



# 1.0 Accounting Principles and Definitions

## Introduction

The University System of Georgia (USG) operates under the generally accepted accounting principles as outlined in a variety of publications, including *College and University Business Administration* by the National Association of College and University Business Officers (NACUBO), and the Financial Accounting and Reporting Manual for Higher Education Release (FARM) manual by the same organization.

Topics in this section include:

- ❑ GASB Compliance
- ❑ Full Accrual Basis of Accounting
- ❑ GAAP and Budgetary Accounting
- ❑ Encumbrances
- ❑ Accounting Periods
- ❑ Records Maintained to Facilitate Required Reporting
- ❑ Reconciliations



## 1.1 GASB Compliance

The University System of Georgia follows the accounting and financial reporting standards for state and local governmental units as established by the Governmental Accounting Standards Board (GASB) for public colleges and universities.

**Reference:** “Financial Accounting and Reporting Manual for Higher Education Release”, © 2001 National Association of College and University Business Officers, Sections 300 and 600.

**Website reference:** [www.gasb.org](http://www.gasb.org)

The standards and related guidance spelling out the GASB financial reporting model are set forth in the following documents:

1. GASB Statement 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*
2. GASB Statement 34, *Basic Financial Statement and Management’s Discussion and Analysis for State and Local Governments*
3. GASB Statement 37, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus*
4. GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*
5. GASB Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*
6. GASB Implementation Guide, *Guide to Implementation of GASB Statement 34*
7. NACUBO’s GASB 35 Implementation Guide, *Questions and Answers for Public Colleges and Universities Using Business Type Activity (BTA) Reporting*

GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*, contains guidance regarding the recognition, measurement, classification, and reporting of non-exchanges transactions. The new financial reporting model standards and guidance and GASB Statement 33 have a significant impact on the accounting required of public colleges and universities.

GASB Statements No. 34 and 35 spell out two different financial reporting models that may be adopted by public colleges and universities. The University System of Georgia has chosen to use



the model for Special Purpose Governments engaged only in business-type activities. There are three major financial reports required for this model: *The Statement of Net Assets*, *The Statement of Revenues, Expenses, and Changes in Net Assets*, and the *Statement of Cash Flows*. The basic financial statements are preceded by *Management's Discussion and Analysis (MD & A)*.



## 1.2 Full Accrual Basis of Accounting

GASB Statement 34 requires that institutions that report as Business Type Activities (BTAs) follow accrual accounting. Under accrual accounting, revenue is recognized when earned and expenses are recognized when accrued.

**Reference:** “Financial Accounting and Reporting Manual for Higher Education Release”, © 2001 National Association of College and University Business Officers, Section 300.

Some examples are as follows:

1. Deferred revenue results from an exchange transaction in which resources have been provided to an institution for services or goods that will be delivered in the future. A liability (deferred revenue) should be recorded until the institution provides the service or activity. When the service is provided, the liability should be eliminated and the revenue recognized.
2. When goods or services are received, a liability should be recorded, unless cash is immediately paid. At fiscal year end, accounts payable and accrued liabilities should be recorded. Sometimes estimates must be made for interest and utilities that have been incurred but not billed. If payroll dates do not coincide with the fiscal year end, accruals should be made for accrued salaries.

**Note:** When a purchase order is issued, the budget is ‘encumbered’ so that funds are reserved for that purchase. When the good or service is received, the encumbrance should be liquidated, along with the debiting expense/crediting payable for the exact amount of the purchase. When the check is written for payment, the accounting transactions will debit the payable and credit cash.

### 1.2.1 Current versus Non-Current

GASB Statement 34 requires institutions that report as BTAs to display assets and liabilities on a Statement of Net Assets in a classified format distinguishing between current and long-term assets, and current and long-term liabilities, respectively.

Current Assets include:

- Cash and Cash Equivalents
- Short-Term Investments
- Account Receivables (Net)
- Inventories
- Other Current Assets



Non-Current Assets include:

- Investments
- Notes Receivable (Net)
- Capital Assets (Net)

Accounting Research Bulletin 43 defines current liabilities as follows: “The term current liabilities is used principally to designate obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities.”

Current Liabilities include:

- Accounts Payable and Accrued Liabilities
- Deferred Revenue
- Amounts Held for Others (e.g. Agency Funds)
- Current Portion of Compensated Absences

Non-Current Liabilities include:

- Long-Term Portion of Compensated Absences
- Long-Term Liabilities

## 1.2.2 Exchange versus Non-Exchange

GASB Statement 33 establishes accounting and reporting standards for non-exchange transactions.

**References:** GASB Statement #33, *Accounting and Financial Reporting for Nonexchange Transactions*

“Financial Accounting and Reporting Manual for Higher Education Release”, © 2001 National Association of College and University Business Officers, Section 300.

This statement divides non-exchange transactions into four classes:

1. Derived tax revenues
2. Imposed non-exchange transactions
3. Government-mandated non-exchange transactions
4. Voluntary non-exchange transactions

The class most frequently found in the University System of Georgia is voluntary non-exchange transactions. GASB Statement 33 defines a non-exchange transaction as one where “a government (including the federal government, as provider) either gives value (benefit) to another party without directly receiving value in exchange or receives value



(benefit) from another party [including individuals and other private sector entities] without directly giving value in exchange.”

GASB Statement 33 establishes time requirements and purpose restrictions for non-exchange transactions. Time requirements affect the timing of recognition of non-exchange transactions. Recipients of resources with purpose restrictions should report the assets as restricted until the resources are used for the specified purpose.

The flow chart on the second following page provides guidance in determining whether grants and contracts are exchange or non-exchange transactions. More details can be found in the references mentioned above.

### 1.2.3 Operating versus Non-Operating

Revenues are reported in the Statement of Revenues, Expenses, and Changes in Net Assets and are classified as either operating or non-operating.

**References:** “Financial Accounting and Reporting Manual for Higher Education Release”, © 2001 National Association of College and University Business Officers, Section 300.

GASB Statement # 33, *Accounting and Financial Reporting for Nonexchange Transactions*

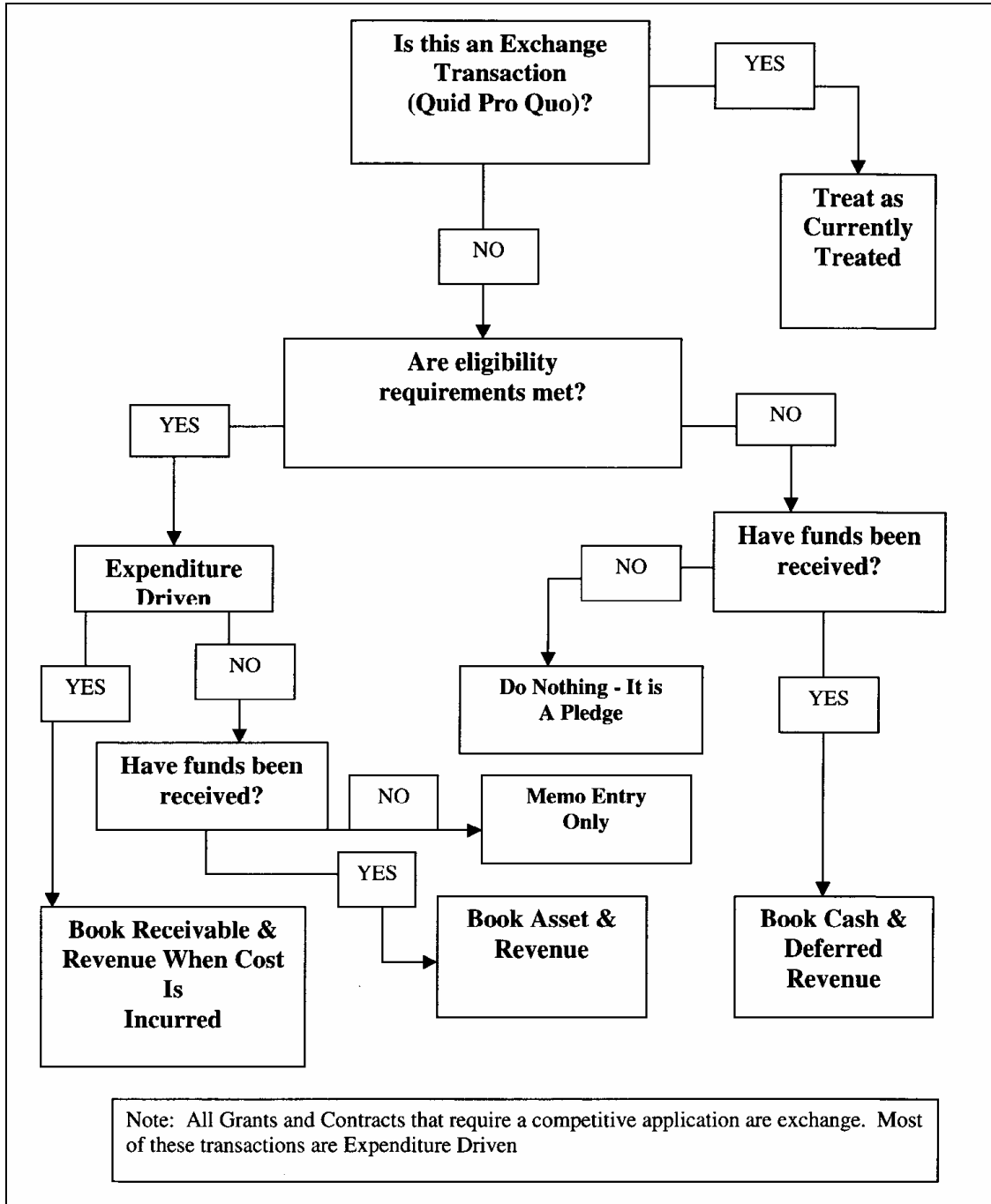
Operating revenues include:

- Tuition and Fees (Net of Sponsored and Un-sponsored Scholarships)
- Federal Appropriations, Grants and Contracts
- Gifts
- Sales and Services of Educational Activities
- Sales and Services of Auxiliary Enterprises
- Sales and Services of Hospitals
- Other Operating Sources

Non-operating revenues are those derived from non-exchange transactions, or those that are not reported as operating activities in the Statement of Cash Flows. Non-operating revenues include:

- State Appropriations
- Gifts
- Investment Income
- Other Non-Operating Revenues

## Grants and Contracts Treatment Under GASB 33





## 1.3 GAAP and Budgetary Accounting

### 1.3.1 GAAP Accounting

University of Georgia institutions are required to conform to the Generally Accepted Accounting Principles (GAAP) basis of accounting. GAAP is the recognized set of accounting principles, standards, and procedures, and is a combination of authoritative standards set by policy boards and other accounting pronouncements. The sources of GAAP in the United States include the Financial Accounting Standards Board (FASB), the Governmental Accounting Standards Board (GASB), and the Accounting Principles Board (APB).

Key elements of GAAP accounting compared to other methods of accounting, including state budgetary accounting, are:

- **Full Accrual Basis:** income is reported when earned and expenses are reported when incurred.
- **Depreciation:** the cost of an asset is allocated over the expected useful life of that asset.

### 1.3.2 Budgetary Accounting in Georgia

The laws of the state of Georgia require that funds appropriated for a specific fiscal year must be “expended or obligated” in that fiscal year, or “lapse” and be returned to the state treasury to be available for future appropriations.

The state code is stated in Code section 45-12-89, dated 12/03/01:

At the end of each fiscal year, the amount of each appropriation provided for in this part, except for the mandatory appropriations required by the Constitution of Georgia, remaining unexpended and not contractually obligated in writing shall lapse and cease to be available; and the state treasury shall not pay any unallotted appropriations and shall make the necessary adjustments in its appropriation accounts to charge off the amount of the lapsed appropriations. All appropriated funds, except for the mandatory appropriations required by the Constitution of Georgia, remaining unexpended and not contractually obligated at the expiration of the General Appropriations Act shall lapse.

The state Audit Department interprets these laws to include internal income available to the institution during that same fiscal year for fund groups subject to lapsing rules.

The fund groups that are audited in accordance with Georgia Budgetary Expense Reporting and having funds subject to lapsing are:

- 10000 Educational and General
- 11xxx Other Organized Activities



- 50000 Unexpended Plant

In addition to the fund groups indicated above, another set of restricted funds are audited within the context of Georgia Budgetary Expense Reporting to report expenditures in relation to approved budget values. However, these fund groups are not subject to having funds lapse. These restricted fund groups are:

- 20000 Restricted Educational and General
- 21xxx Restricted Other Organized Activities

The rules for managing prior year purchase orders issued from Fund 10000, Funds 11xxx, and Fund 50000: (for managing surplus)

1. Purchase orders issued and encumbered in a previous fiscal year that are paid in the following fiscal year for exactly the encumbered amount have no effect on “surplus”.
2. Purchase orders issued and encumbered in a previous fiscal year that are paid (as final payment with PO closed) for an amount less than the encumbered amount will contribute the difference between original encumbrance amount and payment amount to “surplus”. No journal entry or other action is required, since the “surplus” amount to be returned to the state treasury is already in the appropriate net asset account due to the previous fiscal year being closed using GAAP/GASB closing rules. GAAP/GASB closing rules do not expense encumbrances.
3. Purchase orders issued and encumbered in a previous fiscal year that need to be paid for an amount greater than the encumbered amount should have the excess amount charged to the current budget period. The original encumbered amount may be paid against the original budget period. The excess amount should be paid against the current budget period
4. If a vendor cannot supply the item(s) ordered and you do not desire to reissue the purchase order to a new vendor, the purchase order can simply be cancelled. The entire purchase order amount will become surplus.
5. Purchase orders issued and encumbered in a previous fiscal year that are cancelled in a subsequent fiscal year may be reissued to a different vendor for similar goods and services in an amount not to exceed the original purchase order amount. The reissued purchase order must reflect the budget period of the original purchase order. If the reissued purchase order is less than the original purchase order amount, the difference will increase “surplus”.



## 1.4 Encumbrances

### 1.4.1 General

The University System of Georgia has elected to utilize full accrual basis accounting and to comply with generally accepted accounting principles to include compliance with GASB 34/35\*.

**\* Note:** This decision coincides with the implementation of the PeopleSoft Financials software in many of the centrally supported institutions.

The result of these changes means that:

- Encumbrances on the books as of June 30<sup>th</sup> that have not had receipt of goods and/or services will not be converted into expenditures.
- For GAAP/GASB reporting, these encumbrances simply continue into the next fiscal year. The expense occurs during the fiscal year where goods and/or services are received.
- For Georgia Budgetary Expense Reporting, the encumbrances outstanding on June 30<sup>th</sup> will be reported like expenditures for the purpose of comparing expenditures to budget and for determining “surplus.”
- Normal accounting processes will be based upon GAAP/GASB standards, with reports developed to accomplish required reporting for Georgia Budgetary Expense Reporting.

It should be noted that for fund groups subject to lapsing, the normal day-to-day business process is based on the Georgia Budgetary Expense Reporting basis, but the accounting processes are recording transactions on the GAAP/GASB basis. For Georgia Budgetary Expense Reporting, transactions are matched to Budget Periods instead of Fiscal Years. For GAAP/GASB reporting, transactions are reported by Fiscal Year without regard to Budget Period

### 1.4.2 Encumbrance Policies

The University System requires that all known obligations for the current fiscal year be encumbered unless the amount is considered not material.

### Personal Services Encumbrances

By the end of September, each filled position must be properly encumbered in the financial records to reflect the remaining salary and fringe benefit expense amounts for the fiscal year. An accurate method of delivering encumbrance liquidation data into the financial records must be utilized after each payroll, so that only remaining salary and fringe benefit amounts remain encumbered.



**Note:** Fringe benefit amounts should be encumbered as accurately as possible/practical. Extra pay and/or overtime pay that was not previously encumbered should not provide an encumbrance liquidation transaction. If the extra pay/overtime pay was not encumbered, the payroll posting process should increase the appropriate expense without liquidating the encumbrance amount.

## Travel Encumbrances

When travel to be taken in a future fiscal year has been *formally authorized* and the amount is material (greater than \$500 per trip), the travel funds may be encumbered or paid and expensed in the current fiscal year for budgetary purposes. These expenses would normally be for travel and/or seminars planned in the first quarter of the subsequent fiscal year.

**Note:** For travel funds to be encumbered, the travel must be formally authorized. This would include submission of the usual out-of-state travel approval form, or written approval for in-state travel, stating the nature and purpose of the travel, date of travel, and amount.

When the travel or seminar cost to be incurred in the subsequent fiscal year is actually paid in the current fiscal year, a list of these transactions should be maintained and a year end journal entry should be posted in the GAAP Ledger to move the amount from expense to prepaid expense for financial reporting purposes. This journal entry should be reversed in the subsequent year.

## Operating Expenses and Equipment Purchases

Purchase orders issued for goods and services should be encumbered. Upon receipt of the goods or services, the encumbrance should be liquidated along with accruing the expense, with a resulting credit to accounts payable.

**Note:** Procurements by procurement card or petty cash do not need to be encumbered, as these are generally small value and they are promptly expensed into the institution's records.



## 1.5 Accounting Periods

The accounting periods will consist of twelve (12) monthly periods that coincide with calendar months, with twelve (12) monthly periods constituting the accounting year. Depending upon the accounting system software utilized, other specialized periods may exist due to software concerns. \*

\* **Note:** Institutions using the PeopleSoft Financials software will also have period 0 that contains beginning balances and period 999 that contains closing entries.

### 1.5.1 Accounting Year

The accounting year in the University System of Georgia will be the period beginning with July 1<sup>st</sup> and ending with June 30<sup>th</sup>.

### 1.5.2 Monthly Closing of Accounting Records

Accounting records shall be closed at the end of every calendar month, no later than five (5) days after the end of the month. After all required adjusting journal entries have been made, all allocations processed, all interfaces from other software systems posted, and required reports processed, the accounting records for that month should be closed. \*

\* **Note:** Institutions using the Georgia *FIRST* model of the PeopleSoft Financials software should follow the instructions provided for closing the prior accounting period.

### 1.5.3 Year End Closing of Accounting Records

The closing of the account year shall be accomplished by the date established by the Vice Chancellor for Fiscal Affairs each year. This shall include all required adjusting journal entries entered, all allocations processed, all interfaces from other software systems posted, and all required reports processed to prepare the system-generated annual financial reports.



## 1.6 Records Maintained to Facilitate Required Reporting

Due to the conflicting requirements imposed upon the University System of Georgia in conforming to GAAP/GASB principles while maintaining the ability to provide reporting as mandated by the laws of the state of Georgia (Georgia Budgetary Expense Reporting), several different ledgers should be maintained. These ledgers must be able to distinguish between fiscal year and budget period to facilitate correct reporting in the various reporting modes, as discussed in the following sections.

### 1.6.1 Georgia Budgetary Expense Reporting

For Georgia Budgetary Expense Reporting, revenues and expenditures are reported on an accrual basis, with encumbrances treated like expenditures at the end of the fiscal year.

**Note:** The following types of expenses are **not** allowable for reporting in Georgia Budgetary Expense Reporting:

- Depreciation expenses of assets
- Booking of compensated absences
- Eliminations of intra-campus sales
- Recording scholarship allowances
- Booking of deferred revenues on sponsored grants

It is highly recommended that transactions only for Georgia Budgetary Expense Reporting be kept in a separate ledger. \*

**\* Note:** The ledger for Georgia Budgetary Expense Reporting will be the Actuals ledger for institutions using the Georgia*FIRST* model of the PeopleSoft Financials software.

### 1.6.2 Capital Assets with Depreciation

For GAAP/GASB reporting, a ledger for capital assets with resulting depreciation values must be maintained. This ledger should be updated from a software module containing detailed information about each capital asset and its associated depreciation entries. \*

**\* Note:** The ledger for Capital Assets will be the Capital ledger for institutions using the Georgia*FIRST* model of the PeopleSoft Financials software. The Asset Management module will feed this ledger.

Due to the method for budgeting within the Georgia Budgetary Expense Reporting for Equipment (Capital Items), the ledger for capital assets must provide some offsetting information. For example, purchase of capital equipment in the ledger maintained for the Georgia Budgetary account will charge an equipment purchase expense account to support Georgia Budgetary Expense Reporting. For GAAP/GASB purposes, this is not an expense, but is the purchase of an asset. When this transaction is fed into the software module for



tracking capital assets, it must generate an entry in the ledger for capital assets to debit the asset account for equipment, and to credit the equipment purchase expense account, which is the same account that was debited in the ledger for Georgia Budgetary transactions.

This means that the ledger for capital assets will not be able to support stand alone financial reporting. It is only meaningful when combined with the ledger supporting the Georgia Budgetary Expense Reporting process.

Using only the ledger maintained for Georgia Budgetary Expense Reporting will display the equipment expense as is required for Georgia Budgetary Expense Reporting. Combining the ledger maintained for Georgia Budgetary Expense Reporting and the ledger maintained for capital assets will not show any equipment expense, but will properly report the asset “Equipment” as required for GAAP/GASB purposes.

### 1.6.3 Ledger for Adjusting Entries

In addition to the ledgers described above, a third ledger should be maintained for adjusting entries that must be booked to provide for certain GAAP/GASB reports. The entries to this ledger are those that would interfere with normal business processes if the entries were made to the other two ledgers described above. \*

**\* Note:** The ledger for adjusting entries will be the GAAP ledger for institutions using the Georgia*FIRST* model of the PeopleSoft Financials software.

Examples of entries made to the ledger for adjusting entries are:

- Booking the amount of compensated absences
- Eliminating intra campus sales
- Recording scholarship allowances
- Booking deferred revenues on sponsored grants

Generally, entries made into the ledger for adjusting entries will be reversed in the next accounting year.

### 1.6.4 Combinations of Ledgers versus Reporting Requirements

1. For Georgia Budgetary Expense Reporting, only the ledger containing Georgia Budgetary transactions is used \*. This reporting is based upon budget period along with fiscal year.

**\* Note:** This will be the Actuals ledger for institutions using the Georgia*FIRST* model of the PeopleSoft Financials software.



2. For GAAP based reporting, the ledger containing Georgia Budgetary transactions will be combined with ledger containing capital assets. \* This reporting is based upon fiscal year without regard to budget period.

**\* Note:** This will be a combination of the Actuals and Capital ledgers for institutions using the Georgia*FIRST* model of the PeopleSoft Financials software.

3. For GASB reporting (at the end of the fiscal year), the ledger for Georgia Budgetary Expense Reporting, the ledger for capital assets, and the ledger for adjusting entries will be combined. \* This reporting is based upon fiscal year without regard to budget period.

**\* Note:** This will be a combination of the Actuals, Capital, and GAAP ledgers for institutions using the Georgia*FIRST* model of the PeopleSoft Financials software.



## 1.7 Reconciliations

Data is generally provided to an institution's financial records from multiple external sources, which may include Human Resources/Payroll, Student Information, and Cash Receipting (if not part of the financial system) systems. The University System requires periodic reconciliation of these external systems to the balances maintained in the financial records, as noted in the following sections.

### 1.7.1 Human Resources/Payroll Systems

A reconciliation should be done between the various balances maintained in the Human Resources/Payroll System and the cumulative balances maintained in the financial records. This should include all salaries and payroll deductions. The reconciliation should be done at least quarterly. Documentation confirming these reconciliations should be maintained in the institution's files for at least three (3) years.

Care should be exercised to insure that balances in payroll deduction agency accounts in financials do not become debit balances by disbursing more than is delivered from the deductions transmitted from the payroll system. Prior to fiscal year end, analysis with appropriate action must be accomplished to prevent debit balances from occurring in agency accounts on the Annual Financial Reports.

### 1.7.2 Student Information Systems

A reconciliation should be done between the various balances maintained in the Student Information System and the cumulative balances maintained in the financial records. This should include all accounts receivable balances, all scholarship disbursements, and all financial clearing accounts. Reconciliations should be done weekly, but are required no less than monthly. Documentation confirming these reconciliations should be maintained in the institution's files for at least three (3) years.

### 1.7.3 Other Systems

A reconciliation should be done between the various balances maintained in any other system and the cumulative balances maintained in the financial records. The reconciliation should be done at least quarterly. Documentation confirming these reconciliations should be maintained in the institution's files for at least three (3) years.

### 1.7.4 Bank Accounts

A monthly reconciliation must be accomplished between the institution's financial records and all of the institution's bank accounts. This reconciliation should be done within fifteen (15) days of receiving the bank statement(s). In all cases, the reconciliation **must** be completed before the closing of the next accounting month. Reconciliation must also be accomplished prior to the final close of the fiscal year. Reconciliations must be reviewed, dated, and approved by a supervisor with the approval being documented on the



reconciliation document. Supervisory approval is required within forty-five (45) days of accomplishing the reconciliation.

A review of old outstanding checks must be accomplished during each reconciliation process. Checks that have not cleared within the time limit printed on the face of the check, normally ninety (90) days, should be considered potential “unclaimed property.” See Section 19.2, Unclaimed Property, for additional information and the required reporting of unclaimed property to the Commissioner of the Department of Revenue.

The payee of the outstanding check should be contacted in writing to facilitate delivery of the amount owed. To comply with state law, the write off of old outstanding checks should not be made to a net asset account for surplus for return to the state Treasurer, but must be done via the Unclaimed Property Report so that the state of Georgia has a centralized pool of information about unclaimed property from all sources.

### **1.7.5 Accounts Payable**

The Accounts Payable sub ledger (detail) must be periodically reconciled to the corresponding balance(s) in the General ledger. A monthly reconciliation is suggested, with a quarterly reconciliation being required. Documentation confirming these reconciliations should be maintained in the institution’s files for at least three (3) years.

### **1.7.6 Accounts Receivable**

The Accounts Receivable sub ledger (detail) must be periodically reconciled to the corresponding balance(s) in the General ledger. A monthly reconciliation is suggested, with a quarterly reconciliation being required. Documentation confirming these reconciliations should be maintained in the institution’s files for at least three (3) years.

### **1.7.7 Capital Assets**

The Capital Assets sub ledger (detail) must be periodically reconciled to the corresponding balance(s) in the General ledger \*. A monthly reconciliation is suggested, with a quarterly reconciliation being required. Documentation confirming these reconciliations should be maintained in the institution’s files for at least three (3) years.

**\* Note:** Institutions using the Georgia*FIRST* model of the PeopleSoft Financials software should reconcile both the Asset Management module to the Capital Ledger, as well as the Capital ledger to the Actuals ledger.