

**THE CALIFORNIA STATE UNIVERSITY
GAAP REPORTING MANUAL**

**CHAPTER 4 – GAAP ADJUSTMENTS AND RECLASSIFICATIONS
NOT REQUIRING INFORMATION FROM CHANCELLOR’S OFFICE**

OVERVIEW

Once the mapping of funds, subfunds and accounts from the legal basis of accounting to the line items of the Business-Type Activities Model has been completed, the next step in the conversion process is to convert the account balances from legal (modified accrual) to GAAP (full accrual) basis. This step is accomplished by a series of adjustments, only a few of which require information that is provided by the Chancellor’s Office. The types of GAAP adjustments that can be prepared solely based upon information available at the campus will be detailed in the sections of this chapter. These sections are listed below. (See Chapter 5 for those adjustments that involve information provided by the Chancellor’s Office.)

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It should be noted that none of the GAAP adjustments should be recorded until the mapping step of the conversion process has been completed using the SAM07 *Pre-closing Trial Balance* and the SAM06 *Final Budget Report* as discussed in Chapter 3.

There are four major types of GAAP adjustments:

1. Permanent adjustments: Required to reflect for GAAP reporting purposes accounting activity that is *never* recorded under the legal basis of accounting. Such adjustments typically result in a net change to Net Assets, and therefore their effect must be carried over into the next year in the process of converting from legal to GAAP basis.
2. Timing adjustments: Required for accounting activity that is recorded under the legal basis of accounting as well as being reported under GAAP, but at *different times* and for *different amounts*. Such adjustments typically result in the creation of an accrued asset or liability as well as a net change in Net Assets, and therefore their effect must be carried over into the next year in the process of converting to GAAP basis.
3. Reclassifications: Required for accounting activity that is recorded under the legal basis of accounting as well as being reported under GAAP, for the *same* dollar amounts, in the *same* fiscal year, but in *different financial statement categories*. Such adjustments occasionally result in a change in Net Assets between legal and GAAP basis; in these cases their effect must be carried over into the next year.
4. Eliminations: Required for accounting activity that is recorded under the legal basis of accounting, but is *not* reported under GAAP. Such adjustments occasionally result in a change in Net Assets between legal and GAAP basis; in these cases their effect must be carried over into the next year.

Each adjustment that is described in this Chapter will be identified by its type, whether it has an effect on Net Assets, and how it would affect the following fiscal year for purposes of converting from legal to GAAP basis.

The Chancellor's Office has created FIRMS Object Codes that may be used as reference numbers for purposes of entering individual GAAP adjustments in the software that each campus has selected to compile its adjusted financial statement information. Use of these Object Codes is solely at the option of each campus. A complete list of FIRMS Object Codes, including those created for GAAP adjusting entries, is available through the Chancellor's Office web site: http://www.calstate.edu/scripts/firms/object_code.idc.

Campuses that are using PeopleSoft Financials version 8.4 have the option of creating a separate business unit for the purpose of recording GAAP adjustments and then generating resulting financial statements from their adjusted PeopleSoft data. Such campuses must create chart field values as necessary to reflect the accounting activity that is required for GAAP reporting and then use those values in their PeopleSoft journal entries. This process was discussed in detail at the CSU PeopleSoft 8.4 upgrade meeting on January 23, 2004. Please refer to conference materials for detailed discussion.

SECTION 4-1

NET ASSETS

OBJECTIVE OF GAAP ADJUSTMENTS

- To reinstate the current fiscal year's beginning GAAP net assets related to GAAP adjustments recorded in the preceding fiscal year.

NET ASSETS

After the process of mapping legal basis SAM07 *Pre-closing Trial Balance* accounts to GAAP financial statement categories is completed, the first group of GAAP adjustments to be recorded are those that are required to reflect the effect on this year's beginning GAAP Net Assets related to GAAP adjustments made last year. (Note that campuses that are using PeopleSoft Financials version 8.4, and that established a separate business unit to record GAAP adjustments in the previous fiscal year, may not need to make any of the adjustments described in this Section because their prior year ending Net Asset balances should have carried over automatically and become this year's beginning Net Assets.)

Those campuses that need to manually rebuild this year's beginning GAAP Net Assets must review every GAAP adjustment made in the prior year. Beginning net asset balances need to be adjusted to reflect certain adjustments that were recorded in the preparation of prior year GAAP financial statements. The types of GAAP adjustments that were made last year that would require an adjustment to this year's beginning Net Assets include:

1. Those that debit or credit assets or liabilities, with an offsetting credit or debit to revenues, expenses or transfers.
2. Those that debit or credit assets or liabilities, with an offsetting credit or debit to Net Assets.

The types of GAAP adjustments that were made last year that would *not* require an adjustment to this year's beginning Net Assets include:

1. Those that debit or credit assets or liabilities, with an offsetting credit or debit to assets or liabilities.
2. Those that debit or credit revenues, expenses or transfers, with an offsetting credit or debit to revenues, expenses or transfers.
3. Those that debit or credit Net Assets, with an offsetting credit or debit to Net Assets, revenues, expenses or transfers.

Campuses have the option to record GAAP adjustments that affect Net Assets on a “gross change” or a “net change” basis.

1. If a campus chooses to use the “gross change” method, the ending balances of accrued assets or liabilities would have been recorded last year, with an offsetting entry to revenues or expenses. In this case, the entry required to reflect the effect of last year’s entry on this year’s beginning Net Assets would debit or credit revenues or expenses for the same amount, but the opposite sign, as last year’s entry. The offset to this entry would be to Net Assets. In this Chapter, timing adjustments are presented using the “gross change” method.
2. If a campus chooses to use the “net change” method, the net difference between the beginning and ending balances of accrued assets or liabilities would have been recorded last year, with an offsetting entry to revenues or expenses. In this case, the entry required to reflect the effect of last year’s entries on this year’s beginning Net Assets would debit or credit accrued assets or liabilities for the same amount and with the same sign as last year’s ending balance of those accounts. The offset to this entry would be to Net Assets. In this Chapter, permanent adjustments are presented using the “net change” method.

Instructions for preparing these adjustments are incorporated in the examples and illustrations provided in this Chapter.

GAAP ADJUSTMENTS MADE EVERY YEAR

TIMING ADJUSTMENTS

There are many GAAP adjustments that relate to differences in timing between when an item of revenue or expense is recognized in legal basis accounting records and when it should be recognized for GAAP purposes. Because these adjustments affect ending GAAP net asset balances when they are recorded each year, these entries must be reversed in order to arrive at the beginning GAAP net asset balances in the following year. The following is a list of journal entries and reference to the sections where these entries are illustrated. Note that for each entry, the Net Asset group(s) in which the entry would be recorded is shown.

Encumbrances in Appropriated Funds (refer to Section 4-3)

Unrestricted / Restricted: Expendable - Capital Projects

Debit	Operating expenses – by functional and natural classification
Credit	Net assets – restricted for capital projects (beginning)
Credit	Net assets – unrestricted (beginning)

Prepaid Expenses and Inventories (refer to Section 4-6)

Unrestricted

Debit Operating expenses – by functional and natural classification
 Credit Net assets – unrestricted (beginning)

Faculty Payroll Accruals (refer to Section 4-7)

Unrestricted

Debit Net assets – unrestricted (beginning)
 Credit Operating expenses – by functional and natural classification

Compensated Absences (refer to Section 4-8)

Unrestricted

Debit Net assets – unrestricted (beginning)
 Credit Operating expenses – by functional and natural classification

Deferred Revenues (refer to Section 4-9)

Unrestricted

Debit Net assets – unrestricted (beginning)
 Credit Tuition and fees and auxiliary enterprises revenue

PERMANENT ADJUSTMENTS

There are other GAAP adjustments that relate to permanent differences between how financial transactions are recorded in legal basis accounting records and how they should be reported for GAAP purposes. Such differences relate to account adjustments for GAAP that are never recorded in legal basis records. GAAP adjustments are required to re-establish beginning asset or liability balances as well as the related effect on beginning net assets. Following is a list of typical journal entries used to record the beginning GAAP adjustment and references to the section where the entries are illustrated.

Accumulated Depreciation (refer to Section 4-2)

(NOTE: This entry is required *only* if accumulated depreciation is *not* recorded on legal)

Invested in Capital Assets, Net of Related Debt

Debit Net assets invested in capital assets, net of related debt (beginning)

Credit Accumulated depreciation

State Appropriations Receivable – Capital and Non-capital (refer to Section 4-4)

Restricted: Expendable - Capital Projects

Debit Accounts receivable, non-current (for capital appropriations)

Credit Net assets – restricted for capital projects (beginning)

Unrestricted

Debit Accounts receivable, current (for non-capital appropriations)

Credit Net assets – unrestricted (beginning)

Other Receivables Related to Allocations from the Chancellor’s Office (refer to Section 4-4)

Restricted: Expendable - Capital Projects

Debit Accounts receivable, non-current

Credit Net assets– restricted for capital projects (beginning)

Capital Lease Obligations (refer to Section 4-10)

Invested in Capital Assets, Net of Related Debt

Debit Net assets invested in capital assets, net of related debt (beginning)

Credit Capitalized lease obligations

As a campus rebuilds its beginning net assets related to GAAP adjustments that it recorded in the preceding year, note that its beginning asset or liability balances also are being re-established. Accordingly, these balances must then be reviewed to determine if subsequent adjustments are required to ensure the balances are properly stated as of the current year-end. As such, the campus should make certain that, for example, the accounts receivable balance at year-end is supported by a detail listing of “true” amounts receivable due the campuses at year-end.

GAAP ADJUSTMENTS – INFORMATION FROM THE CHANCELLOR’S OFFICE

The Chancellor’s Office will provide campuses with GAAP information and adjusting entries regarding current year debt-related activities for programs managed at the Chancellor’s Office. These adjusting entries are all permanent adjustments, because they relate to accounting activity that is never recorded by campuses in their legal basis accounts. Campuses do not require additional information from the Chancellor’s Office to record the effect on this year’s beginning Net Assets of GAAP adjustments provided last year by the Chancellor’s Office.

As a campus rebuilds its beginning net assets related to GAAP adjustments that it recorded in the preceding year, note that its beginning asset or liability balances also are being re-established. Accordingly, these balances must then be reviewed to determine if subsequent adjustments are required to ensure the balances are properly stated as of the current year-end. As such, the campus should make certain that, for example, the beginning debt outstanding agrees with the debt rollforward schedule provided by the Chancellor’s Office (refer to sample schedule in Chapter 5). The campus should also make certain that once the current year debt entries are recorded, the ending debt outstanding agrees with the debt rollforward schedule. The following list of possible entries to re-establish beginning balances from prior year Chancellor’s Office information shows how each affects beginning GAAP Net Assets.

Bond Anticipation Notes and Revenue Bonds

Invested in Capital Assets, Net of Related Debt

Debit Net assets invested in capital assets, net of related debt (beginning)
Credit Long-term debt obligation

Restricted: Expendable - Debt Service

Debit Accounts receivable - current
Credit Net assets – Restricted for Debt Service

Energy Leases

Invested in Capital Assets, Net of Related Debt

Debit Net assets invested in capital assets, net of related debt (beginning)
Credit Capital lease obligations

Self-Insurance Claims Liability

Unrestricted

Debit Net assets – unrestricted (beginning)
Credit Self-insurance claims liability

GAAP ADJUSTMENTS – OTHER

In addition to the GAAP adjustments already mentioned in this section, there may be other adjustments made to prior year net assets that affect current year beginning net assets. For example, assume that an adjustment was made in the prior year GAAP financial statements that should have been made to prior year legal basis records. The campus must determine what impact that prior year adjustment has on current year legal and GAAP basis financial statements.

(Note that the example shown below relates to a prior year timing adjustment.)

EXAMPLE: Campus X did not accrue an invoice in the amount of \$25,000 on legal basis records at 6/30/PY. However, the invoice was accrued on the GAAP financial statements at 6/30/PY. The invoice was subsequently paid on 7/15/CY. The adjustment to rebuild beginning net assets in the current year for GAAP purposes would be as follows:

Unrestricted

Debit	Net assets-unrestricted (beginning)	\$25,000
	Credit Operating expenses – by functional and natural classification	\$25,000

(To reverse expense recorded on a legal basis in the CY that was accrued on a GAAP basis in PY)

The credit to operating expenses will decrease the overstatement of expenditures created on legal records when the invoice was paid in the current year.

Net Asset Rollforward – 07/01/PY to 06/30/CY

Campuses that are required to prepare GAAP adjustments to reflect the effect of last year’s GAAP adjustments on this year’s beginning net assets can confirm that all necessary current year adjustments to beginning net assets have been prepared by performing a “net asset rollforward”. (Please refer to Chapter 9 for a sample of the beginning net asset rollforward.)

The net asset rollforward begins with current year legal basis *pre-closing* balances in net asset accounts. These amounts are adjusted by the rebuild entries described above to agree to last year’s ending net asset balances. **Last year’s ending GAAP net asset balances must be the same as this year’s beginning net asset balances. No other GAAP adjustments should be recorded until the campus has confirmed that this is the case.**

Current year GAAP adjustments to assets and liabilities which directly affect this year’s ending net assets appear next in the rollforward.

The final piece in the rollforward of net assets is the effect of the adjusted current year Statement of Revenues, Expenses, and Changes in Net Assets. The excess of revenues over expenses in every net asset category affects the ending balance of Net Assets in that category.

SECTION 4-2

CAPITAL ASSETS AND DEPRECIATION

OBJECTIVE OF GAAP ADJUSTMENTS

- To record capital asset expenditures in conformity with the Business-Type Activities Model
- To record depreciation as a component of capital assets in the GAAP basis financial statements

CAPITAL ASSETS

Prior Year Additions

Effective with fiscal year 2001/02, the CSU must to record, in its legal basis accounting records, the cost of all capital assets that it owns. This includes the cost of all library collections (with the exception of bound periodicals and subscriptions) and all capital assets that meet the definition of “infrastructure”. Campuses also are required to capitalize in their legal basis accounting records the costs incurred by the Chancellor’s Office related to construction projects managed for the campuses by the Chancellor’s Office. These costs are provided to the campuses via annual AD-NOATS from the Chancellor’s Office, as discussed in Chapter 5, Section 5-1 of the Manual. See the CSU “Capital Assets Guide” in Chapter 13 for additional information regarding the categories of capital assets.

When the legal basis accounting entries are completed, the campus’ capital asset accounts should be supported by detail listings describing the assets recorded, with the exception of library materials. See “Treatment of Library Materials Acquisitions and Dispositions” in this section for additional information regarding library materials.

Current Year Additions

The expenditures made by campuses for capitalized tangible and intangible assets during the current year (expenditures greater than \$5,000), are usually recorded in the **legal basis records**, as follows (refer to Chapter 5 for a discussion on accounting for capital assets constructed by the Chancellor’s Office):

Debit	Operating expenses (various)
	Credit Cash (or equivalent)
Debit	Capital assets
	Credit Investment in Fixed Assets

For assets purchased, constructed or otherwise acquired by the campus, GAAP adjustments will need to be made to reverse (1) the direct credit to Investment in Fixed Assets (Net Assets) made on legal basis records and (2) the debit to operating expenses. This is done in order to reflect for GAAP reporting purposes the cost or carrying value of an acquired, constructed, or donated capital asset as an increase to total capital assets, but not as an operating expense. Accordingly, the campus will need to make the following reclassification entries:

Invested in Capital Assets, Net of Related Debt

Debit Net assets invested in capital assets, net of related debt

Credit Transfers from other net asset categories (1) (2)

Unrestricted (or Restricted: Expendable – Capital Projects) (3)

Debit Transfers to other net asset categories

Credit Operating expenses – by functional and natural classification

- (1) For capital assets acquired by donation, this credit would be to Capital Gifts revenue.
- (2) For capitalized construction costs incurred by the Chancellor’s Office on behalf of the campus, this credit would be to Other Non-operating Revenue.
- (3) This entry would not be required for assets capitalized under either of the situations described in (1) or (2) above.

The above entries have no net effect on ending Net Assets, and therefore would not need to be considered in rebuilding this year’s beginning Net Assets if they were recorded lasting the preceding year.

DEPRECIATION AND ACCUMULATED DEPRECIATION

Effective with fiscal year 2001/02, the CSU is required under GASB Statement 34 to report in its GAAP financial statements depreciation expense and accumulated depreciation related to its capital assets. See the CSU “Capital Assets Guide” (Chapter 13) for detailed information regarding the depreciation methods and asset useful lives to be considered in calculating annual and accumulated depreciation.

The State of California also reports depreciation expense in its GAAP financial statements, although it does not require the CSU or other State agencies to provide the State Controller’s Office with local depreciation calculations. However, because the CSU is performing its own depreciation calculations, the State Controller’s Office has asked that the results of these calculations be provided to it by the CSU, as part of CSU legal basis reporting. Accordingly, *while depreciation expense is not recorded in legal basis accounting records, adjustments to accumulated depreciation and investments in fixed assets are permitted on a legal basis by campuses, and are in fact encouraged by the Chancellor’s Office*

to streamline legal basis

reporting to the State. **At a minimum, campuses must record depreciation expense, but only as a GAAP adjustment.** Since campuses currently have the option to record adjustments to accumulated depreciation in their legal basis records, the GAAP adjustments that are required to reflect depreciation expense for the year and accumulated depreciation to date will vary.

Prior Year Balances

On an annual basis, the amount of accumulated depreciation taken through June 30 of the preceding fiscal year must be recorded. If a campus has not recorded this amount in its legal basis accounting records as an offset to Investment in Fixed Assets, then it must be recorded for GAAP as an adjustment to beginning Net Assets. *If a campus has been recording adjustments to accumulated depreciation in its legal basis records in previous years, then no GAAP adjustment to beginning Net Assets is required.*

Current Year Activity

Disposed Capital Assets

For capital assets disposed of during the current fiscal year, the amount of accumulated depreciation recorded for such assets must be removed from the total amount of accumulated depreciation for all capital assets. If a campus records accumulated depreciation adjustments in its legal basis records, then it will already have eliminated these amounts - as well as the cost of the related capital assets. Any differences between the two amounts would have been adjusted against Investment in Fixed Assets.

If a campus does not record accumulated depreciation in its legal basis accounts, then a GAAP adjustment must be recorded for the accumulated depreciation to be removed.

In any event, a GAAP adjustment will be required for the difference (if any) between the cost of the disposed capital assets and their related accumulated depreciation that was recorded as a part of the direct adjustment to Investment in Fixed Assets (Net Assets Invested In Capital Assets, Net of Related Debt).

Annual Depreciation for Retained Capital Assets

In addition to the GAAP adjustments required for capital assets disposed during the year, depreciation expense for the year must be recorded for assets acquired and/or retained. If a campus had recorded annual depreciation in its legal basis accounting records as a debit to Investment in Fixed Assets and a credit to Accumulated Depreciation, then the GAAP adjustment would debit Depreciation Expense and credit Net Assets Invested in Capital Assets, Net of Related Debt.

If the campus had *not* recorded annual depreciation in its legal basis accounting records, but simply reported it to the State, a GAAP adjustment still is required. The adjustment would debit Depreciation Expense and credit Accumulated Depreciation.

EXAMPLE - At the end of the prior year, the campus had recorded adjustments for accumulated depreciation on the GAAP basis financial statements in the net amount of \$58,000,000. During the current year, depreciation expense for assets acquired and/or retained by the campus totaled \$3,000,000. Previously recorded accumulated depreciation on disposed assets totaled \$1,000,000. This example assumes that the cost of disposed assets was \$1,100,000, and that the removal of the disposed assets (with no proceeds having been received from the dispositions) already had been recorded in the legal basis accounting records.

The following adjustments would be made if the campus does not record legal basis adjustments to accumulated depreciation for either acquired or disposed assets.

Prior Year Balance

Invested in Capital Assets, Net of Related Debt

Debit	Net assets invested in capital assets, net of capital debt	\$58,000,000
	Credit Accumulated depreciation	\$58,000,000

(To reinstate beginning balance)

Current Year Activity

Invested in Capital Assets, Net of Related Debt

Debit	Depreciation expense	\$3,000,000
	Credit Accumulated depreciation	\$3,000,000
Debit	Accumulated depreciation	\$1,000,000
Debit	Loss on disposal	\$ 100,000
	Credit Net assets invested in capital assets, net of related debt (beginning)	\$1,100,000

(To record current year activity – current year depreciation expense and disposal of assets)

The entries to reflect current year activity would be permanent adjustments. Since they have a net effect on ending Net Assets (of \$2,000,000), that effect would need to be included in the following year's GAAP adjustments to beginning Net Assets.

The following adjustments would be made if the campus does record legal basis adjustments to accumulated depreciation for either acquired or disposed assets.

Prior Year Balance

No GAAP adjustment is required – net assets invested in capital assets, and accumulated depreciation as of the end of the prior fiscal year already would have been adjusted properly in the campus’ legal basis records.

Current Year Activity

Invested in Capital Assets, Net of Related Debt

Debit	Depreciation expense	\$3,000,000	
Debit	Loss on disposal of capital assets	\$ 100,000	
	Credit	Net assets invested in capital assets, net of related debt (beginning)	\$3,100,000

The entries to reflect current year activity would be reclassification adjustments. They have no net effect on ending Net Assets, thus they would not need to be considered in preparing the following year’s GAAP adjustments to beginning Net Assets.

(NOTE: In either of the above examples of GAAP adjustments to reflect current year activity, any proceeds that might have been received from disposition of the capital assets would be reclassified as a credit to Loss on Disposal (Other Non-operating Revenue). This adjustment would have no net effect on ending Net Assets.)

Treatment of Library Materials Acquisitions and Disposals

As a rule, campuses do not maintain a detailed record of the costs of individual library books or other library materials that are capitalized. For purposes of legal basis accounting as well as GAAP financial reporting, the cost and accumulated depreciation of library materials are to be recorded and reported. However, these amounts normally are captured in total by fiscal year; so a “perpetual inventory” of library materials costs and depreciation would show one net entry for each fiscal year rather than one entry for each individual library book.

Additions to Library Materials – Legal Basis and GAAP Adjustments

Additions to the capitalized costs of library materials can be obtained from a campus' legal basis accounting records. Accordingly, campuses must record annual *additions* to library materials costs *prior to the close of their legal basis records*. The only *GAAP adjustment* required for library materials additions will be the one described in the paragraph titled "Current Year Additions" on the first page of this Section.

Depreciation of Library Materials – Legal Basis and GAAP Adjustments

Campuses are expected to record annual depreciation of library materials as if each year's total acquisition of library materials represents the acquisition of one capital asset. Rules for computing depreciation are included in Chapter 13, "Capital Assets Guide".

As described above, accumulated depreciation adjustments should be recorded in a campus' legal basis accounting records. If they are, the GAAP adjustment related to annual depreciation expense will convert the direct debit to Net Assets Invested in Capital Assets to a debit to Depreciation Expense.

Disposition of Library Materials – Legal Basis and GAAP Adjustments

The number of volumes of capitalized library materials that are removed from the collection each year normally is available only at the time that the annual Library Statistics Reports are prepared. These reports normally are prepared after the closing of legal basis accounting records and the submission of reports to the State Controller's Office.

As a result, dispositions of library materials in a given fiscal year are **not able** to be recorded in a campus' legal basis accounting records in that year, because information regarding disposals is not available. The dispositions are to be recorded as GAAP adjustments for that fiscal year, and as legal basis adjustments in the *following* fiscal year.

Dispositions are presumed to occur on a FIFO (First In, First Out) basis. That is, the costs to be removed from the campus' accounting records are presumed to relate to the oldest remaining library materials acquired. Therefore, it is likely that these materials will be fully depreciated, and there will be no gain or loss on their disposal.

The GAAP adjustment to be made for current year dispositions of library materials would **not** be the same as for other disposed capital assets, *unless* the campus had recorded the dispositions in its legal basis records. Instead, this GAAP adjustment normally would be recorded as follows:

Invested in Capital Assets, Net of Related Debt

Debit Accumulated depreciation – library materials

Debit Loss on disposal of capital assets (if any)
 Credit Capital assets – library materials

The GAAP entries to record dispositions of library materials are timing adjustments. However, unless there is a net loss on disposal, these entries have no net effect on ending Net Assets. Therefore, these entries do not need to be reversed the following year in rebuilding beginning Net Assets.

SECTION 4-3

ACCOUNTS PAYABLE: ENCUMBRANCES & OBLIGATIONS

OBJECTIVE OF GAAP ADJUSTMENTS

The objectives of the GAAP adjustments necessary at June 30 related to encumbrances are:

- to reflect the effect on this year's beginning net assets of GAAP adjustments made in the prior year related to encumbrances
- to adjust current year expenses and accounts payable by the amount of current year encumbrances

OVERVIEW

The guidelines in legal basis accounting require that budget allotments in the General Fund and in capital outlay funds be encumbered and included in accounts payable for the estimated amount of future expenses. At June 30, any open encumbrance for which goods and services have been received by June 30 must be identified as an obligation prior to recording expense accruals by fund. The accuracy of GAAP adjustments related to accounts payable depends upon a thorough review and analysis of all open encumbrances, in order to determine whether related invoices or other evidence exists for goods or services that may have been provided. Only those encumbrances that also are obligations are to be reported as expenses for purposes of GAAP reporting.

Accounts payable appears on the SAM07 *Pre-closing Trial Balance* in State GL 3010. Balances on the SAM07 should agree with the detail in the SAM18A *Schedule of Accounts Payable* report by subfund.

Invoices that have already been paid via revolving fund and claim scheduled for reimbursement will not appear on SAM18A because they have been expensed and are no longer outstanding. The amount now becomes a due from another fund and will not appear as part of accounts payable in either the SAM18A or the SAM07 reports.

The two components of accounts payable included in the SAM18A are as follows:

- ***Obligations*** - represent true accounts payable for which goods have been received or purchased services have been rendered as of June 30, and for which a related expense has been recorded.
- ***Encumbrances*** - represent reserves established for estimated amounts of future expenses, and are recorded based on a source document such as an open purchase order. Once goods have been received or services rendered on the open purchase order and it becomes a valid payable, encumbrances are reclassified as obligations.

TREATMENT OF ENCUMBRANCES BY CSU FUND

Treatment of encumbrances and the recording of related expenses vary by type of fund. For example, in the General fund and in Higher Education Bond Funds, all open commitments, including encumbrances, are accrued as expenses at June 30 for legal basis. In the Enterprise, Trust and Lottery funds, only obligations are accrued as expenses at June 30 for legal basis.

As a general rule, the CSU funds that **do** accrue encumbrances as expenses are as follows:

- 0001 General Fund**
- 6028 2002 Higher Education Capital Outlay Bond Fund**
- 0574 1998 Higher Education Capital Outlay (HEC) Bond Fund**

CSU funds that **do not** accrue encumbrances as expenses are as follows:

- 0573 Continuing Education Revenue Fund (old)**
- 0575 Dorm Bldg. Maintenance and Equipment Reserve Fund**
- 0576 CSU Dormitory Construction Fund**
- 0580 Dorm Revenue Fund – Housing, Parking, Facilities, Student Union**
- 0581 CSU Facilities Revenue Fund (Health Facilities Fee)**
- 0583 Parking Revenue Fund (old)**
- 0660 Public Building Construction Fund**
- 0839 Lottery Fund (old)**
- 0947 Special Projects Fund**
- 0948 Trust Fund**

The preceding classifications are meant to be a general guideline for all CSU campuses, as these guidelines will apply to and should be followed by individual campuses. If accounting personnel at the campus level are unsure how to treat a particular fund, inquiries should be directed to the Chancellor's Office for clarification and guidance.

GAAP TREATMENT: TO REFLECT EFFECT ON BEGINNING NET ASSETS BALANCE OF PRIOR YEAR ENCUMBRANCE ADJUSTMENT

The GAAP adjustment to reflect the effect on beginning net assets of prior year GAAP adjustments related to encumbrances impacts only those funds that are appropriated by the State (governmental funds). The amount of encumbrances at June 30 PY by CSU fund may be obtained directly from the SAM18A *Schedule of Accounts Payable* report at 6/30/PY.

The journal entries to rebuild beginning net assets would be as follows:

Unrestricted

Debit Operating expenses - by functional and natural classifications
 Credit Net assets - unrestricted –(beginning)

Restricted: Expendable - Capital Projects

Debit Operating expenses - by functional and natural classifications
 Credit Net assets-restricted for capital projects (beginning)

The debits to operating expenses made by the above GAAP adjustments would offset the credits to operating expenses that were recorded in the campus' legal basis accounting records this year as a result of the reversal of encumbrances that had been established at the end of the previous year. .

GAAP TREATMENT: ELIMINATION OF CURRENT YEAR ENCUMBRANCES

For GAAP financial reporting purposes, only the amounts representing goods received or services rendered as of 6/30/CY (obligations) should be included in accounts payable and reported as expenses. Encumbrances and obligations must be reviewed to make certain that no expenses are recorded in the current year for any goods or services to be received in the subsequent year. The amount of encumbrances at June 30 by CSU fund may be obtained directly from the SAM18A *Schedule of Accounts Payable* at 6/30/CY report.

For those [governmental] funds that include encumbrances as part of the accounts payable total, a GAAP adjustment is necessary to adjust expenses and accounts payable by the amount of the encumbrances.

The journal entries (which are timing adjustments that affect the ending balance of GAAP Net Assets) would be as follows:

Unrestricted (and Restricted: Expendable – Capital Projects)

Debit Accounts payable
 Credit Operating expenses - by functional and natural classifications

SECTION 4-4

STATE AND CSU RECEIVABLES AND STATE APPROPRIATIONS

OBJECTIVE OF GAAP ADJUSTMENTS

The objectives of the GAAP adjustments necessary at June 30 related to state and CSU receivables and state appropriations are:

- to reflect the effect on this year's beginning net assets of GAAP adjustments recorded in the prior year related to CSU unexpended appropriation balances at June 30 PY
- to record current year net appropriations for those funds appropriated by the State (governmental funds)
- to record changes in campus accounts receivable from the Chancellor's Office related to campus fee revenue surpluses that are transferred to the Chancellor's Office for use in funding campus construction projects

OVERVIEW

In legal basis accounting, state appropriations are allocated to the campuses via allocation orders and are recorded by campuses as budget entries only. Budget entries are "memo entries" in legal basis accounting records, and they do not affect a campus' legal basis assets, liabilities, revenues, expenses or encumbrances. Therefore, in these funds (governmental funds), revenue for appropriations is not recognized on the SAM07 Pre-closing Trial Balance.

APPROPRIATED FUNDS

001 General Fund

6028 2002 Higher Education Capital Outlay (HEC) Bond Fund

1998 HEC Bond Fund

660-310 Public Building Construction Fund

839-341 Lottery Fund (old)

Campuses no longer receive allocation orders from the Chancellor's Office related to the Lottery Fund, and as a result no longer are to report Appropriations Revenue or Appropriations Receivable in their GAAP financial statements. See Section 45 for the proper treatment of campus balances in Fund Balance-Clearing in Fund 839, and section 412 for the proper treatment of current year cash transfers from the Chancellor's Office to campuses from Lottery operations.

GAAP TREATMENT: TO REFLECT THE EFFECT ON BEGINNING NET ASSETS OF PRIOR YEAR UNEXPENDED APPROPRIATION BALANCE

A GAAP adjustment to rebuild the beginning net assets is needed for prior year unexpended appropriation balances (BBA on SAM06 at 6/30/PY – all years). The GAAP adjustment would be as follows:

Unrestricted

Debit Accounts receivable– current: non-capital appropriations (for Fund 001)

Credit Net assets – unrestricted (beginning) for Fund 001

Restricted: Expendable - Capital Projects

Debit Accounts receivable – non-current: capital appropriations (for all HEC funds)

Credit Net assets - restricted for capital projects (beginning) for all HEC funds

Note that in the above adjustments, the credit to beginning net assets is offset with a debit to accounts receivable for State appropriations, rather than to appropriations revenue. These are permanent adjustments, and are reflected in this Chapter using the “net change” method.

GAAP TREATMENT: CURRENT YEAR NET STATE APPROPRIATIONS

For GAAP financial reporting purposes, current year state appropriations represent a receivable of the CSU from the State. A receivable and revenue must be recorded for GAAP purposes at June 30.

The first step in developing state appropriations is to identify all allocation orders, deallocation orders, and allocation orders pending, which make up the total current year appropriation for the campus. Work with the budget office to identify all allocations and balance these totals to the totals reflected on the SAM06 *Final Budget Report*. Include all years reflected on the SAM06 in order to record the journal entry. It will be necessary to distinguish the Capital Outlay allocations from those for the General Fund (001), because the GAAP adjustments for these two groups of funds are recorded in different net asset categories.

The journal entry to record a receivable and revenue from the State for current year net appropriations would be as follows:

Unrestricted

Debit Accounts receivable– current (current year net amount) for Fund 001

Credit State appropriations- non-capital (current year net amount) for Fund 001

Restricted: Expendable -Capital Projects

Debit Accounts receivable - non-current (current year net amount) for all HEC funds

 Credit State appropriations-capital (current year net amount) for all HEC funds

Net state appropriations revenue for the current year equals current year CSU unexpended balance for all appropriation years not reverted (BBA on SAM06 at 6/30/CY) *plus* current year expenditures/revenues (SAM06 at 6/30/CY) *minus* prior year CSU unexpended balance (SAM06 at 6/30/PY).

RECEIVABLE DUE FROM THE STATE (SCO BBA) AT JUNE 30 CY

As will be discussed in Section 4-5, the Fund Balance Clearing account in the SAM07 *Pre-closing Trial Balance* at June 30 CY includes actual transactions that have cleared the State Controller's Office at June 30 CY. The credit balance in the Fund Balance Clearing account will be reclassified as a reduction of the Accounts Receivable for Appropriations due from the State.

In appropriated funds (governmental funds), the Accounts Receivable for Appropriations due from the State at June 30 CY equals prior year's unexpended appropriation balances (BBA on SAM06 at June 30 PY) *plus* current year net appropriations revenue *minus* pre-closing Fund Balance Clearing account *plus* or *minus* any other adjustments to prior year's Fund Balance (Net Assets)-GAAP. The State Appropriation Receivable by fund, computed in this manner, should agree with the June 30 budget balance available for each fund per the Agency Reconciliation Report prepared by the State Controller's Office.

OTHER FUNDS THAT RECEIVE ALLOCATION ORDERS ; RECEIVABLE FROM CHANCELLOR'S OFFICE

In addition to the governmental funds listed above, there are other CSU Funds for which campuses receive allocation orders from the State via the Chancellor's Office. These funds are normally used for construction of assets from the proceeds of revenue bonds or from net revenues of auxiliary enterprise operations. An example of such a fund is State Fund 576 (CSU Funds 221 through 224). While it may appear from review of State Controller's Office accounting information that the campus has received an appropriation for such a fund and therefore must record appropriation revenue and a State Appropriation receivable, this is not the proper accounting treatment.

If a campus transfers surplus auxiliary enterprise funds to the Chancellor's Office to assist with construction of capital assets on campus, and receives an allocation order in exchange, the amount transferred and the amount of the allocation order may not be the same. The campus

must record a GAAP adjustment to reclassify, as a debit to non-current receivables from the Chancellor's Office, **the amount recorded in its legal basis records as a transfer** to the Chancellor's Office as follows: **Restricted: Expendable - Capital Projects**

Debit Accounts receivable -noncurrent

 Credit Transfers

This GAAP adjustment has a net effect on ending Net Assets. Accordingly, an entry would need to be made in the following year to reflect the effect of this entry on beginning Net Assets.

Note that the transfer probably was recorded for legal basis accounting in a campus fund whose net assets would be considered unrestricted. However, if funds are transferred to the Chancellor's Office, it is assumed that other funds for construction are being provided from the sale of revenue bonds, and that the campus' transfer was required in connection with the allocation of bond proceeds for the construction project. This "mandatory" transfer of net assets is considered to result in an external restriction on their use, at least from the perspective of the campus. For this reason, the GAAP adjustment is recorded in a Restricted rather than Unrestricted category of Net Assets

SECTION 4-5

FUND BALANCE CLEARING ACCOUNTS

OBJECTIVE OF GAAP ADJUSTMENTS

The objective of the GAAP adjustments necessary at June 30 related to the Fund Balance Clearing accounts is:

- to reclassify Fund Balance Clearing account balances in particular subfunds to the appropriate line item in the Statement of Net Assets

OVERVIEW

The Fund Balance Clearing account is used to record transactions that flow through the State Controller's Account. In governmental (e.g. General and Capital Outlay) funds, it is also used to close legal basis revenues and expenses at the end of each year. It does not represent a true fund balance or net assets.

It is important to understand that, except for the cash held in Fund 0948, the CSU is required to maintain its available funds in the State Treasury, and the way to access these funds is to spend them. All cash received at the campus as revenue or reimbursement is sent to the State in the form of a Remittance Advice. Any expenses or disbursements are ultimately made through the State primarily in the form of Payroll charges, journal entries, or Claim Schedules. (While Direct Vendor Pay allows the campuses to make payments directly to the vendors using the Revolving Fund, the only way the Revolving Fund gets reimbursed is for the campus to request reimbursement of the Revolving Fund by issuing a Claim Schedule to the State Controller.)

It is also important to understand that for legal basis, state appropriations are not recorded as revenues either by the State or by the campuses, and are not recorded in the Fund Balance Clearing account. State appropriations are recorded as budget entries in the State Controller's accounts and in the campus accounts.

During the fiscal year, transactions that are posted to revenue, reimbursement and expense accounts will ultimately be offset by an entry in Fund Balance Clearing. This will be the case if all revenues and reimbursements are remitted, if all expenses are claimed for reimbursement, AND if all the documents have cleared the State Controller's Office. Entries for these transactions will be made in the campus agency's account on the State Controller's Books.

CLASSIFICATION OF FUND BALANCE CLEARING

The classification of the Fund Balance Clearing account for GAAP purposes depends on the source and form of the money held in the State Treasury. Following is a brief discussion of what the Fund Balance Clearing account means within the various types of funds at the campuses.

Classification as Accounts Receivable

In the case of governmental funds or funds for which Allocation Orders are Issued, the State does not actually give the CSU the cash, but rather appropriates the money via Allocation Orders (or authority to spend). The State holds the cash and only releases the cash as the CSU spends it.

Those funds for which the CSU does not receive actual cash but instead receives allocations are as follows:

General Fund	001
HECOBF 1998	574 - 318
Dorm Bldg. Maint.	575 - 202, 203, 204
Dorm Bldg. Construction	576 – 221, 222, 223, 224
Public Building Const.	660 – 310
Lottery Fund (old)	839 - 341
HECOBF 2002	6028

Except for Funds 575 and 576, all the above funds close revenues and expenses into Fund Balance Clearing on a legal basis at the end of each year. For GAAP purposes, these amounts should be closed into ending Net Assets.

The only difference between pre-closing and post-closing Fund Balance Clearing is the amount of revenues and expenses recorded in the current fiscal year. The post-closing amount is made up of the accruals on the SAM99 *Reconciliation of State Controller’s Accounts with Agency Accounts*. If the campus SAM99 report balances with the State Controller and the campus has not overspent its appropriation, the *pre-closing* Fund Balance Clearing account should carry a credit balance, because a campus’ expenditures from these appropriated funds typically exceeds any revenues that have been remitted for them.

In funds that receive capital appropriations, or that are used for construction, the June 30 balance in Fund Balance-Clearing should be reclassified for GAAP as non-current accounts receivable because these assets will be used to create other non-current assets. For other appropriated funds (i.e. Funds 0001 and 0575), as well as for Fund 0839, the June 30 balance in Fund Balance-Clearing should be reclassified as current accounts receivable. .

EXAMPLE – Campus X had a credit balance in Fund Balance-Clearing per its pre-closing SAM07 report at 6/30/CY of \$1,511,230 in Fund 001-001. Campus X would reclass Fund Balance Clearing as follows:

Unrestricted

Debit	Fund balance clearing	\$1,511,230	
	Credit	Accounts receivable – current	\$1,511,230

If the credit balance were in Fund 6028, the entry would be as follows:

Restricted: Expendable – Capital Projects

Debit	Fund balance clearing	\$1,511,230	
	Credit	Accounts receivable – non-current	\$1,511,230

Classification as Cash

In certain funds, Fund Balance Clearing represents the amount of cash held by the State on behalf of the fund, and the **pre-closing Fund Balance Clearing** account balance should be reported as **cash** for GAAP purposes. (Pre-closing and post-closing Fund Balance Clearing are the same amounts in these funds.)

Dorm Revenue Fund 580 - 262, 263

EXAMPLE – Campus X had a debit balance in Fund Balance-Clearing at 6/30/CY of \$159,233 in Fund 580 – 262. Campus X would reclass fund balance clearing as follows:

Unrestricted

Debit	Cash & cash equivalents	\$159,233
	Credit	Fund balance clearing \$159,233

Classification as Investments

In these funds, Fund Balance Clearing represents the amount held by the state on behalf of the fund. These funds are held on deposit by the state in the surplus money investment fund (SMIF), or otherwise earn interest. As such, the **pre-closing Fund Balance Clearing** account balance (same as post-closing since these accounts close to Retained Earnings or Fund Balance-Continuing Appropriation instead of Fund Balance Clearing) should be reflected in **short-term investments** for GAAP purposes.

Continuing Ed	573 – 181, 182, 183
Dorm Bldg. Maint.	575 – 201
Dorm Rev. Fund	580 – 261, 265
Facility Revenue Fund	581 – 281, 282, 283, 284
Parking Revenue Fund	583 – 301, 302, 303, 304
Special Projects Fund	947 – 391
Trust Funds	948

EXAMPLE – Campus X had a debit balance in Fund Balance-Clearing at 6/30/CY of \$250,150 in Fund 580 – 261. Campus X would reclass Fund Balance Clearing as follows:

Unrestricted

Debit	Investments, short term (current)	\$250,150
	Credit Fund balance-clearing	\$250,150

Effect of Fund Balance-Clearing GAAP Adjustments on Net Assets

GAAP adjustments to Fund Balance-Clearing all represent reclassification entries that have no effect on ending Net Assets. Accordingly, no entries are required in the following year to reflect the effect on beginning Net Assets of GAAP adjustments recorded this year.

SECTION 4-6

PREPAID EXPENSES AND INVENTORIES

OBJECTIVE OF GAAP ADJUSTMENTS

The objectives of the GAAP adjustments that may be necessary at June 30 related to prepaid expenses and inventories are:

- to identify and record expenses for goods or services relating to future periods as prepaid expenses at June 30
- to identify and record expenses relating to inventory-type items not used at June 30 as inventory on the statement of net assets

PREPAID EXPENSES

Prepaid expenses are goods or services paid for and recorded in advance of their use or consumption in the course of business, which represent an expense of a future period and, therefore, should properly be reported as an asset at June 30.

Typical types of prepaid expenses in most business entities include insurance, rent, and multi-period service contracts. CSU campuses should analyze expenses, and consider the following items as potential prepaid expenses and other assets - current:

- **Library subscriptions or periodicals**
- **Multi-year equipment service contracts**
- **Significant amounts of postage purchases, especially near year-end**
- **Any type of advance paid to a third party**

At year-end, an analysis should be performed and entries made to recognize prepaid expenses as assets on the statement of net assets. Entries need to be made to reinstate the 6/30/PY balance in prepaid expenses and other assets – current and to record the balance at 6/30/CY in the current year.

EXAMPLE – At the end of the current year, the campus determined that prepaid expenses from the General Fund totaled \$1,200,000. At the end of the prior year, the campus recorded an adjustment for prepaid General Fund expenses in its GAAP basis financial statements in an amount totaling \$1,000,000.

Prior Year Balance

Unrestricted

Debit	Expenses by functional and natural classification	\$1,000,000
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Credit Net assets, unrestricted – beginning \$1,000,000

(To properly record expenses in the current year that were accounted for as prepaid expenses in prior year GAAP financials)

Current Year Activity

Unrestricted

Debit Prepaid expenses and other assets - current \$1,200,000

Credit Expenses (various) by functional and natural classifications \$1,200,000

(To properly record prepaid expenses for those expenses paid as of year-end but not yet used)

SPECIAL TREATMENT OF PREPAID CSU RISK POOL PREMIUMS

Campuses frequently are given the option to pay, prior to June 30 of the current fiscal year, invoices issued by the CSU Risk Management Authority (CSURMA) for “risk pool” insurance premiums that relate to the following year. These payments are charged to insurance expense in the campuses’ legal basis accounting records. Instead of paying this invoice, some campuses may choose merely to accrue it as a legal basis obligation (expense and liability) of the current year.

In order for the insurance premium to qualify as a prepaid item for GAAP reporting purposes, payment actually must have been issued prior to June 30. **However**, assuming that CSURMA receives the payment, the Chancellor’s Office will decrease the amount of systemwide self-insurance claims liability that is allocable to each campus that paid its future year premium in the current year. (See Chapter 5 for additional discussion regarding GAAP adjustments related to self-insurance claims liability.) Accordingly, the effect of the prepayment on the net assets of such campuses already will have been taken into consideration, and *these campuses do not need to record a GAAP adjustment to record prepaid insurance.*

Campuses that accrue their future year premium invoices as expenses (obligations) and accounts payable, but do not pay the invoices, actually would be recording an incorrect legal basis accounting entry! A legal basis obligation does not exist until the payment actually is due, which actually would not be until the following year. These campuses will be allocated an accrued liability (self-insurance claims liability) for GAAP purposes for their unpaid premiums. Accordingly, they would need to make a GAAP adjustment to debit Accounts Payable and credit Insurance Expense for the amount that they recorded as a legal basis obligation.

INVENTORIES

Similar to prepaid expenses, inventories on the statement of net assets represent items purchased but not yet used in the course of business by year-end, and which do not fall under the campus capitalization policy. These inventory items represent an expense of a future period and, therefore, should properly be reported as an asset at June 30.

For legal-basis accounting, campuses generally expense all inventoriable items. For GAAP financial reporting purposes, and if the dollar amount is material, a determination of the amount of inventoriable goods on hand at June 30 will need to be made by each campus. In order to make this determination, campuses will need to identify potentially significant inventories. Following are some common locations on campus where inventory may be located:

- **Plant operations (various maintenance items)**
- **Campus bookstores**
- **State stores (campus office supplies)**
- **Health center and pharmacy (medicines and supplies)**
- **Print shop and computer center (quantities of paper and printing supplies)**
- **Campus newspaper or radio station offices**

There are two commonly used systems of inventory maintenance for purposes of determining the appropriate level of inventory which are described as follows:

Periodic: Inventory is determined by a physical count as of a specific date. The inventory shown on the statement of net assets is determined by a physical count as of the statement of net assets date.

Perpetual: Inventory is determined based on inventory records that are maintained and updated on a regular basis. This system has the advantage of providing inventory information on a timely basis but requires the maintenance of a full set of inventory records. GAAP requires that a physical count of inventory be made periodically in order to verify the perpetual inventory records. Once the determination of the amount of inventory on hand has been made, consultation may need to be made with the independent auditors to determine if the inventory identified has a material value. If the dollar amount is not material, no additional work or journal entries will be necessary. If the dollar amount is material, the campus will need to obtain a detailed listing of the inventory items, and entries should be made to recognize existing inventories at June 30 as assets on the statement of net assets.

EXAMPLE – At the end of the current year, the campus determined that inventory purchased from General Fund sources totaled \$2,000,000. At the end of the prior year, the campus recorded an adjustment for General Fund inventory in its GAAP basis financial statements in an amount totaling \$1,800,000.

Prior Year Balance

Unrestricted

Debit	Expenses by functional and natural classification	\$1,800,000	
	Credit	Net assets, unrestricted - beginning	\$1,800,000

(To properly record inventory expense in the current year; prior year inventory balance)

Current Year Activity

Unrestricted

Debit	Prepaid expenses and other assets (inventories) – current	\$2,000,000	
	Credit	Expenditures (various) by functional and natural classifications	\$2,000,000

(To properly record inventory balance on a GAAP basis)

The detailed listing of inventory items should be maintained by the campus for review by the independent auditors, who may want to verify the inventory by an on-site visit or perform other audit tests, if the amount of inventory is material.

SECTION 4-7

FACULTY PAYROLL ACCRUALS

OBJECTIVE OF GAAP ADJUSTMENTS

The objectives of the GAAP adjustments necessary at June 30 related to faculty payroll accruals are:

- to accrue salaries and benefits for academic year faculty as of June 30
- to accrue faculty salaries for Summer session days taught prior to June 30

OVERVIEW

Under the legal basis of accounting, costs incurred for faculty salaries are expensed as incurred. For GAAP financial reporting purposes, payments made to faculty in a subsequent year for services performed in the current year must be accrued as current year expenses. The same is true for the cost of faculty services incurred related to Summer Session days taught during the current year. On an annual basis, these accruals will need to be reversed, since payments relating to these accruals made during the following year will be included in the legal basis expense for that year. **If a campus has estimated the amount of salary and benefit payments to be made subsequent to year-end for faculty services performed prior to June 30, and has accrued these future payments as expenses in its legal basis accounting records, then no GAAP adjustment is required.**

GAAP TREATMENT

For GAAP financial reporting purposes, the faculty salary accrual has three components:

- Academic year faculty salary accrual
- Employee benefits related to academic year faculty salary accrual
- Summer session faculty salary accrual

Academic year faculty salary accrual

Academic year (Fall through Spring academic term) faculty salaries are earned over the ten-month period from September through June, but are paid by the State over a twelve-month period from September through August. An accrual is necessary (in the campus' GAAP statements if not already recorded in its legal basis accounts) at June 30 to record the salary amounts to be paid in July and August as salary expense of the fiscal year in which the salary was earned (FY 20CY). If GAAP adjustments are required, they are timing adjustments that have an effect on ending Net Assets that must be considered in rebuilding beginning Net Assets the following year.

Salary payroll feeds from the State Controller's Office for the months of July and August may be used to obtain the necessary detail salary information on amounts paid to academic year faculty for services performed in the year ended June 30.

EXAMPLE – At the end of the current year, the faculty salary accrual was determined to total \$4,000,000. At the end of the prior year, the amount of faculty salary accrual recorded in the GAAP basis financial statements totaled \$3,500,000.

Prior Year Balance

Unrestricted

Debit	Net assets unrestricted – beginning of the year	\$3,500,000	
	Credit Instruction salary expenses		\$3,500,000

(To properly reverse out prior year accrual for salaries paid in the current year)

Current Year Balance

Unrestricted

Debit	Instruction salary expenses	\$4,000,000	
	Credit Accrued salaries and benefits payable		\$4,000,000

(To properly record current year accrued salaries)

Employee benefits related to academic year faculty salary accrual

The related cost to the campus for the benefits associated with the July and August academic year faculty salaries accrued, as detailed above, should also be accrued. The average total benefit rates for general fund faculty or for all employees, as determined by the Chancellor’s Office or the campus, may be used to calculate the cost of benefits associated with the faculty salary accrual. This benefits rate (percentage of salary) may vary from campus to campus.

EXAMPLE – At the end of the current year, the estimated benefits cost associated with the faculty salary accrual was determined to total \$800,000. At the end of the prior year, the corresponding amount recorded in the GAAP basis financial statements totaled \$700,000.

Prior Year Balance

Unrestricted

Debit	Net assets unrestricted – beginning of the year	\$700,000	
	Credit Instruction benefits expenses		\$700,000

(To properly reverse out prior year accrual for benefits paid in the current year)

Current Year Balance

Unrestricted

Debit	Instruction benefits expenses	\$800,000
	Credit	
	Accrued salaries and benefits payable	\$800,000

(To properly record current year accrued salaries)

Summer session faculty salary accrual

The cost of faculty payroll for Summer session days taught during the current fiscal year (prior to June 30) should also be accrued. The Summer session calendar would need to be reviewed to determine the number of days of the session or sessions that had occurred in the current fiscal year. Once this has been determined, the amounts paid to faculty for the contractual period that overlaps the end of the current fiscal year should be pro-rated between the fiscal years. This pro-ration would apply to all faculty salaries for Summer sessions that are earned prior to June 30 but paid after June 30, whether the sessions are State-supported or self-support (i.e. offered through Continuing Education).

Pro-rata method: This number of days would be applied against faculty compensation for the entire session for which the faculty contract has been prepared to determine the amount of expense to be accrued against the current fiscal year. For example, a session running from June 2 through July 11 (40 days) would relate 73% (29 days) to the current year and 27% (11 days) to the subsequent year, and faculty salary expense for that session should be allocated accordingly. Accrued salaries and benefits would be recorded using the same accounts as for the July and August pay periods that relate to previous year's academic terms.

SECTION 4-8
COMPENSATED ABSENCES

OBJECTIVE OF GAAP ADJUSTMENT

The objective of the GAAP adjustment necessary at June 30 related to compensated absences is to record an accrual for absences from employment, such as vacation, for which it is expected that employees will be paid.

OVERVIEW

Compensated absences are absences from employment, such as vacation and illness for which it is expected that employees will be paid. GAAP requires that a liability be accrued for the cost of compensation for **future absences** if *all of the following conditions are met*:

- a. **The employer's obligation relating to an employee's rights to receive compensation for future absences is attributable to employee service already rendered.**
- b. **The obligation relates to rights that vest or accumulate.**
- c. **Payment of the compensation is probable.**
- d. **The amount can be reasonably estimated.**

If an employer meets conditions (a), (b), and (c) but does not accrue a liability because of an inability to meet condition (d), that fact should be disclosed.

Vested rights exist when an employer has an obligation to make payment to an employee even if the employee's employment is terminated. Thus, vested rights are not contingent upon an employee's future service. **Accumulated rights** are those that can be carried forward to future periods. Both vested and accumulated rights should be booked as a liability. The distinction between vested and accumulated is that in accumulated rights the estimated liability can allow for forfeitures due to turnover.

Sick Pay is treated as follows: If sick pay is vested, an accrual must be made. If sick pay is *accumulated but not vested*, an accrual is *permitted but not required*. Accumulated sick pay is contingent only upon employee's *future* sickness and if the employee has no present vested right.

For the CSU, sick pay appears to be primarily accumulated but not vested. One important issue revolves around the effect of accumulated sick pay on PERS retirement costs. Employees vested in PERS have the right to credit unused sick time as time worked in the calculation of retirement benefits. The CSU can choose, and has decided, not to record accumulated but unused sick time as a compensated absence liability, but rather to account for that liability as part of Post Retirement/PERS liabilities on a GAAP basis.

The expense and related liability for compensated absences should be recognized in the year in which the right to receive the vacation is earned by the employees. This means that if new employees receive rights to two weeks paid vacation at the beginning of their second year of employment, the vacation pay is considered earned during the first year of employment. In the CSU, vacation is accrued on a monthly basis, not given out at one time.

Accrual rate: The CSU can use an employee's current pay rate or an estimated future rate in order to calculate the liability for accrued compensated absences. Along with the base salary for each employee for whom accrued vacation exists, the statutory employer payroll benefit expense should also be included in the amount of the accrual for compensated absences. The CSU has chosen to use the current salary rates for its employees and to factor in a budgeted benefit rate.

The cost of vacation and other compensated absences must be accrued in the period in which the absences were earned on a GAAP basis. Since faculty positions do not accrue vacation, these positions are not subject to this analysis. Staff and management personnel who remain employed at the end of the fiscal year constitute the population for whom the cost of accrued compensated absences must be computed. The data necessary to calculate Compensated Absences includes:

- Name of Employee
- Vacation or Personal (Holiday) Leave Accrued (hours)
- Compensated Time Off (CTO) Accrued (hours)
- Salary Rate for Vacation
- Benefit Rate

The California Leave Accounting System (CLAS) accumulates this information for campuses using that system. A report (H46) has been developed using data from CLAS that will allow campuses to determine the number of hours and dollar value of vacation, CTO, and holiday leave credits earned, used and remaining at the end of the fiscal year. Campuses may download this information into an Excel spreadsheet and calculate the total amounts of compensated absence accruals, usage and ending liability. Campuses that are using the CMS Human Resources module maintain similar leave accounting data.

Number of hours of accrued compensated absences, times the salary rate per hour, plus benefits calculated at the current rate (percentage of salary) yields the compensated absence accrual amount. These total dollars can be allocated to the various programs within Unrestricted net assets by Budget Function code, and/or based on an analysis of the General Fund Support Budget. (Under the second option, an analysis would be required to eliminate from the budget analysis non-vacation accruing faculty positions, and program allocation adjustments to record expense in Operation and Maintenance of Plant as well as other GAAP reclassifications. Budget analysis by Program less Faculty yields a percentage distribution which can be applied to distribute Compensated Absences dollars.)

The GAAP adjustments made to record accrued compensated absence liability are timing adjustments, since salary expense ultimately is charged in a campus' legal basis accounting records as employees use vacation, CTO or holiday credits. The GAAP adjustments affect ending Net Assets, and thus must be taken into consideration in rebuilding beginning Net Assets in the following year.

Campuses are required to disclose, in the Statement of Net Assets, the current and non-current portion of the liability for accrued compensated absences at the end of the year. The current portion of the liability is the amount that is expected to be paid out as salary over the next 12 months to employees who use vacation or other leave credits during that period of time. It has been determined that either the dollar value of compensated absences paid out during the current fiscal year or, where a campus determines it to be more accurate, an average of amounts paid out over the past few fiscal years, is a reasonable estimate of the current portion of the ending liability.

EXAMPLE– The campus determines that the liability for compensated absences at the end of the current year is \$8,000,000. At the end of the prior year, the campus recorded a corresponding amount of \$7,000,000 in its GAAP basis financial statements. The dollar amount of accrued compensated absences paid out during the current year was determined to be \$2,000,000, and is believed to be a reasonable estimate of the portion of this year’s ending liability that will be paid out next year

Prior Year Balance

Unrestricted

Debit	Net assets, unrestricted – beginning of the year	\$7,000,000
	Credit Salary and benefit expenses (various)	\$7,000,000

(To properly reverse legal basis compensated absence expenses accrued IN PY for GAAP basis)

Current Year Balance

Unrestricted

Debit	Salary and benefit expenses (various)	\$8,000,000
	Credit Accrued compensated absences, current	\$2,000,000
	Accrued compensated absences, non-current	\$6,000,000

(To properly accrued for compensated absences on a GAAP basis)

SECTION 4-9

DEFERRED REVENUES

OBJECTIVE OF GAAP ADJUSTMENTS

The objective of the GAAP adjustments necessary at June 30 related to revenues collected in advance (deferred revenue) is:

- to defer revenues collected in the current year for the portion of Summer session tuition and fees relating to the subsequent year that will be recognized as revenue in the subsequent year

OVERVIEW

On a GAAP basis, revenue must be recognized in the period in which it is earned. Therefore, when revenue is received in advance, the portion related to future periods (i.e. unearned portion) must be deferred as a liability and recognized as revenue in the period in which the goods and services are provided. The unearned portion is considered a liability because it represents an obligation to perform a service in the future arising from a past transaction.

Primary examples of unearned income in the CSU are:

- Housing payments made in advance of occupancy. In this situation the revenue is only recognized based on the actual expired occupancy taking place for the period covered, and the unearned portion is to be carried forward as a liability until earned.
- Registration and other student fees collected prior to the fiscal year in which instruction begins; this is considered revenue collected in advance.

If a campus does not record revenue received in advance as deferred revenue in its legal basis accounting records, it is required to make a GAAP adjustment to do so. Such adjustments are timing adjustments that affect ending Net Assets and thus must be taken into consideration in rebuilding beginning Net Assets in the following year.

EXAMPLE – The campus determines that \$2,000,000 in collections made during the year was for services that will not be provided until the next fiscal year. At the end of the prior year, the campus had recorded \$2,400,000 in the GAAP basis financial statements to reflect deferred revenues.

Prior Year Balance

Unrestricted

Debit	Net Assets, unrestricted– beginning	\$2,400,000
	Credit Fees and Tuition/Auxiliary enterprise revenue	\$2,400,000

(To recognize revenue related to the portion of deferred revenue recorded in the prior year that was earned in the current year on a GAAP basis.)

Current Year Balance

Unrestricted

Debit Fees and Tuition/Auxiliary enterprise revenue \$2,000,000

Credit Deferred revenue \$2,000,000

(To defer revenues collected in the current year that relate to services that will be provided in the subsequent year.)

SECTION 4-10

CAPITAL LEASE OBLIGATIONS

OBJECTIVE OF GAAP ADJUSTMENTS

- To record capital lease obligations and the related activity in conformity with GAAP.

GAAP ACCOUNTING TREATMENT

For legal basis accounting, the CSU generally treats lease obligations as operating leases, and accordingly, payments under these leases are recorded as expenses as lease payments are made. For GAAP reporting purposes, a Capital Lease Obligation liability for future lease payments should be established if, at its inception, the lease meets **one or more** of the following criteria:

- by the end of the lease term, ownership of the leased property will be transferred to the campus at no additional cost;
- the lease agreement contains a bargain purchase option (e.g., the asset may be purchased for \$1 at the end of the lease term);
- at the inception of the lease, the present value of the minimum lease payments totals 90% or more of the fair value of the leased property (e.g., the equipment costs \$100,000 and the present value of minimum lease payment computation yields a present value of at least \$90,000); or
- the lease term is substantially equal to (i.e. 75% or more of) the estimated useful life of the leased property (e.g., a copier that would typically have a five year life is being leased over four or more years).

A lease that meets one or more of the above criteria is considered to represent a purchase of the leased asset, and the asset should be capitalized, usually for a cost equal to the present value of the total amount of the future minimum lease payments on the lease. The offset to the cost of the asset is to be recorded as a liability for capital lease obligations. If the asset is capitalized as a result of title transferring or a bargain purchase option, the leased asset should be depreciated in accordance with the campus' capitalization policy for that asset category. However, if the asset is capitalized as a result of meeting either the lease term criteria or the present value calculation, the asset should be depreciated in a manner consistent with the campus' depreciation method over the term of the lease. The capital lease obligation liability is to be amortized, with a portion charged to interest expense, over the term of the lease. The asset cost is to be recorded in the campus' legal basis accounting records, while the capital lease obligation liability is to be recorded and amortized via GAAP adjustments.

Leases that do not meet any of the above criteria are already properly recorded by the campus as operating leases, and no adjustments are necessary for the GAAP basis financial statements.

CALCULATION OF PRESENT VALUE OF MINIMUM LEASE PAYMENTS

The following information is necessary for the campus to calculate the present value of minimum lease payments:

1. Fair value of asset being leased
2. Term of lease
3. Required periodic payments
4. Lessor's explicit interest rate, or the campus' incremental borrowing rate.

After the determination has been made that a lease qualifies for capitalization, most campuses might find it simpler to record the obligation and the related asset at the quoted price of the asset, if not materially different than the computed amount. This will facilitate the adjustments that need to be made as illustrated in the examples below. However, an amortization schedule will need to be prepared to differentiate between the principal and interest portions of the monthly payments.

ENTRIES REQUIRED

The adjustments related to the capital lease obligation liability and annual lease payments are reclassification adjustments. As the campus records these entries in its legal basis accounting records, the reclassification adjustments are necessary to reclassify them to different financial statement categories on a GAAP basis. These adjustments have an effect on ending Net Assets and thus must be taken into consideration in rebuilding beginning Net Assets in the following year.

A review and analysis of all leases and contracts in existence at the end of the prior fiscal year should have been performed, and adjusting entries recorded in the GAAP basis financial statements in the prior year. Since capital lease obligations are not recorded in the campuses' legal basis accounting records, the net assets (invested in capital assets) that were recorded when the related leased assets were capitalized must be adjusted at the beginning of each year on the GAAP basis financial statements to reflect these obligations. This adjustment is illustrated in the examples below.

EXAMPLE 1- The campus recorded \$400,000 in capital lease obligations in the prior year GAAP basis financial statements. The computation for new capital leases in the current year resulted in a liability for these new leases at their inception of \$50,000. The campus had recorded the underlying capital assets in its legal basis records, at an original cost equal to the original amount of the capital lease obligations.

Prior Year Balance

Invested in Capital Assets, Net of Related Debt

Debit	Net assets invested in capital assets, net of related debt- beginning	\$400,000
	Credit Capitalized lease obligations	\$400,000

(To properly reverse out PY accrual for capital leases on a GAAP basis)

Current Year Changes

Invested in Capital Assets, Net of Related Debt

Debit	Net assets invested in capital assets, net of related debt	\$50,000
	Credit Capitalized lease obligations	\$50,000

(To properly accrue for capital leases on a GAAP basis)

EXAMPLE 2- The campus made payments for leases that have been determined to be capital leases totaling \$60,000. Of this amount, \$40,000 represented principal payments and \$20,000 represented interest. The payments were made from unrestricted net assets.

Unrestricted

Debit	Transfers to/from other funds	\$60,000
	Credit Operating expenses by functional and natural classification	\$60,000

(To properly reverse capital lease payments made on a legal basis during the year)

Invested in Capital Assets, Net of Related Debt

Debit	Capitalized Lease Obligation	\$40,000
	Credit Transfers to/from other funds	\$40,000

(To properly record the principal portion of capital lease payments made during the year on a GAAP basis)

Restricted: Expendable - Debt Service

Debit	Interest on Capital Related Debt	\$20,000	
	Credit	Transfers to/from other funds	\$20,000

(To properly record the interest paid on capital leases made during the year on a GAAP basis)

SECTION 4-11

TUITION DISCOUNTING

OVERVIEW

A portion of the amounts recorded in legal basis accounting records as student scholarships and grants expense actually is used to pay student tuition and fees and auxiliary enterprise charges such as housing rent. For GAAP purposes, this portion of expense must be reclassified as an offset to the revenue categories to which it is deemed to apply. In order to determine the portion of the expense to be reclassified, all sources of financial aid – including loans and fee waivers – that might be used to pay fee revenue must be considered. If a campus does not have a student information system that allows it to directly calculate the portion of grants, loans and fee waivers that were used to pay student fees, then it must use an “Alternate Method” developed by NACUBO.

THE ALTERNATE METHOD

The Alternate Method satisfies the reporting requirement mandated by GASB 34, as amended by GASB 35, by applying a simple mathematical calculation to the total financial aid. It was introduced as an alternative to estimate scholarship allowances and student grants and scholarships expense since most institutions do not have the ability to determine how much of which financial aid category relates to scholarship allowance amounts versus student grants and scholarships amounts. As a general rule, all financial aid is applied to the students’ accounts on a specific date rather than posted on a case-by-case basis. Before reviewing the following calculation, it is important to understand the definitions of the needed information:

- (A) ***Financial aid not recognized as revenue by the institution*** represents Statement of Net Assets transactions. These are resources held for others, such as William D. Ford Direct Loans, Perkins, Nursing and FFELP Loans (subsidized and unsubsidized Stafford and PLUS Loans) where the institution serves only as a conduit.
- (B) ***Financial aid recognized as revenue by the institution*** represents Statement of Revenues, Expenses and Changes in Net Assets transactions and will be used to calculate an amount to represent Scholarship Allowances. This category has the potential for double counting of revenue such as from the receipt of gifts, grants, investment income and the charging of tuition and fees, housing and meals, and educationally related supplies from an institutional bookstore (as applicable to each campus). Amounts to be

included within this category are Federal based programs (such as SEOG and Pell Grants), State-based programs, (such as Cal Grant, SUG and SEOP) and Institutional Scholarships.

- (C) ***Third party payments*** are Statement of Net Assets transactions that have the potential to create an overpayment of the students' accounts, thereby generating a refund. This category primarily includes all external scholarships received on behalf of a particular student, such as from Rotary, Foundation (from Foundation funds) and ROTC.

- (D) ***Total payments by students*** represents the amounts the students will pay on their accounts excluding any financial aid. These resources should not create any overpayments and should not generate a refund. For purposes of this calculation, timing issues are considered immaterial.

- (E) ***Total refunds made to students*** from all sources of funding will be used to calculate an amount to be charged to Student Grants and Scholarships on the Statement of Revenues, Expenses and Changes in Net Assets.

- (F) ***Total non-monetary institutional fee waivers (discounts) applied to students' accounts*** are amounts that have the potential to create refunds when other financial aid and/or payments have been posted to a student's account. It will be used to calculate an amount to represent Scholarship Allowances. Some of the different types of fee waivers are Staff, Dependent, Senior Citizen, International, Cal Vet and Duplicate Degree.

- (G) ***Total charges applied to students' accounts during the fiscal year*** represents total financial-aid eligible charges. These charges include, but are not limited to, tuition, fees, housing, meals and books (as applicable to each institution).

- (H) ***Total postings to students' accounts that could potentially generate a refund*** is a calculated value obtained by the sum of amounts from (A) + (B) + (C) + (F) as defined above.

- (I) ***Percentage of institutional resources applied to students' accounts that could generate a refund that represents Scholarship Allowances and/or Student Grants and Scholarships expense.*** This is a calculated value obtained by dividing the sum of amounts (B) + (F) by (H) as defined above.

- (J) ***The amount of refunds to be reported as Student Grants and Scholarships expense*** is a calculated value obtained by multiplying the amount from (E) by the percentage obtained from (I)

as defined above. This amount represents an estimate of the institutional resources provided in excess of amounts owed by the students to the institution and that are refunded to the students.

- (K) *The amount of scholarship allowances* is a calculated value obtained by subtracting (J) from the sum of amounts (B) + (F) as defined above. This amount represents an estimate of the institutional resources provided to students as financial aid in amounts up to and equal to amounts owed by the students to the institution.

In summary, the tuition discounting adjustments required by GASB Statements 34 and 35 result in reductions of student tuition and fees, housing, meals and bookstore revenues, and in corresponding reductions in Student Grants and Scholarships expense, and establish the following GAAP financial statement outcomes:

- a. Revenues reflect payments received from students and/or third party payers.
- b. Scholarship discounts and allowances reflect financial aid amounts up to and equal to the amounts owed by the students.
- c. Student grants and scholarships expense reflect financial aid amounts that are in excess of amounts owed by the students to the institution, and therefore, that are refunded to the student.

The GAAP adjustments related to scholarship allowances are reclassifications that do not have any net effect on ending GAAP Net Assets and thus do not need to be taken into consideration in rebuilding next year's beginning Net Assets.

The following entries would be made to record scholarship discounts and allowances:

Unrestricted

Debit	Tuition and Fees	\$1,000,000
Debit	Sales and services of Auxiliary Enterprises	500,000
	Credit Student grants and scholarships	1,500,000

The above adjustment is presented in an abbreviated format. A large portion of student grants and scholarships expense actually is recorded in restricted net asset categories. If a campus is using PeopleSoft Financials version 8.4, and decides to record GAAP adjustments in a separate business unit, it should consider whether to record reductions of grants and scholarships expenses

by fund and in contra-expense accounts, and whether to record scholarship allowances in contra-revenue accounts rather than as direct debits to revenue. (Where contra-expense and contra-revenue accounts are in different net asset categories, transfers between categories also would be required.)

Where possible, the amount of scholarship allowances computed per the above steps should be allocated between Student Tuition and Fees revenue and Sales and Services of Auxiliary Enterprises. Campuses whose student information systems allow for the posting of these charges to students' accounts, and whose financial information systems are updated from such postings, can allocate the calculated scholarship allowances for a fiscal year based upon the percentages of the total of these postings that represent tuition and fee revenue versus auxiliary enterprises revenue.

Institutional fee waivers are considered to be one category of scholarship allowances, as described under (F) above. The amount of institutional fee waivers granted must be taken into consideration in the determination of the percentage of grants and scholarships expense to be reclassified as scholarship allowances. However, fee waivers normally are recorded in a campus' legal basis accounting records as a reduction of tuition and fees or auxiliary enterprise revenue, not as an expense. If the amount of fee waivers is material in relation to the amount of calculated scholarship allowances, the total amount of waivers should be added to the calculated total of allowances, and included as part of the amount reported as scholarship allowances in the Statement of Revenues, Expenses and Changes in Net Assets. *This action by itself has no impact on net reported fee revenues or grants and scholarship expenses.*

Resources

- NACUBO Advisory Report 2000-05, *Accounting and Reporting Scholarship Discounts and Allowances to Tuition and Other Fee Revenues by Public Institutions of Higher Education*, dated September 1, 2000

- GASB 35 Implementation Guide

SECTION 4-12

OTHER ACCOUNTING ISSUES

The following information is provided to assist campus personnel in identifying certain accounting issues and classifications that are not addressed elsewhere in this manual. In addition, an expanded discussion of accounting for student aid funds is provided at the end of this section.

Revenue Recognition

It is important that all revenue of the CSU be recorded in the financial statements at least once, but only once. There may be circumstances in which an auxiliary organization receives gifts or other items on behalf of the campus and records such gifts or receipts as an agency transaction, i.e., the auxiliary organization does not recognize revenue. In these situations, the campus must record such gifts or receipts as revenue in the period in which they were received or earned. It is important that the auxiliary organization communicate the receipt of any such gifts or receipts to the campus as soon as possible.

For certain types of transactions, it may be difficult to determine if the revenue should be recorded on the financial statements of the campus or the auxiliary organization. The decision should be based on the “ownership” of the activity. The following guidance is offered to assist the campus and its auxiliary organization in making this determination:

- 1) Who administers and makes decisions relating to the activity in question?
- 2) Who assumes the risks in the event of losses, claims or lawsuits?

If the campus actually operates the activity but an auxiliary organization holds the money, all revenue and expenses should appear on the financial statements of the campus, and the auxiliary organization should record the activity as an agency transaction, i.e., no revenue or expenses should be recognized. If ownership resides with an auxiliary organization, the revenues and expenses would appear on that auxiliary organization’s books only, and not in the legal basis accounting records of the campus or in the records of another auxiliary organization. Examples of the latter situation are Associated Student Body Organization and Campus Union registration fees, which are collected by the campus on behalf of the appropriate auxiliary organization and are transferred to and/or otherwise made available for expenditure by the auxiliary organization. The amounts of fee revenue collected for the auxiliary organization should **not** be reported for GAAP as campus fee revenues, to the extent that they are reported as fee revenue of the auxiliary organization.

In the case of Associated Student Body Organizations, the elimination from revenue of registration fees charged by the campus is accomplished by treating the activity of the Associated Student Body Trust (CSU Fund 461) as agency fund transactions for GAAP purposes. Revenues

earned and expenses incurred in CSU Fund 461 in the campus' legal basis accounting records are mapped to a depository liability account for GAAP purposes – see Chapter 3 for additional information.

For campus Student Union auxiliary organizations that are separate legal entities, the campus transfers each year to the Chancellor's Office, via an AD-NOAT received from the Chancellor's Office, a portion of student union registration fees collected in the previous fiscal year. The Chancellor's Office then remits these monies to the auxiliary organization, which reports the funds received as Student Tuition and Fees revenue. In order to prevent this revenue from being reported twice in the campus' GAAP financial statements, a GAAP adjustment by the campus is required, as shown below. This adjustment is an elimination entry, because the campus had already recorded amounts for both sides of the entry in its legal basis accounting records. It has no net effect on ending Net Assets and does not need to be taken into consideration in rebuilding beginning Net Assets in the following year.

Unrestricted

Debit Tuition and Fees Revenue

Credit Auxiliary Enterprise Expense (or Transfers) recorded via AD-NOAT

(The amount of the adjustment would be the amount of Student Union fees transferred to the Chancellor's Office via the annual AD-NOAT.)

Reimbursement of Expenses

For purposes of the financial statements of the CSU, it has been determined that transactions occurring between the auxiliary organizations and the campuses should not result in the double recording of revenues *or* expenses. This principle is also applicable to transactions between CSU funds such as general fund and trust fund.

Accordingly, any reimbursements from an auxiliary organization to a campus relating to an activity that is considered to be "owned" by the auxiliary organization should be recorded in the campus' general fund in the reimbursed activities program, as a reimbursement from the auxiliary organization. This should be offset by an equal amount of reimbursed activities expenditure, which may require a reclassification of legal basis expenditures from other programs. For example, expenses may need to be reduced in Instruction and increased in reimbursed activities for the cost of faculty release time reimbursed by an auxiliary organization which manages grant activity.

At the end of the fiscal year, the reimbursed activities revenues and expenses should net to zero and will not appear as a line item on the campus' GAAP financial statements. Following are two situations that could occur that would require analysis and possible adjustment:

Non-Reimbursed Expenses – Any expense that has not been reimbursed by the auxiliary organization should be recorded as a receivable and reimbursement on the campus GAAP financial statements, and as a payable and an expense on the auxiliary organization's GAAP financial statements. The campus' receivable and the auxiliary organization's payable will not be eliminated, but will need to be identified and disclosed in the footnotes when the auxiliary organizations are included in the financial statements of the campus. If the auxiliary organization has not recorded an expense related to reimbursement of the campus in its audited and published financial statements, the campus should *not* accrue for such reimbursement, and should reflect the expenditure in its financial statements as an expense of the appropriate program.

Excess Reimbursement – If the campus has received reimbursement in excess of the expenses incurred on behalf of an auxiliary organization, the excess reimbursement needs to be recognized as a reduction in the appropriate expense program. For example, if the excess reimbursement is for overhead, expenses should be reduced in Institutional Support and offset by an increase in reimbursed activities expenses. This adjustment (which would be a reclassification if recorded as a GAAP adjustment) allows reimbursed activities expenditures to agree with reimbursements so that both may be eliminated in the preparation of the campus' GAAP financial statements.

Other Reimbursable Costs

Reimbursements for campus provided services, such as postage, phones, copier costs, etc., to departments within the campus, or to support groups that are not considered auxiliary organizations, should be treated as a reduction to the program that actually incurred the expense (e.g., Instruction, Institutional Support, etc.).

Revenue should only be recognized when earned from non-CSU sources (e.g. from students for tuition and fees, and from the Federal government of other agencies that provide revenue in the form of grants).

Adjustments Related to SMIF Interest Earnings

Campuses that earn interest on funds invested in the State Surplus Money Investment Fund (SMIF) receive periodic allocations of such interest income via AD-NOATs from the Chancellor's Office. These AD-NOATs are issued several months after the period for which the interest was earned. In campuses' legal basis accounting records, the SMIF interest earnings recorded during the fiscal year ending June 30 typically relate to interest earned for the calendar year ending the previous December 31. However, by the time that the campus prepares its GAAP financial statements, the Chancellor's Office may well have issued the AD-NOATs for interest earned for the six months ended June 30. If these AD-NOATs have been issued, campuses must accrue the additional investment income via a GAAP adjustment, as follows:

Unrestricted

Debit Investments
 Credit Investment Income

If this GAAP adjustment is recorded in one fiscal year, it is a timing adjustment, and its effect must be recorded in the following fiscal year as an adjustment to beginning net assets:

Unrestricted

Debit Investment Income
 Credit Net Assets, Unrestricted

The debit to investment income above will be offset by the legal basis credit recorded in the next fiscal year.

Student Loans Receivable

In accordance with GAAP, CSU considers assets to be current that can reasonably be expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within 12 months of the statement of net assets date. All other assets should be considered noncurrent.

Student loans receivable do not meet the definition of a current asset, as the related payments to be received within 12 months of the statement of net assets date are not available for liquidation of current liabilities. Therefore, the entire student loans receivable balance should be classified as a noncurrent asset on the statement of net assets.

STUDENT FINANCIAL AID

Federally Guaranteed Student Loans

Under the William Ford Direct Lending Program and the Federal Family Education Loan Program (FFELP), the CSU acts as an agent in disbursing money provided by the lenders and the Federal government to the students. Accordingly, the direct lending program and FFELP should be reported as agency transactions; no revenue or expense should be recognized and the Statement of Net Assets should contain only assets or liabilities for these programs.

Other Loan Programs

The Federal Perkins Loan Program and the Nursing Loan Programs also shall be reported as agency transactions. Prior to fiscal year 2001/02, these programs were reported as loan programs with revenues, expenses and net assets. However, any cash, investment and receivable balances that are carried in these programs at the end of the fiscal year are considered to represent a refundable grant liability to the Federal government, as they must be repaid to the government if they are not continually loaned out to students.

Grants and Scholarships

If the grantor (State or Federal governments, for example) selects the student recipients of a scholarship or grant, the grant or scholarship should be classified as an agency transaction, since the campus is only serving as an agent to the grantor. If the campus has the ability to select the recipient student, or has the ability to redirect the grant or scholarship, the revenue and related expense should be recorded by the campus as part of restricted net assets. (NOTE: If the restricted scholarship expense is to be considered as part of total scholarship allowances per Section 4-11, the expense actually becomes a transfer between Net Asset categories; but its effect on ending Net Assets is unchanged.) Based on this definition, net assets, if any, of Supplemental Educational Opportunity Grants (SEOG), College Work Study (CWS), Cal Grants, campus scholarships & grants, and miscellaneous financial aid programs are to be reported as restricted for scholarships and fellowships.

Federal Pell Grants

Governmental Accounting Standards Board (GASB) Statement Number 19, Governmental College and University Omnibus Statement (GASB 19), requires that Federal Pell Grants be recorded as restricted funds. GASB 19 discusses that the institution is responsible for evaluating students' requests for aid based on Federal government criteria. If a student is eligible, the institution grants the scholarship and administers the disbursement of the grant. Pell Grant revenue, as well as other Federal and State scholarship and grant revenue, is to be treated as operating revenue even though such grants are not considered "exchange transactions"; this is because of the relationship of the grants to the campus' primary business purpose.

College Work Study

The revenue earned and expenses incurred under this program are recorded for legal basis accounting purposes both in the General Fund and in the Work-Study Trust fund. The Federal grant revenue is recorded in the Work-Study Trust, and student wage expenses by program are recorded in the General Fund. GAAP adjustments are required to eliminate the double counting of revenue and expense, if any exists. If Work-Study Trust expenses and General Fund reimbursements are recorded in the campus' legal basis records as transfers, then these amounts should eliminate automatically and no GAAP adjustments are needed. If GAAP adjustments are required, they probably will result in the reclassification of Trust expenses or General Fund reimbursements to transfers, so that the resulting transfer amounts may offset each other and be eliminated.

EOP and State University Grants (SUG)

The State University Grant (SUG) and Educational Opportunity Program (EOP) Grant programs are funded by State General Fund appropriation revenue, but typically are operated through trust accounts that record disbursements of grants to students. The trust account disbursements are reimbursed from the General Fund, but the General Fund is not permitted to reflect these reimbursements as transfers to the trust funds. As a result, there is a double counting of revenue and expense included in these transactions. Since it is the General Fund that provided the resources for the grant disbursements to students, GAAP adjustments should be recorded in the SUG and EOP trust funds to eliminate from revenue and expense the amounts disbursed for students from those funds during the year. These elimination entries have no net effect on Net Assets and do not need to be taken into consideration in rebuilding Net Assets in the following year.

TRANSFERS BETWEEN CSU ENTITIES

There regularly are situations in which a campus records a legal basis transfer that involves another campus or the Chancellor's Office. Several examples of these transfers have been identified in previous sections of this Manual, and GAAP adjustments have been prescribed for each situation. There are two situations not covered elsewhere in this Chapter that involve transfers between the Chancellor's Office and campuses. They are:

1. Transfers of Lottery Fund revenues to campuses via issuance of checks by the Chancellor's Office.
2. Transfers from campuses to the Chancellor's Office to cover the annual Debt Pool Subsidy.

In both of these situations, the campus will carry in its legal basis accounting records a balance in a transfer account that cannot be offset from elsewhere within the campus' records, and that cannot be eliminated via a GAAP adjustment. The appropriate treatment for these balances is to reclassify them to Other Non-operating Revenue/Expense within the Unrestricted Net Asset category.

If a campus identifies any other situation in which it has recorded a legal basis transfer that can not be eliminated within its own accounts, to the campus must record a reclassification of that amount, for GAAP reporting purposes, to Other Non-operating Revenue / Expense. This entry will not affect campus ending Net Assets. However, for systemwide financial statement purposes, the debits and credits from all campuses and the Chancellor's Office will then net to zero.