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

### **Issues Resolution Memo No. 152**

#### **Categorization of Various Medical Center Revenues**

##### **Define Issues**

The University must determine the appropriate classification for various medical center revenues on the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows for both the University and individual medical center 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
- 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 University's medical centers receive over \$2 billion in patient fees, including reimbursement from Medicare and Medi-Cal. Reimbursement under Medi-Cal includes:

- Base fee for service
- Payments from Medi-Cal HMOs or capitated rates

In addition to this revenue, the medical centers receive additional funds from the State or federal government that includes:

- Hospital equipment appropriations through the University for the specific purpose of purchasing equipment
- Clinical teaching support funds provided for the care of patients necessary for the teaching mission
- Infrastructure appropriations for non-seismic capital improvement projects
- State Public Works Board funds through the University for capital projects
- Negotiated contractual add-ons for hospitals having a disproportionate share of indigent patients (SB 855)
- Negotiated supplementary contractual add-ons to disproportionate share providers (SB 1255)
- Reimbursement of interest costs for certain construction (SB 1732)
- Medical education funds for the care of Medi-Cal patients in an inpatient setting
- FEMA grants for capital improvements and seismic upgrades

Currently, these funds, except infrastructure and FEMA, are reported as Current Fund revenues on the University's financial statements. However, GASB Statement No. 34 has established new/additional revenue classifications on the Statement of Revenues, Expenses and Changes in Net Assets and added the requirement to prepare a Statement of Cash Flows. The University must establish guidelines for reporting the various medical center revenues and cash flows both for the University's financial statements and the individual medical center financial statements.

### **Authoritative Guidance**

GASB Statement No. 34 provides guidance for defining operating revenues and expenses:

*Paragraph 102*—Governments should establish a policy that defines operating revenues and expenses that is appropriate to the nature of the activity being reported, disclose it in the summary of significant accounting policies, and use it consistently from period to period. A consideration for defining a proprietary fund's operating revenues and expenses is how individual transactions would be categorized for purposes of preparing a statement of cash flows using Statement 9...

GASB Statement No.9, Paragraph 16 states that operating activities “result from providing services...and include all transactions and other events that are not defined as capital and related financing, non-capital financing, or investments.” In defining non-capital financing, Paragraph 21b states that cash inflows from non-capital financing activity includes grants and subsidies, except those for specific activities which are considered to be operating activities of the grantor government.

### **Recommended Approach**

As a principle, the University will classify University revenues as outlined below. These classifications are consistent with the direction established in IRM 126, *GASB Statement No. 33—Accounting and Reporting for Nonexchange Transactions*.

- State Appropriation—Operating Budget
  - Statement of Revenues, Expenses and Changes in Net Assets—Operating Revenues
  - Statement of Cash Flows—Operating Activities
- State Appropriation—Capital Outlay
  - Statement of Revenues, Expenses and Changes in Net Assets—Nonoperating Revenues
  - Statement of Cash Flows—Capital and Related Financing Activities
- State Appropriation—Ongoing Programs
  - Statement of Revenues, Expenses and Changes in Net Assets—Classified according to the nature of the appropriation
  - Statement of Cash Flows—Classified according to the nature of the appropriation

In addition to these revenue sources, the medical centers also receive funding from other State and federal agencies:

- State Department of Health and Human Services
  - Statement of Revenues, Expenses and Changes in Net Assets—Operating Revenues
  - Statement of Cash Flows—Operating Activities
- FEMA awards from the federal government to the medical centers will be classified as nonoperating revenues on the Statement of Revenues, Expenses and Changes in Net Assets, and as a capital and related financing activity on the Statement of Cash Flows.

There may be minor differences with respect to the treatment on the separately-audited medical center financial statements as outlined in Exhibit 1.

The table provided in Exhibit 1 outlines the University’s classification of various medical center revenues in the University’s financial statements and the separately-issued medical center financial statements beginning in FY 2001-2002 (including the FY 2000-2001 restatement for comparative purposes). It also provides transaction codes and new account group codes that must be established. The new account group codes are required for the May 2001 CFS.

**Next Steps—Required Actions**

Responsibility (C, OP)	Required Completion Date	Action Item/Task
C	31-May-01	<b>Assure Medical Center Revenue Accounts Map to New Account Group Codes</b> —Review medical center revenue accounts and map to the new account group codes as indicated in this IRM. The May CFS submission must include an Account Fund Profile that incorporates the new CFS account group codes.
C	8-Aug-01	<b>Close at June 30 Using the New CFS Account Group Structure</b> —All reclassifications of financial balances to new general ledger accounts and account group codes must be completed in the June 30, 2001 final file submission to CFS.
OP/C	30-Nov-01	<b>Restate FY 2001 Statements for Comparative Purposes</b> —Restate FY 2000-2001 Statement of Changes in Funds Balances and Statement of Current Funds Revenues, Expenditures and Other Changes into the new Statement of Revenues, Expenditures and Changes in Net Assets and Statement of Cash Flows in order to prepare comparative statements for the FY 2001-2002 Annual Report.

IRM No. 152—Exhibit 1

Categorization of Various Medical Center Revenues on University and Medical Center Financial Statements

Fund Source	Description	University			Medical Center	
		Account Group (AG) or Transaction Code (TC)	Statement of Revenues, Expenses and Changes in Net Assets	Statement of Cash Flows	Statement of Revenues, Expenses and Changes in Net Assets	Statement of Cash Flows
<b>State Appropriation—Operating Budget</b>						
Hospital Equipment	State Appropriation for Hospital Equipment—Provides funds for the specific purpose of purchasing equipment.	AG201100	Nonoperating Revenues: State Educational Appropriations, State of CA—General Support	Noncapital Financing Activities: State Educational Appropriations	Other Changes: Equity Transfer from the University	Capital and Related Financing Activities: Transfers from University
CTS	Clinical Teaching Support—Provides financial support for patients who are unable to pay the full cost of hospital care and other teaching costs in the clinics.	AG201100	Nonoperating Revenues: State Educational Appropriations, State of CA—General Support	Noncapital Financing Activities: State Educational Appropriations	Operating Revenues: Other Operating Revenues	Operating Cash Flow: Other Receipts
<b>State Appropriation—Capital Outlay</b>						
Infra-structure	Capital Infrastructure Projects—State Capital Budget funds appropriated for non-seismic capital improvement projects.	TC1000	Nonoperating Revenues: State Capital Appropriations	Capital and Related Financing Activities: State Capital Appropriations	Other Changes: State Capital Appropriations	Capital and Related Financing Activities: State Capital Appropriations
<b>State Appropriation—Ongoing Programs</b>						
SPWB	State Public Works Board—Provides funds through the University for capital projects.	AG201220	Nonoperating Revenues: State Financing Appropriations	Capital and Related Financing Activities: State Financing Appropriations	Other Changes: Equity Transfer from the University	Capital and Related Financing Activities: Transfers from University
<b>State Department of Health and Human Services</b>						
SB 855	Secondary Supplemental Payment—Provides supplemental Medi-Cal payment adjustments to acute care hospitals that treat a high volume of low income and Medi-Cal patients for inpatient care.	AG207210	Operating Revenues: Sales & Services—Medical Centers	Operating Activities: Receipts from Sales and Services of Medical Centers	Patient Revenues	Operating Cash Flow: Cash Received from Patients and Third Party Payors

Fund Source	Description	University			Medical Center	
		Account Group (AG) or Transaction Code (TC)	Statement of Revenues, Expenses and Changes in Net Assets	Statement of Cash Flows	Statement of Revenues, Expenses and Changes in Net Assets	Statement of Cash Flows
<b>State Department of Health and Human Services (cont'd)</b>						
SB 1255	Emergency Services and Supplemental Payments—Provides supplemental Medi-Cal payments to disproportionate share hospitals (i.e., hospitals that treat a high number of Medi-Cal and low-income patients).	AG207210	Operating Revenues: Sales & Services—Medical Centers	Operating Activities: Receipts from Sales and Services of Medical Centers	Patient Revenues	Operating Cash Flow: Cash Received from Patients and Third Party Payors
SB 1732	Construction and Renovation Reimbursement Program—Provides supplemental Medi-Cal reimbursement to disproportionate share hospitals for debt service costs (i.e., principal and interest) of approved capital construction.	AG207210	Operating Revenues: Sales & Services—Medical Centers	Operating Activities: Receipts from Sales and Services of Medical Centers	Patient Revenues	Operating Cash Flow: Cash Received from Patients and Third Party Payors
Medical Education	Medi-Cal Medical Education Supplemental Payment—Provides funds for the cost of medical education incurred in the treatment of Medi-Cal patients, in an in-patient setting.	AG207210	Operating Revenues: Sales & Services—Medical Centers	Operating Activities: Receipts from Sales and Services of Medical Centers	Patient Revenues	Operating Cash Flow: Cash Received from Patients and Third Party Payors
<b>Federal Government</b>						
FEMA	Federal Emergency Management Agency Grants—Provides funds for capital improvements and seismic upgrades	TC1110	Nonoperating Revenues: Capital Gifts and Grants	Capital and Related Financing Activities: Capital Gifts and Grants	Other Changes: State and Federal Capital Contributions	Capital and Related Financing Activity: Proceeds from FEMA