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University of California GASB 35 Financial Statement Presentation

Issues Resolution Memo No. 133

Change in Accounting for Federal Refundable Loans (Perkins Loans)

Define Issues

In order to comply with the requirements of GASB Statements No. 34 and 35, the University must report federal refundable loans as a liability.

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 revised approach is currently required for private colleges and universities.

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

- Management's Discussion and Analysis
- 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).

Historically, the University has reported the balance of federal refundable loans as a fund balance on the Balance Sheet and all activity in the Statement of Changes in Funds Balances. However, the new reporting requirements prescribed by GASB Statements No. 34 and 35 require that the University report these loans as a liability beginning in the FY 2001-2002 financial statements. This will require the University to establish new guidelines for recording federal refundable loan balances and activity. In addition, UCOP will be required

to restate federal refundable loan balances and activity for the fiscal year ended June 30, 2001 in order to prepare prior year comparative information.

Recommended Approach

Beginning July 1, 2001, campuses should report federal loan balances as a liability, rather than as a fund balance.

- UCOP has established new Account Group Code (AGC) 145300—NL Federal Refundable Loans.
- UCOP has restated the federal refundable loan activity for the fiscal year ended June 30, 2001, moving the beginning balances and all entries for federal refundable loan activity out of the fund balance account and netting the balance into a liability account which is mapped to AGC 145300—NL Federal Refundable Loans.
- In fiscal year 2001-2002, campuses will transfer the balance forward at July 1, 2001 to a liability account that is mapped to AGC 145300. The offsetting fund balance entry should use transaction code 8600—Prior Year Hand Posted Entries, Loan Funds.
- Beginning July 1, 2001, campuses will record federal loan activity in a liability account in one of the following ways:
 - (1) Record federal refundable loan activity in a liability account (mapped to AGC 145300) throughout the year, or
 - (2) If federal refundable loan activity is recorded in a fund balance account throughout the year, at year-end all activity must be reclassified to a liability account that is mapped to AGC 145300. The activity may be summarized and reclassified at the transaction code level.
 - (3) If federal refundable loan activity is recorded in clearing accounts during the year, clearing accounts will be zeroed out and netted to a liability account (mapped to AGC 145300) at year-end.
- The end result will be no fund balance remaining at June 30 and no transaction code activity during the fiscal year for federal refundable loans.

Next Steps—Required Actions

Responsibility (C, OP)	Required Completion Date	Action Item/Task
C	30-Jun-02	Establish Liability Account that Maps to AGC 145300— Establish a new liability account in campus' general ledgers that maps to AGC 145300—NL Federal Refundable Loans.
C	30-Jun-02	Record the Beginning Balance of Federal Refundable Loan Liability at July 1, 2001— Record the entry to correct the beginning balance of federal refundable loan liability at July 1, 2001 in the FY 2002 general ledgers as provided in Attachment 13 of the June 12, 2002 GASB implementation memo to campuses.
C	2-Aug-02	Reclassify Federal Refundable Loan Activity to a Liability Account— Reclassify federal refundable loan activity from a fund balance account to a liability account as outlined in Attachment 19 of the June 12, 2002 GASB implementation memo to campuses.