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**University of California
Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions***

Issues Resolution Memo No. 54-1

Determining Whether the Fund Balance Classifications Required Under Statement No. 54 Apply to University Financial Reporting

(Issued: April 2, 2009)

Background

Fund balance classifications for governmental funds were originally established in the National Council on Governmental Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles* and were retained in GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*. Subsequent research by the GASB after the implementation of Statement No. 34 determined that there were considerable differences in how governments applied the standards for fund balance reporting. The objective of Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*, is to clarify fund balance definitions to make the nature and extent of the constraints placed on fund balances more transparent.

Define Issues

The University must determine whether the classification and reporting requirements for governmental funds outlined in Statement No. 54 apply to the financial statements for the University of California, Medical Centers, Campus Foundations, UCRP, UCRSP, Health and Welfare Program, CEB ASUCLA, etc.

Authoritative Guidance and Discussion

GASB Statement No. 34, Paragraph 63 provides an overview and definitions for 3 distinctly separate fund types. Paragraph 63 provides the following outline:

Funds—Overview and Definitions

Fund financial statements should be used to report additional and detailed information about the primary government. Governments should report governmental, proprietary, and fiduciary funds to the extent that they have activities that meet the criteria for using those funds. (See paragraphs 64–73.)

- a. Governmental funds (emphasizing major funds)
 - (1) The general fund
 - (2) Special revenue funds
 - (3) Capital projects funds
 - (4) Debt service funds
 - (5) Permanent funds
- b. Proprietary funds
 - (6) Enterprise funds (emphasizing major funds)
 - (7) Internal service funds
- c. Fiduciary funds and similar component units
 - (8) Pension (and other employee benefit) trust funds
 - (9) Investment trust funds
 - (10) Private-purpose trust funds
 - (11) Agency funds.

GASB Statement No. 54, Paragraph 3 outlines the scope and applicability of Statement No. 54. Specifically, Paragraph 3 states:

This Statement establishes accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types.

For the University of California, University of California Campus Foundations, University of California Medical Centers, University of California Health and Welfare Program, CEB and ASUCLA:

The University uses the guidance for special-purpose governments engaged in business type activities for the University of California, University of California Campus Foundations, University of California Medical Centers and the University of California Health and Welfare Program. Paragraph 44 in GASB Statement No. 35 indicates:

With respect to reporting certain activities as BTAs (business-type activities), respondents point out that most colleges and universities meet the principal criterion established in paragraph 67 of Statement 34. An entity may elect that reporting, which is available for any activity for which a fee is charged to external users for goods or services. Supporters of BTA reporting for colleges and universities also point out that, although most public institutions are regularly subsidized, they also cover a portion of their costs through external user charges for their services. Therefore, these public institutions should be permitted to use BTA reporting. An additional advantage cited by some proponents of BTA reporting for public institutions is that it may enhance comparability with their not-for-profit and for-profit counterparts.

GASB Statement No. 34, Paragraph 15 indicates that BTAs are usually reported in enterprise funds. Specifically, Paragraph 15 states:

Separate rows and columns should be used to distinguish between the governmental and business-type activities of the primary government. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. These activities are usually reported in governmental funds and internal service funds. Business-type activities are financed in whole or part by fees charged to external parties for goods or services. These activities are usually reported in enterprise funds.

GASB Statement No. 34, Paragraph 66 describes enterprise funds as being a proprietary fund type, distinctly different than a government fund type described in Paragraph 64. Specifically, Paragraph 66 states:

Proprietary fund reporting focuses on the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service funds.

GASB Statement No. 34, Paragraph 138 indicates that “governments engaged in BTAs should present only the financial statements required for enterprise funds.”

For the University of California Retirement Plan and the University of California Retirement Savings Plans:

The University uses the guidance for fiduciary funds for the University of California Retirement Plan and the University of California Retirement Savings Plans. Paragraph 69 in GASB Statement No. 34 states:

Fiduciary fund reporting focuses on net assets and changes in net assets. Fiduciary funds should be used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds. The three types of trust funds should be used to report resources held and administered by the reporting government when it is acting in a fiduciary capacity for individuals, private organizations, or other governments. These funds are distinguished from agency funds generally by the existence of a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Paragraph 70 in GASB Statement No. 34 states:

Pension (and other employee benefit) trust funds should be used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.

Conclusion

As a result of the above discussion, the revisions in classification and reporting outlined in Statement No. 54 do not apply to any of the University's financial statements for the following reasons:

- The University reports using the guidance for enterprise funds for the University of California, University of California Medical Centers, University of California Health and Welfare Program, CEB and ASUCLA.
- The University reports using the guidance for fiduciary funds for the University of California Retirement plan and the University of California Retirement Savings Plans.

- As outlined in GASB Statement No. 34, enterprise funds are a proprietary fund type, distinctly different than a governmental fund type. Similarly, fiduciary funds are also distinctly different from a governmental fund type.
- The proposed revisions in Statement No. 54 are applicable to governmental fund types, not enterprise or fiduciary fund types.