

This document reflects the result of analyses, discussions and review by UCOP staff to date. The document is subject to change pending additional discussions with PwC; however, it represents the best information available to date.

# **DRAFT**

## **University of California**

### **Governmental Accounting Standards Board (GASB) Statement No. 46, *Net Assets Restricted by Enabling Legislation***

#### **Issues Resolution Memo No. 46-1**

#### **Determination of Whether GASB Statement No. 46 is Applicable to the University's Circumstances**

##### **Define Issues**

A portion of the University's net assets are classified as either Restricted Expendable or Restricted Non-Expendable. The University must determine whether any of these restrictions result from "enabling legislation," as defined by the GASB. If so, the disclosures required by GASB Statement No. 46 apply. If not, Statement No. 46 is not applicable to the University.

##### **Background**

GASB Statement No. 34 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets.

GASB Statement No. 46 clarifies the meaning of the language "imposed by enabling legislation" as it is used in GASB Statement No. 34. If applicable, Statement No. 46 requires governments to disclose the portion of total net assets that is restricted by enabling legislation.

##### **Authoritative Guidance**

Paragraph 34 in Statement No. 34 states:

Net assets should be reported as restricted when constraints placed on net asset use are either:

- 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*, 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.

GASB Statement No. 46 states the following:

*Paragraph 6.* The amount of the primary government's net assets at the end of the reporting period that are restricted by enabling legislation should be disclosed in the notes to the financial statements.

*Paragraph 16.* Statement 34 identified three means by which restrictions are imposed on net assets: by external persons or bodies, through constitutional provision, or via enabling legislation. Enabling legislation authorizes a 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.

*Paragraph 24.* The Board emphasizes that, to qualify as enabling legislation, new enabling legislation is required to provide the authorization to raise the resources, just as the original enabling legislation did.

### **Discussion and Recommended Approach**

Currently, the University reports restricted net assets as those for which restrictions are imposed on net assets by external persons or bodies. None of the University's restricted net assets are restricted on the basis of enabling legislation.

The University is not enabled to assess, levy, charge or otherwise mandate payment of resources (from external resources providers), with the exception of assessing tuition and fees to students for educational services. Charges for student fees do not result from enabling legislation, but from the approval of The Regents.

The University does receive special research funds from the state (Breast Cancer, AIDS and Tobacco Research). However, as these funds are provided to the University, they are not generated through University assessments, levies, charges or other mandated payments, and are not restricted by enabling legislation by the University, but rather are restricted by the laws or regulations of other governments (an external person or body, in this case the State of California).

Our conclusion is the University’s current classification of net assets is not affected by the language in GASB Statement No. 46 and the conditions for disclosure of net assets restricted by enabling legislation do not apply to the University.

The discussion and conclusion also applies to the separate financial statements of the University’s Medical Centers, UC Press, CEB and the Campus Foundations.

**Next Steps—Required Actions**

<b>Responsibility (C, OP)</b>	<b>Required Completion Date</b>	<b>Action Item/Task</b>
<b>OP</b>	June 2005	Obtain PwC’s comments