

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. 134**

#### **Change in Accounting for Construction in Progress**

##### **Define Issues**

The Unexpended Plant Fund fund balances related to plant expenditures transferred to Construction in Progress at June 30 must be recorded in separate funds, by restriction code of the original funding source.

##### **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).

When a construction project is not complete at June 30, campuses capitalize the expenditure to Construction in Progress (CIP) in Investment in Plant and close out unexpended plant fund expenditures to the fund balance account on a reversing journal entry using a reserve CIP fund (01499). The entries to transfer plant expenditures to CIP are as follows:

*Investment in Plant*

*Debit* CIP X-101889-01990-0

*Credit* Investment in Plant Fund Balance X-101999-01990-3X79

*Unexpended Plant*

*Debit* Reserve CIP X-101499-01499-0-3610

*Credit* CIP Expenditures X-999990-01499-0

Historically, UCOP manually calculated an allocation of the reserve CIP fund balance (101499-01499) between restricted and unrestricted for reporting in the Annual Financial Report. This allocation was performed on a consolidated basis rather than at the campus level.

Under the new University Reporting method that uses Consolidated Financial Reporting on Webfocus, campuses must now determine the allocation of the reserve CIP fund balance between restricted and unrestricted and record it in their general ledgers. UCOP will no longer prepare this manual calculation.

**Authoritative Guidance**

Authoritative guidance from GASB Statement No. 34 is provided in Appendix 1.

**Recommended Approach**

- Fund 01499 currently used for reserve CIP should be coded unrestricted (restriction code = U).
- Campuses should establish a second fund for reserve CIP, 01495, and should code it restricted (restriction code = R).
- Campuses have the option of:
  - 1) Recording year-end CIP entries directly into the appropriate CIP reserve fund based upon the restriction code of the source fund. The entries are:

*Investment in Plant—To record the CIP asset*

*Debit* CIP X-101889-01990-0

*Credit* Investment in Plant Fund Balance X-101999-01990-3X79

*Unexpended Plant—To close out plant expenditures to reserve CIP*

*Debit* Reserve CIP X-101499-01499-0-3610

*Credit* CIP Expenditures X-999990-01499-0

(For the expenditures from unrestricted fund sources)

*Debit* Reserve CIP X-101495-01495-0-3610

*Credit* CIP Expenditures X-999990-01495-0

(For the expenditures from restricted fund sources)

- 2) Recording all year-end CIP entries into fund 01499 and making a manual adjustment to move the restricted portion to fund 01495. The entries are:

*Investment in Plant—To record the CIP asset*

*Debit* CIP X-101889-01990-0

*Credit* Investment in Plant Fund Balance X-101999-01990-3X79

*Unexpended Plant—To close out plant expenditures to reserve CIP*

*Debit* Reserve CIP X-101499-01499-0-3610

*Credit* CIP Expenditures X-999990-01499-0 (for all expenditures transferred to CIP—restricted and unrestricted)

*Unexpended Plant—To transfer the allocation of restricted CIP expenditures to fund 01495*

*Debit* Reserve CIP X-101495-01495-0-4000

*Credit* CIP Expenditures X-999990-01495

*Debit* CIP Expenditures X-999990-01499

*Credit* Reserve CIP X-101499-01499-0-4000

- 3) If the campus already records their entries in a fund balance with the appropriate restriction code, there should be no change in procedure.

**Next Steps—Required Actions**

Responsibility (C, OP)	Required Completion Date	Action Item/Task
C	30-Jun-02	<b>Verify Restriction Code for Fund 01499</b> —Verify that the restriction code for fund 01499 is unrestricted (restriction code = U).
C	30-Jun-02	<b>Establish Unexpended Plant Funds for CIP Entries</b> —Establish Unexpended Plant Funds 01495 (restricted) for CIP entries.
C	1-Jul-02	<b>Begin Recording CIP Entries as Restricted or Unrestricted</b> —Campuses that elect to record year-end CIP entries directly into the appropriate CIP Reserve fund should begin recording CIP entries as restricted or unrestricted.
C	2-Aug-02	<b>Record CIP Entries as Restricted or Unrestricted</b> —Campuses that elect to record all year-end CIP entries into fund 01499 should allocate CIP entries into separate funds based on the restrictions of the fund source. These may be summary entries.

## Appendix 1—Authoritative Guidance

### GASB Statement No. 34

#### *Invested in Capital Assets, Net of Related Debt*

*GASB 34, Paragraph 33*—This component of net assets consists of capital assets (see paragraph 19), including *restricted* capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds should *not* be included in the calculation of invested in *capital assets, net of related debt*. Rather, that portion of the debt should be included in the same net assets component as the unspent proceeds—for example, *restricted for capital projects*.

#### *Restricted Net Assets*

*GASB 34, Paragraph 34*—Net assets should be reported as restricted when constraints placed on net asset use are either:<sup>24</sup>

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments
- b. Imposed by law through constitutional provisions or enabling legislation.

*Enabling legislation*,<sup>25</sup> as the term is used in this Statement, authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) *and* includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

<sup>24</sup> Because different measurement focuses and bases of accounting are used in the statement of net assets than in governmental fund statements, and because the definition of *reserved* includes more than resources that are *restricted* (as discussed in this paragraph), amounts reported as *reserved fund balances* in governmental funds will generally be different from amounts reported as *restricted net assets* in the statement of net assets.

<sup>25</sup> Enabling legislation also includes restrictions on asset use established by a governmental utility's own governing board when the utility reports based on FASB Statement 71.

*GASB 34, Paragraph 35*—When permanent endowments or permanent fund principal amounts are included, “restricted net assets” should be displayed in two additional components—expendable and nonexpendable. Nonexpendable net assets are those that are required to be retained in perpetuity.

*Unrestricted Net Assets*

*GASB 34, Paragraph 36*—Unrestricted net assets consist of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

*GASB 34, Paragraph 37*—In the governmental environment, net assets often are *designated* to indicate that management does not consider them to be available for general operations. In contrast to *restricted* net assets, these types of constraints on resources are *internal* and management can remove or modify them. As described in paragraph 34, however, *enabling legislation* established by the reporting government should not be construed as an *internal constraint*. Designations of net assets should not be reported on the face of the statement of net assets.