

**THE CALIFORNIA STATE UNIVERSITY
GAAP REPORTING MANUAL**

CHAPTER 5

**GAAP ADJUSTMENTS OR RECLASSIFICATIONS THAT REQUIRE INFORMATION FROM THE
CHANCELLOR'S OFFICE**

INTRODUCTION

The next step in the conversion process is the recording of GAAP adjustments that involve information provided by the Chancellor's Office.

The following sections include either the GAAP entries that the Chancellor's Office will provide, or the information necessary for the campuses to prepare such GAAP entries after each fiscal year-end.

SECTION 5-1	CONSTRUCTION WORK IN PROGRESS (NON-DELEGATED PROJECTS)
SECTION 5-2	COMPLETED PROJECTS (NON-DELEGATED)
SECTION 5-3	REVENUE BOND ANTICIPATION NOTES (BAN)
SECTION 5-4	REVENUE BONDS
SECTION 5-5	ENERGY LEASES
SECTION 5-6	SELF-INSURANCE CLAIMS LIABILITY
SECTION 5-7	EXAMPLES OF ENTRIES AND SCHEDULES FROM THE CHANCELLOR'S OFFICE

The Allocations and information to prepare the GAAP adjustments from the Chancellor's Office should not be recorded until the mapping of legal basis accounts to GAAP financial line items (Chapter 3), and the beginning net asset roll forward (Chapter 4, Section 4-1) are completed.

BEGINNING NET ASSET BALANCES

Beginning net asset balances need to be adjusted by the campuses to reflect certain adjustments that were recorded in the prior year's GAAP financial statements. Prior year allocations from the Chancellor's Office are part of these adjustments and must be included in order to roll forward the beginning net assets. These adjustments are discussed in Chapter 4, Section 4-1. Because prior year

allocations are already part of the campuses' rollforward, the Chancellor's Office will not provide the beginning balances in its allocations, rather it will provide the current year activities, which may include additional adjustments other than those discussed in the following sections. Instructions for preparing the current year activities are in the examples provided in applicable sections of this chapter. Beginning balances incorporated in the examples are for illustration purposes only.

**SECTION 5-1
CONSTRUCTION WORK IN PROGRESS (NON-DELEGATED PROJECTS)**

CONSTRUCTION WORK IN PROGRESS

Construction projects managed by the Chancellor's Office for a campus may be financed by specific debt issued for the construction, by capital outlay funds appropriated to the CSU from the state of California, by donations, or other debt that is not allocated to the campus.

Current year CWIP expenses are allocated to the campuses via AD NOAT before the end of the fiscal year close (no later than July 15, 20CY) to enable campuses to record them into their legal basis accounting records. The cumulative CWIP balance as of June 30, 20PY should already be in the campuses' legal basis accounting records as a carryforward. Campuses will make a GAAP entry to convert the current year CWIP from a legal to GAAP basis, as described in Chapter 4, Section 4-2. No information from the Chancellor's Office is needed for this GAAP entry.

Campuses must disclose in the footnotes to the financial statements the CWIP passed down from the Chancellor's Office to the campus which is recorded by the campus as a constructed asset in other nonoperating revenues.

SECTION 5-2

COMPLETED PROJECTS (NON-DELEGATED PROJECTS)

COMPLETED CONSTRUCTION PROJECTS

After a construction project is completed, the Chancellor's Office will provide the campus with the final cost of the completed project via an AD NOAT called "Statement of Capitalization" prior to year-end close (no later than July 15, 20CY). Upon receipt of the AD NOAT, the campus will reclassify the asset from CWIP to the proper asset category in its legal basis accounting records. As a result of recording the CWIP, and subsequently transferring the completed asset on legal basis accounting records, there is no need to record any GAAP entries (except as discussed in Section 5-1).

In completing the footnotes of your campus reporting package, a completed project must be reflected as a transfer rather than a deletion in CWIP.

SECTION 5-3

REVENUE BOND ANTICIPATION NOTES (BAN)

OBJECTIVE OF GAAP ADJUSTMENTS

- To allocate to campuses their portion of Revenue Bond Anticipation Notes issued to finance the development and construction of Housing, Parking, Student Union, CERF, Health Facilities and other auxiliary organization facilities, for inclusion in the GAAP financial statements. The BAN is otherwise carried at the Chancellor’s Office records during the fiscal year.

Revenue Bond Anticipation Notes

The Revenue Bond Anticipation Note (BAN) is a financing vehicle used in anticipation of issuing permanent revenue bonds at a future date. The BAN proceeds are received and invested by the Chancellor’s Office during the construction period. The campus is given spending authorization of the BAN proceeds via an allocation order from the Chancellor’s office.

EXAMPLE – The campus expended and recorded construction work in progress of \$3,000,000 provided by Revenue Bond Anticipation Notes (BAN) to construct a campus building during the current year. BAN proceeds totaling \$3,500,000 were received and invested by the Chancellor’s Office during the construction period. Of this amount \$500,000 was unexpended at the end of the year. Following is the adjustment that would be made to the GAAP financial statements:

This entry will be passed down as part of Chancellor’s Office allocation

<u>Restricted: Expendable, Capital Projects (Fund 0576)</u>		
Debit Accounts receivable – current (from CO)	\$3,500,000	
Credit Long-term debt - current		3,500,000

This entry should be recorded by the campus to reclassify the debt from construction incurred during the year, from capital projects to invested in capital assets net asset groups

<u>Restricted: Expendable, Capital Projects (Fund 0576)</u>		
Debit Long-term debt - current	\$3,000,000	
Credit Transfers to/from other funds		\$3,000,000
<u>Invested in Capital Assets, net of related debt</u>		
Debit Transfers to/from other funds	\$3,000,000	
Credit Long-term debt - current		\$3,000,000

The debit to accounts receivable will offset the credit entry made to accounts receivable to eliminate the campus fund balance clearing balance of \$3,000,000 in year 1. The balance remaining in accounts receivable should reflect the unexpended portion of bond proceeds held by the Chancellor’s Office. This balance should be re-established in year 2, as a beginning receivable from CO. The change in fund balance clearing between year 2 and year 1 is year 2’s CWIP expense that should offset the “A/R from CO” in year 2 which will reduce the A/R balance to reflect the unexpended portion of the bond proceeds held by the Chancellor’s Office at the end of year 2. (Note: BAN’s are considered long-term debt liabilities because their liquidation is the result of the creation of other long-term liabilities. But they typically mature within one year from the date of the statement of net assets, which is why the above example shows the entire balance of the BAN as a current portion of the long-term debt obligation, and the accounts receivable as a current asset).

Please refer to Section 4-4 on treatment of allocation orders from transferring of fee revenue for construction of assets.

Note: The transfer of debt from construction incurred in the current year also applies to situations where construction costs are managed and paid on behalf of the campus (e.g. non-delegated projects).

SECTION 5-4

REVENUE BONDS (PARKING, STUDENT UNION AND SYSTEMWIDE)

OBJECTIVE OF GAAP ADJUSTMENTS

- To allocate to campuses their portion of long-term Systemwide, Parking and Student Union Revenue Bond debt managed by the Chancellor's Office for inclusion in each campuses' GAAP financial statements. The revenue bonds are otherwise carried on the Chancellor's Office records during the fiscal year.

REVENUE BONDS

The Chancellor's Office obtains funds from the campus' individual State Treasury accounts to make payments on outstanding revenue bonds. These payments are made from unrestricted net assets. On legal basis accounting records, the campus records a reduction in cash and a transfer-out from Fund 580 Dormitory Revenue Fund to the Chancellor's Office Fund 578 Interest & Redemption Fund. In Chapter Three, Mapping Legal Basis to GAAP Reporting Model, this transfer is mapped to "Transfers to/from Other Funds" on Matrix 3.1.

EXAMPLE 1 – In the prior year, the campus was allocated revenue bond debt totaling \$5,000,000. As of the end of the previous year, the campus had \$50,000 remaining at the Chancellor's office to cover next year's debt service payments. During the current year, transfers to the Chancellor's Office totaled \$500,000. The Chancellor's Office recorded interest payments of \$250,000, principal payments of \$150,000, and interest payable of \$29,000. Next year's principal payment is \$200,000. The related capital asset of \$5,000,000 is recorded on the campus legal basis accounting records. This example assumes the asset is fully constructed. Following is the adjustment that would be made to the GAAP financial statements:

Invested in Capital Assets, net of related debt

Campus should record this entry as part of rebuilding beginning net assets roll forward (refer to Section 4-1). It will NOT be passed down to the campus in the current year as part of its debt entries.

Entry to reinstate beginning net assets:

Debit	Net assets - invested in capital assets (beginning)	\$5,000,000
	Credit	
	Long-term debt obligation – noncurrent	\$5,000,000

This entry will be passed down as part of the Chancellor’s Office allocation.

Entry to record current year activity:

Debit	Long-term debt obligation – noncurrent	\$ 350,000
	Credit	
	Long-term debt obligation - current	\$ 200,000
	Credit	
	Transfer to/from other funds	\$ 150,000

Restricted: Expendable, Debt Service (Fund 0578)

Campus should record this entry as part of rebuilding beginning net assets roll forward (refer to Section 4-1). It will NOT be passed down to the campus in the current year as part of its debt entries.

Entry to reinstate prior year balance:

Debit	Accounts receivable-current (from CO)	\$ 50,000
	Credit	
	Restricted: expendable, debt service	\$ 50,000

This entry will be passed down as part of the Chancellor’s Office allocation

Entry to record current year activity:

Debit	Interest on capital–related debt	\$279,000
Debit	Accounts receivable-current (from CO)	\$71,000
	Credit	
	Transfer to/from other funds	\$ 350,000

EXAMPLE 2 – The campus expended and recorded construction work in progress of \$1,000,000 provided by new dormitory revenue bonds to construct a campus building during the current year. Bond proceeds totaling \$5,000,000 were received and invested by the Chancellor’s Office during the construction period. Of this amount \$4,000,000 was unexpended at the end of the year. Interest earned on unexpended proceeds for the year totaled \$120,000. The campus also incurred \$200,000 in bond issuance cost. Following is the adjustment that would be made to the GAAP financial statements:

This entry will be passed down as part of the Chancellor’s Office allocation:

<u>Restricted: Expendable, Capital Projects (Fund 0576)</u>		
Debit	Accounts receivable - noncurrent	\$4,920,000
	Credit Long-term debt obligations - noncurrent	\$4,800,000
	Credit Investment income	\$ 120,000
<u>Invested in Capital Assets, net of related debt</u>		
Debit	Other assets-noncurrent (issuance cost)	\$ 200,000
	Credit Long-term debt obligation - noncurrent	\$ 200,000

Based on the materiality of the bond issuance costs, the campus must decide whether to expense it or amortize it using straight line over the life of the bond.

This entry should be recorded by the campus to transfer the expended portion of debt proceeds during the year, from capital projects to invested in capital assets net asset groups

<u>Restricted: Expendable, Capital Projects (Fund 0576)</u>		
Debit	Long-term debt – noncurrent	\$1,000,000
	Credit Transfers to/from other funds	\$1,000,000
<u>Invested in Capital Assets, net of related debt</u>		
Debit	Transfer to/from other funds	\$1,000,000
	Credit Long-term debt obligations - noncurrent	\$1,000,000

The debit to accounts receivable will offset the campus’ credit entry made to accounts receivable to eliminate the campus fund balance clearing balance of \$1,000,000. The balance remaining in accounts

receivable at year-end should reflect the unexpended portion of bond proceeds held by the Chancellor's Office.

Please refer to Section 4-4 on treatment of allocation orders from transferring of fee revenue for construction of assets.

Note: The transfer of the expended portion of debt proceeds during the current year also applies to situations where construction costs are managed and paid on behalf of the campus (e.g. non-delegated projects).

**SECTION 5-5
ENERGY LEASES**

OBJECTIVE OF GAAP ADJUSTMENTS

- To provide to campuses their capital lease obligations rollforward schedule for energy leases managed by the Chancellor’s Office.

ENERGY LEASES

As with the revenue bonds discussed in Chapter 5, Section 5-4, the Chancellor’s Office obtains funds via an AD NOAT from the campus’ individual general fund accounts to make payments on outstanding energy leases. These payments are made from unrestricted net assets. On legal basis accounting records, the campus records an expense.

EXAMPLE – Each year the campus will need to record the energy lease obligation and the payments made to reduce the balance. This example assumes a current balance of \$1,000,000 and a prior year balance of \$1,250,000. Current year payment of \$350,000 was charged to operation and maintenance of plant, \$250,000 of which represented the principal portion. Next year’s principal portion is \$300,000. This example assumes that the related capital asset has been recorded in the campus’ legal basis accounting records. Following is the adjustment that would be made to the GAAP financial statements:

Invested in Capital Assets, net of related debt

Campus should record this entry as part of rebuilding beginning net assets (refer to Section 4-1). It will NOT be passed down to the campus in the current year as part of its debt entries.

	Debit	Net assets invested in capital assets (beginning)	\$1,250,000
	Credit	Capital lease obligation – noncurrent	\$1,250,000

Campus should record this entry based on the Chancellor’s Office schedule posted on the website:

Invested in Capital Assets, net of related debt

	Debit	Capital lease obligation – noncurrent	\$ 550,000
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Credit	Transfer to/from other funds	\$ 250,000
Credit	Capital lease obligation - current	\$ 300,000
<u>Restricted: expendable, debt service (Fund 0578)</u>		
Debit	Interest on capital – related debt	\$100,000
Credit	Transfer to/from other funds	\$ 100,000
<u>Unrestricted</u>		
Debit	Transfer to/from other funds	\$ 350,000
Credit	Operation and maintenance of plant	\$ 350,000

As discussed previously, debt financed assets should not increase net assets balances, except to the extent that the related obligation is paid. **Since the campuses of the CSU have the related capital assets already recorded as an addition to legal fund balance on the historical legal basis accounting records, an adjustment to reduce that fund balance to an amount representing the unpaid lease obligation at the beginning of the year is necessary.** This adjustment is reflected above with the \$1,250,000 debit to invested in capital assets – beginning of the year. The current year principal payment of \$250,000 further increases the net assets to reflect the current year activity.

**SECTION 5-6
SELF-INSURANCE CLAIMS LIABILITY**

OBJECTIVE OF GAAP ADJUSTMENTS

- To record from an allocation schedule self-insurance claims liability managed by the Chancellor's Office.

SELF-INSURANCE CLAIMS LIABILITY

This allocation schedule from the Chancellor's Office relates to the campuses' share of the CSU's self-insurance claims liability. The schedule provided by the Chancellor's Office will be a rollforward of the self-insurance claims liability (i.e., it reflects the prior year's balance, current year addition, current year reduction, and ending current and noncurrent balance of liability) for the campus.

EXAMPLE – The campus current year ending liability totals \$2,000,000, the prior year ending liability totaled \$1,750,000 and the change for the year totals \$250,000. The current portion of the liability is \$300,000.

Unrestricted

Campuses should record this entry as part of rebuilding beginning net assets (refer to Section 4-1). It will NOT be passed down to the campus in the current year as part of its debt entries.

Debit Net assets – unrestricted (beginning)	\$1,750,000	
Credit Self-insurance claims liability – noncurrent		\$1,750,000

Campus should record this entry based on the Chancellor's Office schedule posted on the website:

Debit Institutional support or various operating expenses	\$ 250,000	
Debit Self-insurance claims liability-noncurrent	\$ 50,000	
Credit Self insurance claims liability-current		\$ 300,000

The operating expense account(s) to be debited above is subject to discretion of the campus, because claims expense may be allocated across multiple funds and programs.

CHAPTER 5-7

EXAMPLES OF ENTRIES AND SCHEDULES FROM THE CHANCELLOR'S OFFICE

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| EXAMPLE 1 | REVENUE BONDS |
| EXAMPLE 2 | ENERGY LEASES |
| EXAMPLE 3 | SELF INSURANCE CLAIMS LIABILITY |