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## **University of California GASB 35 Financial Statement Presentation**

### **Issues Resolution Memo No. 130**

#### **Definition and Presentation of Cash and Cash Equivalents in the Financial Statements of Entities such as Medical Centers, CEB and UC Press**

##### **Define Issues**

Under GASB Statements No. 34 and 35, the University is required to reach a conclusion regarding the treatment of deposits in the short-term investment pool (STIP) by University enterprises with separately audited 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).

University departments, component units and agency funds deposit cash into the University's STIP. The arrangement is a demand deposit. One deposits a dollar, earns interest on it, and withdraws a dollar. Currently, each separately reported entity (such as the medical centers and the CEB) reflects its investment in the STIP as an investment, and unrealized gains and

losses from the STIP are allocated to these components and reported in their financial statements. Likewise, under the existing interpretation of GASB Statement No. 31, the University has distributed realized gains and losses on the STIP to Current, Plant, Loan, Endowment and Retirement Funds.

The University must reaffirm the current position or, alternatively, conclude that STIP is used essentially as a demand deposit account and, therefore, classified as cash on each separately reported entity.

### **Authoritative Guidance**

GASB Statement No. 31 provides guidance on internal and external investment pools. Paragraph 14 of this pronouncement indicates that the equity position of each fund or component unit in an internal investment pool should be reported as assets in those funds/component units. Therefore, each fund would report its position as, for example, equity in cash management pool, equity in internal investment pool, cash and cash equivalents, or investments (this guidance is provided in the Implementation Guide for GASB Statement No. 31). However, the Board decided that participants' transactions with entity-wide cash management pools are similar to those with external investment pools, such as mutual funds or money market accounts; therefore, the cash flows should be reported as though they were external cash flows.

FASB Statement 95 specifies that cash includes "accounts that have the general characteristics of demand deposits in that the customer may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty." The GASB, after considering the issues, concluded that cash management pools that are used essentially as demand deposit accounts should be treated the same as any other demand deposit account. Those pools that are not used as demand deposit accounts (for example, revenue bond reserve investment pools) should not be considered cash; therefore, transfers into and out of them should be reported as investing activities. This treatment of demand deposits documented in GASB Statement No. 9, Paragraph 50, provides guidance: "The GASB...concluded that cash management pools that are used essentially as demand deposit accounts should be treated the same way as any other demand deposit account."

### **Approach**

The University has concluded that STIP is "used essentially as demand deposit accounts." Depositors understand that they will receive a dollar with interest (and realized gains or losses, if any) for each dollar deposited. In contrast to the other investment pools, which typically sell fixed income securities before their maturity, STIP securities nearly always reach maturity. There is more than enough liquidity to "cash out" the "external investors" (agency funds) over whose investments the University does not have control. Therefore, STIP should be treated as a demand-deposit mechanism for the depositors, though valued at market in the University's financial statements. In other words, the University will be the

residual investor, and the position of the depositors will be represented as demand depositors, in conformity with their understanding of the relationship.

As stated in IRM 129, *Classification of Investments and Investment of Cash Collateral*:

“For purposes of establishing an accounting and closing process related to investments, allocations to individual fund groups that were previously made as part of the closing process will be modified [for fiscal 2001 as well as when GASB 34 is implemented in 2002] as follows:

- STIP will be allocated to the UCRS and Agency funds early in the closing process to facilitate the preparation of financial statements. At the conclusion of the closing process STIP will be allocated to the remaining fund groups.
- The unrealized gains and losses associated with the STIP will no longer be allocated to fund groups or investment pools. All unrealized gains or losses will be maintained in the Current Fund group.
- The “gross up” of STIP and investment transactions resulting from maturities, sales and purchases will not be allocated to any fund groups or to any financial statements of related activities.”

This position is summarized in the matrix provided as Exhibit 1. The changes in the approach to accounting and allocating STIP activity, effective for the fiscal year ending June 30, 2001, are summarized in Exhibit 2.

**Next Steps—Required Actions**

<b>Responsibility (C, OP, MC)</b>	<b>Required Completion Date</b>	<b>Action Item/Task</b>
OP	15-May-01	<b>Incorporate the Approach to STIP into the Financial Statement Presentation Template</b> —Incorporate the approach outlined in the IRM into the financial statement templates that are being developed in IRMs 125, 150, and 175.
OP	30-May-01	<b>Communicate the Change in Accounting Policy for STIP</b> —Communicate the change in accounting policy for STIP to medical centers and CEB for implementation for the year ending June 30, 2001.
OP/MC	30-Jun-01	<b>Implement the Change in Accounting Policy for STIP</b> —Implement the change in accounting policy in the University’s financial statements and the separately-issued medical center financial statements for the year ending June 30, 2001.

**IRM 130—Exhibit 1**  
**University of California STIP Matrix**

Those who have put money into STIP	Relationship to STIP	STIP gains and losses distributed to individual funds?	How will STIP activity be recognized in 2001?	How will STIP activity be recognized in 2002?	Comments and questions
Medical Center and CEB	Demand Depositor	No	No unrealized gain or loss will be recorded or displayed on separately-issued financial statements or for medical center or CEB balances included in consolidated UC statements, since STIP is considered cash.	No effect of STIP activity related to medical centers or CEB on separately-issued or consolidated Cash Flow Statement or of unrealized gains or losses on separately-issued or consolidated operating statements, since STIP is considered cash.	Assume that position of medical centers and CEB are demand depositors so that they will not be allocated unrealized gains or losses in their ledger that are consolidated with the rest of UC. There will not be any allocation of STIP purchases or sales as these transactions are entirely initiated and controlled by the University of California entity.
UCRS and DCP	Demand Depositor	No	STIP unrealized gain and loss will not be distributed to these funds and will not be recognized in the separately-issued Statement of Activity or in the “Retirement Plans” column of the consolidated statement of activity.	The portion of STIP unrealized gain and loss will not be recognized in the Statements of Activity—both those that are separately issued and those included in the UC statements. There will be no Cash Flow Statement in either the separately-issued statements or in those in which the UCRS and DCP are included in the consolidated UC statements as component units.	Assume that there is not any unrealized gain or loss assigned to UCRS and DCP. There will not be any allocation of STIP purchases or sales as these transactions are entirely initiated and controlled by the University of California entity.
Individual Endowment, Plant, Loan or Current Fund	Demand Depositor	No	STIP unrealized gain and loss will not be distributed to these funds and will not be recognized in the respective columns of the consolidated UC Statement of Changes in Fund Balances.	The portion of STIP unrealized gain and loss will be recognized in the single-column consolidated UC Statement of Activity. All STIP activity (purchases and sales) will be included in the single cash flow column. There will not be any allocation of STIP purchases or sales as these transactions are entirely initiated and controlled by the University of California entity.	Assume that there is not any unrealized gain or loss for these funds. There will not be any allocation of STIP purchases or sales as these transactions are entirely initiated and controlled by the University of California entity.

Those who have put money into STIP	Relationship to STIP	STIP gains and losses distributed to individual funds?	How will STIP activity be recognized in 2001?	How will STIP activity be recognized in 2002?	Comments and questions
Agency Fund	Demand Depositor	No	Unrealized gain or loss will not be included in the balances shown for Agency Funds on the consolidated Balance Sheet for UC. The gains or losses will not be recognized on the consolidated Statement of Changes in Fund Balances since agency fund activity is not included.	Realized gain or loss will be included in the balances shown for Agency Funds on the consolidated Balance Sheet for UC because they are effectively distributed as part of the monthly investment yield. The unrealized gains or losses will not be recognized on the consolidated Statement of Activity. There will not be any allocation of STIP purchases or sales as these transactions are entirely initiated and controlled by the University of California entity. Cash flows related to Agency fund activity will not be shown on the consolidated Cash Flow Statement since Agency Fund activity is not included.	Assume that there is not any unrealized gain or loss for these funds, similar to DCP and UCRS. There will not be any allocation of STIP purchases or sales as these transactions are entirely initiated and controlled by the University of California entity.
University of California General Fund	"The" Investor	No, retained at a consolidated level	Current Fund column will include all unrealized gains and losses. Realized gains and losses are effectively distributed as part of the monthly investment yield.	All unrealized gains and losses will be shown in the single UC column in the Statement of Activity. Single cash flow column will show total STIP activity. There will not be any allocation of STIP purchases or sales as these transactions are entirely initiated and controlled by the University of California entity.	Assume that unrealized gains and losses are equal to the total unrealized gains and losses. There will not be any allocation of STIP purchases or sales as these transactions are entirely initiated and controlled by the University of California entity. Realized gains and losses are effectively distributed as part of the monthly investment yield.

**IRM No. 130—Exhibit 2**

**STIP Activity**

	Fund Groups						Financial Statements					Investment Pool				
	Current	Loan	Endowment	Plant	Agency	UCRS	Univ of Cal	UCRP	DCP	Med Ctr	CEB	STIP	GEP	HIP	UCRP	DCP
<b>Current Approach - 6/30/2000</b>																
Realized gains and losses distributed as part of yield?	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Unrealized gains and losses distributed?	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Purchases and sales gross up	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
<b>Proposed Approach - 6/30/2001 &amp; beyond</b>																
Realized gains and losses distributed as part of yield?	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Unrealized gains and losses distributed? (underline indicates change from current approach)	Y	<u>N</u>	<u>N</u>	<u>N</u>	N	<u>N</u>	Y	<u>N</u>	<u>N</u>	<u>N</u>	<u>N</u>	Y	<u>N</u>	<u>N</u>	<u>N</u>	<u>N</u>
Purchases and sales gross up (underline indicates change from current approach)	<u>Y</u>	N	N	N	N	N	<u>Y</u>	N	N	N	N	N/A	N/A	N/A	N/A	N/A