

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**

**Addendum C to
Issues Resolution Memo No. 126**

(Re-issued September 17, 2001)

**Adopting the Change in Accounting Principle for Restricted Receipts in Excess of
Restricted Expenditures or Expenditures in Excess of Restricted Receipts (Overdrafts)**

Define Issues

The University must develop the entries to adopt the changes in accounting principle for restricted receipts in excess of restricted expenditures in accordance with GASB Statements No. 34 and 35.

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).

Currently, the University records restricted receipts when funds are received from the U.S. government, State government, local government, and private contracts and grants, regardless of whether or not the funds have been spent. These restricted receipts, if received before the funds are spent, are shown on the Statement of Current Funds, Revenues, Expenditures and Other Changes as “Restricted Receipts in Excess of Restricted Revenue.” They are recorded in revenue accounts and reclassified on the Statement. Overdrafts are accrued as receivables until funds are received or are written-off as uncollectable.

Recommended Approach

In accordance with GASB Statements No. 34 and 35, the University will record:

- as deferred revenue any funds received from these sources that are not yet expended at June 30, or
- as accrued revenue any funds spent but not yet received.

The analysis and journal entries will be made at the campuses. The changes will be effective in FY 2001-2002, however we will also need to capture the information as of June 30, 2001 in order to prepare the comparative financial statements.

All overdrafts in restricted funds must be identified and revenue accrued or, if determined to be uncollectable, the expenditures transferred to another fund source by the June 30 final ledger.

Note: The entries provided in this IRM should be in the Current Fund group.

Establish New Accounts and Fund

- Campuses will establish the following new accounts as of July 1, 2001, as needed:
 - Deferred Revenue accounts that map to Account Group Code 164330—Deferred Revenues, Grants and Contracts
 - Accounts Receivable accounts that map to following Account Group Codes:
 - 160512— Accounts Receivable—State Grants and Contracts
 - 160513— Accounts Receivable—Federal Appropriations
 - 160514— Accounts Receivable—Federal Grants and Contracts
 - 160567—Accounts Receivable Other—Local and Private Grants and Contracts
- Campuses may choose to make journal entries for each source by fund. However, if campuses prefer to make one entry per fund source, they may elect to use a “dummy” fund and revenue account and should establish the appropriate revenue accounts and fund numbers.

Record the June 30, 2000 Balances for Deferred or Accrued Restricted Funds as of July 1, 2001

- Campuses will analyze each of their restricted funds (excluding endowment income and private gifts) as of June 30, 2000 to determine the difference between their expenditures, revenues and fund balances. If the difference is a credit (receipts in excess of expenditures), revenue should be deferred. If the difference is a debit (expenditures in excess of receipts), revenue should be accrued. Campuses will report the information to UCOP–Financial Management using the worksheet provided in Exhibit 1. No entries should be made in FY 2000-2001. The data received from the campuses will be used to determine the actual revenue for FY 2000-2001 in order to prepare comparative statements for FY 2001-2002.

Record the June 30, 2001 Balances for Deferred or Accrued Restricted Funds as of July 1, 2001

- Campuses will analyze each of their restricted funds (excluding endowment income and private gifts) as of June 30, 2001 to determine the difference between their expenditures, revenues and fund balances. If the difference is a credit (receipts in excess of expenditures), revenue should be deferred. If the difference is a debit (expenditures in excess of receipts), revenue should be accrued. Campuses will report the information to UCOP–Financial Management using the worksheet provided in Exhibit 2. No entries should be made in FY 2000-2001. Please note that accruals that are normally made during closing will still be prepared.
- If there are overdrafts that have been determined to be uncollectable and cannot be covered by an accrual of revenue, they should be transferred to another fund source by the June 30, 2001 final ledger.
- During FY 2001-2002, UCOP will request that campuses make the following entry to record deferred or accrued revenue as a prior-year adjustment.

- If the difference is a credit (deferred revenue existed at June 30, 2001), the entry to record the deferred revenue in the FY 2001-2002 ledger is:

Debit Fund Balance by Fund Source–Transaction Code 0990⁺

Credit Revenue Account by Fund Source

⁺ Transaction Code 0990 = Prior Year Hand Posted Journal Entry

- If the difference is a debit (accrued revenue existed at June 30, 2001), the entry to record the accrual in the FY 2001-2002 ledger is:

Debit Revenue Account by Fund Source

Credit Fund Balance by Fund Source–Transaction Code 0990⁺

⁺ Transaction Code 0990 = Prior Year Hand Posted Journal Entry

Modify Local Fiscal Closing Process for FY 2001-2002

- Campuses will incorporate procedures to record deferred or accrued restricted funds into the local fiscal closing process beginning FY 2001-2002.

Record the June 30, 2002 Balances for Deferred or Accrued Restricted Funds as of June 30, 2002

- If there are overdrafts that have been determined to be uncollectable and cannot be covered by an accrual of revenue, they must be transferred to another fund source.
- Campuses will analyze each of their restricted funds to determine the difference between their expenditures, revenues and fund balances. If the difference is a credit, it should be reclassified to deferred revenue. If the difference is a debit, it should be reclassified as a receivable.
 - If the difference is deferred revenue, campuses will make the following year-end entry at June 30, 2002. The entry will be on a reversing journal (i.e., 14 journal) because it is a deferral.

Debit Revenue Account by Fund Source

Credit Deferred Revenue Balance Sheet Account (maps to Account Group Code 164330)

- If the difference is a receivable, campuses will make the following year-end entry at June 30, 2002. The entry will be on a reversing journal (i.e., 14 journal) because it is an accrual.

Debit Accounts Receivable by Fund Source (maps to Account Group Code 160512, 160513, 160514, 160567)

Credit Revenue Account by Fund Source

Next Steps—Required Actions

Responsibility (C, OP)	Required Completion Date	Action Item/Task
C	1-Jul-01	Open New Accounts and Funds —Open new accounts and funds as outlined in the <i>Recommended Approach</i> section of this IRM.
C	31-Oct-01	Submit FY 1999-2000 Deferred or Accrued Revenue Amounts —Submit the June 30, 2000 deferred or accrued revenue balances to UCOP, as information (see Exhibit 1 of this IRM), in order to restate the June 30, 2001 financial statements in FY 2001-2002. <u>These amounts will not be recorded in campus General Ledgers at June 30, 2001.</u> The information will be used to determine actual revenues for FY 2000-2001 in order to prepare comparative statements for FY 2001-2002.

Responsibility (C, OP)	Required Completion Date	Action Item/Task
C	31-Oct-01	Submit FY 2000-2001 Deferred or Accrued Revenue Amounts —Submit the June 30, 2001 deferred or accrued revenue balances to UCOP, as information (see Exhibit 2 of this IRM), in order to restate the June 30, 2001 financial statements in FY 2001-2002. <u>These amounts will not be recorded in campus General Ledgers at June 30, 2001.</u> The information will be used to prepare entries to be made during FY 2001-2002 as prior-period adjustments.
OP	30-Nov-01	Restate Prior-Year Financial Statements —Restate FY 2000-2001 financial statements to include deferred or accrued restricted revenue to prepare comparative statements for the FY 2001-2002 Annual Report.
OP	31-Jan-02	Provide Information for Recording Prior-Year Adjustment —Provide campuses with the information for recording prior-year adjustment to recognize deferred or restricted revenue.
C	28-Feb-02	Record Prior-Year Adjustment —Record the entries provided by UCOP for the June 30, 2001 balances for deferred or accrued restricted revenue as a FY 2001-2002 entry.
C/OP	1-Apr-02	Modify FY 2001-2002 Annual Closing Process —Modify the FY 2001-2002 annual closing process to record deferred or accrued restricted revenue in the General Ledger at June 30, 2002.
C	3-Aug-02	Record June 30, 2002 Deferred or Accrued Balance —Record the June 30, 2002 balance for deferred or accrued restricted revenue in the campus General Ledger as part of the fiscal closing process.

IRM 126, Addendum C—Exhibit 1

Summary of June 30, 2000 Adjustments for Deferred or Accrued Restricted Funds

Campus: _____

Fund Source	As of 6/30/00	
	Accounts Receivable	Deferred Revenue
State Grants and Contracts	\$ -	\$ -
Federal Appropriations		
Federal Grants and Contracts		
Local Grants and Contracts		
Private Grants and Contracts		
Total	<u>\$ -</u>	<u>\$ -</u>

Note: Deferred or accrued restricted revenue, other than accruals that would normally have been made and have been made historically in the past, will not be recorded in campus General Ledgers at June 30, 2001. It will be used to reclassify the June 30, 2001 financial statements in conjunction with the June 30, 2002 Annual Report.

IRM 126, Addendum C—Exhibit 2

Summary of June 30, 2001 Adjustments for Deferred or Accrued Restricted Funds

Campus: _____

Fund Source	As of 6/30/01	
	Accounts Receivable	Deferred Revenue
State Grants and Contracts	\$ -	\$ -
Federal Appropriations		
Federal Grants and Contracts		
Local Grants and Contracts		
Private Grants and Contracts		
Total	<u>\$ -</u>	<u>\$ -</u>

Note: Deferred or accrued restricted revenue, other than accruals that would normally have been made and have been made historically in the past, will not be recorded in campus General Ledgers at June 30, 2001. It will be used to reclassify the June 30, 2001 financial statements in conjunction with the June 30, 2002 Annual Report.