	-	(-)	-	-	-
Account Title		-	-	(-)	-	-	-
Sub-Total		-	-	(-)	-	-	-
<u>Total--Miscellaneous</u>							
Account Title		-	-	-	-	-	-
Account Title		-	-	-	-	-	-
Account Title		-	-	-	-	-	-
Account Title		-	-	-	-	-	-
Account Title		-	-	-	-	-	-
Total		-	-	-	-	-	-

(1) Activity in the "Current" section must be the offset to activity in the "Noncurrent" section.

(2) Attach a narrative fully explaining any activity included in this column.

IRM No. 128—Exhibit 2

Illustration of Data Sources to be Used to Complete the Vacation Leave Portion of the Other Noncurrent Liability Activity Closing Schedule Appendix (for FY 2001-2002)

Campus: _____
 Prepared by: _____
 Telephone No.: _____

Current and Noncurrent Liability Activity
OTHER NONCURRENT LIABILITY ACTIVITY--DRAFT
For Fiscal Year Ending June 30, 2002

Appendix XX
 2001-2002 Closing Schedule
 (Closing Step XX)

Description	Account Group Code	Account	Balance 6/30/01	Annual Increase to Liability	Reclassification from Noncurrent to Current (1)	Annual Payments Against Liability	Campus Transfers/Adj (2)	Balance 6/30/02
Current								
Vacation Leave	164741		\$ (1)	\$ N/A	\$ (9)	\$ (8)	\$ -	\$ (4)
Severance	164750		-		-	-	-	-
Miscellaneous-Total (3)	164760		-	-	-	-	-	-
Sub-Total			-	-	-	-	-	-
Noncurrent								
Vacation Leave	165530		(2)	(7)	(9)	N/A	-	(5)
Severance	165520		-	-	(-)	-	-	-
Miscellaneous-Total (3)	165510		-	-	(-)	-	-	-
Sub-Total			-	-	-	-	-	-
Total								
Vacation Leave			(3)	(7)	-	(8)	-	(6)
Severance			-	-	-	-	-	-
Miscellaneous-Total (3)			-	-	-	-	-	-
Total			-	-	-	-	-	-

- (1) Activity in the "Current" section must be the offset to activity in the "Noncurrent" section.
- (2) Attach a narrative fully explaining any activity included in this column.
- (3) Detail for Total Miscellaneous should be listed on a separate schedule.

Vacation Leave Data Sources

- | | |
|--|---|
| <ul style="list-style-type: none"> 1 The current vacation leave liability identified by annual assessment rate analysis to set rate for FY 2001-2002. 2 The noncurrent vacation leave liability = 3 - 1 3 The total vacation leave liability identified in PPS at June 30, 2001. 4 The current vacation leave liability identified by annual assessment rate analysis to set rate for FY 2002-2003. 5 The noncurrent vacation leave liability = 6 - 4 | <ul style="list-style-type: none"> 6 The total vacation leave liability identified in PPS at June 30, 2002. 7 Vacation leave earned in FY 2001-2002 identified in PPS; recorded in total against noncurrent liability. 8 Total vacation leave paid in FY 2001-2002 identified in PPS; recorded all against current liability. 9 The reclassification from noncurrent to current = 4 - 1 + 8 |
|--|---|

IRM No. 128—Exhibit 3

Illustration of Data Sources to be Used to Complete the Severance Portion of the Other Noncurrent Liability Activity Closing Schedule Appendix (for FY 2001-2002)

Campus: _____
 Prepared by: _____
 Telephone No.: _____

Current and Noncurrent Liability Activity
OTHER NONCURRENT LIABILITY ACTIVITY--DRAFT
For Fiscal Year Ending June 30, 2002

Appendix XX
 2001-2002 Closing Schedule
 (Closing Step XX)

Description	Account Group Code	Account	Balance 6/30/01	Annual Increase to Liability	Reclassification from Noncurrent to Current (1)	Annual Payments Against Liability	Campus Transfers/Adj (2)	Balance 6/30/02
Current								
Vacation Leave	164741		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Severance	164750		1	N/A	9	8	-	4
Miscellaneous-Total (3)	164760		-	-	-	-	-	-
Sub-Total			-	-	-	-	-	-
Noncurrent								
Vacation Leave	165530		-	-	(9)	-	-	-
Severance	165520		2	7	(9)	N/A	-	5
Miscellaneous-Total (3)	165510		-	-	(-)	-	-	-
Sub-Total			-	-	-	-	-	-
Total								
Vacation Leave			-	-	-	-	-	-
Severance			3	7	-	8	-	6
Miscellaneous-Total (3)			-	-	-	-	-	-
Total			-	-	-	-	-	-

- (1) Activity in the "Current" section must be the offset to activity in the "Noncurrent" section.
- (2) Attach a narrative fully explaining any activity included in this column.
- (3) Detail for Total Miscellaneous should be listed on a separate schedule.

Severance Data Sources

- 1 The current severance liability identified by the campus for FY 2001-2002.
- 2 The noncurrent severance liability = 3 - 1
- 3 The total severance liability identified in PPS at June 30, 2001.
- 4 The current severance liability identified by the campus for FY 2002-2003.
- 5 The noncurrent severance liability = 6 - 4

- 6 The total severance liability identified in PPS at June 30, 2002.
- 7 Severance earned in FY 2001-2002 identified in PPS; recorded in total against noncurrent liability.
- 8 Total severance paid in FY 2001-2002 identified in PPS; recorded all against current liability.
- 9 The reclassification from noncurrent to current = 4 - 1 + 8