

**CSU Campuses
GAAP Questions and Answers (Q&A)
Effective June 30, 2005**

Q1 – Ch. 9 exhibit 23 - Higher Scope - Single Audit Campus Team Instructions, June 30, 2005 in our GAAP manual refers to the completion of a Single Audit Checklist. What checklist is it referring to?

A1 – This document is actually a combined PBC list as well as instructions for the KPMG engagement teams. The single audit checklist is a KPMG form that is completed by the engagement team, not a PBC item.

Q2 - What is the definition of Current and Non-Current Under GASB 34 and 35 and does restrictions on assets affect their classification?

A2 – This issue was addressed in a correspondence from our external auditor on April 18, 2001

Subject: Classification of Current and Non- Current Assets/Liabilities Under GASB 34 and 35

Guidance from Literature

GASB 35

GASB 35 does not provide specific guidance on the definition of current and non-current. Paragraph 43 of the statement permits public colleges to use guidance provided for special purpose governments in GASB 34. The only other guidance that is provided in GASB 35 is the non-authoritative example financial statements. These examples seem to suggest that restricted assets and endowment assets are non-current. However, the reasoning for them being categorized in this fashion is not explained in the literature.

GASB 34

Paragraph 138 of GASB 34 gives guidance for those special purpose governments engaged only in business type activities. It states that these governments should present only financial statements required for enterprise funds. It then refers you to further guidance in paragraphs 91-105 in GASB 34.

In reviewing paragraphs 91-105 in GASB 34, some guidance is given regarding classification of assets and liabilities into non-current and current in paragraphs 97 and 99. Paragraph 97 states, “assets and liabilities of proprietary funds should be presented in a classified format to distinguish between current and long-term assets and liabilities as discussed in Chapter 3 of ARB 43, Restatement and Revision of Accounting Research Bulletins.”

Paragraph 99 gives guidance on reporting restrictions on asset use. It states, “restricted assets should be reported when restrictions on assets use change the nature or normal understanding of the availability of the asset. For example, cash and investments normally are classified as current assets, and a normal understanding of these assets presumes that restrictions do not limit the government’s ability to use the resources to pay current liabilities.” This paragraph seems to suggest that classifying an asset or liability as restricted is more important than classifying it as current or non-current. In addition, it seems to suggest that because of the restriction, items such as cash and cash equivalents that normally would be classified as current would be non-current because of their restriction.

Chapter 3 of ARB 43, Restatement and Revision of Accounting Research Bulletins

Paragraph 4 of Chapter 3 of ARB 43, defines a current asset for accounting purposes as those resources “**which are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of a business,**” (which is typically one year). It further explains that this term comprehends in general such resources as “a) cash available for **current operations and items which are the equivalent of cash** ...b) trade accounts, notes and acceptances receivable c) receivables from officers, employers, affiliates, and others, if collectible in the ordinary course of business within a year....d) marketable securities **representing the investment of cash available for current operations...**”

Further, paragraph 7 of Chapter 3 of ARB 43 defines a current liability as items that are “used principally to designate obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets...”. It also states “other liabilities whose regular and ordinary liquidation is expected to occur within a relatively short period of time, usually twelve months, are also intended for inclusion...”

GASB Statement 9, Statement of Cash Flows

GASB Statement 9 on cash flow statements does not give specific guidance on classification of assets and liabilities as current or non-current; however, it does not give guidance that is contradictory to the guidance in the other literature cited above. GASB 9 does give guidance on the classification of items as either a cash and cash equivalent or an investment. Paragraph 9 of Statement 9 provides the following definition of cash equivalents: a) Items that are “readily convertible to **known** amounts of cash”, b) Items that are “so near to their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with originally maturities of three months or less met this definition.”

Additionally, Paragraph 11 of Statement 9 allows some cash equivalents to be treated as investments. “Not all investments that qualify are required to be treated as cash equivalents. An entity should establish a policy concerning which short-term, highly liquid investments (that satisfy the definition of cash equivalents in paragraph 9) it will treat as cash equivalents. An entity should disclose its policy for determining which of those items are treated as cash equivalents. Any change in that policy is a change in accounting principle that should be reported by restating financial statements for earlier years presented for comparative purposes.”

Questions 15 and 17 of the GASB 9 Implementation Guide give guidance on classification of pooled cash and investments as a demand deposit account and restricted cash. It states that unless the participant is able to withdraw cash at any time without prior notice and penalty, these items are better classified as investments. With regards to restricted assets, it states that” even though the governmental agency may not be able to access its equity in the pool because the assets are legally restricted, it is able to withdraw cash by directing the bond paying agent to pay bondholders or other for whom the assets are restricted... Statement 9 disregards restriction of use as a factor determining whether an asset meets the definition of cash or cash equivalent.

Conclusions:

Based on the above cited literature, the following conclusions have been drawn:

- The definition of current assets and liabilities has not changed under GASB 34 and 35. The definition of current assets and liabilities as discussed in ARB 43, are resources that are expected to be realized in cash, sold or consumed during the normal operating cycle of the business, which is typically one year. The definition of current liabilities is resources that will be liquidated with items classified as current assets or items that are expected to be liquidated within a short period of time (typically 1 year).
- As inferred in paragraph 99 of GASB 34 and the illustrative financial statements in GASB 35, restrictions on resources tend to make them non-current; however, restrictions on items do not affect whether resources should be categorized as cash and cash equivalents or an investment. Therefore, an entity could have non-current-restricted cash and cash equivalents. With regards to the classification of endowment investments and restricted investments, we recommend that they be classified as non-current assets.

Cash and investments that are pooled as part of an investment pool and appear to act as a demand deposit account should only be categorized as a cash and cash equivalent if the amounts can be withdrawn without prior notice and penalty and for a known amount. If they cannot, they are better classified as an investment. Regardless of an entity’s decision to categorize such items, the policy for classifying cash equivalents should be disclosed in the notes to the financial statements.