Accounting and Financial Reporting

Section: Accounting and Financial Reporting
Number: 05.002

Title: OUS Financial Reporting Entity and Basis of Accounting

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POLICY

.100 POLICY STATEMENT

This policy defines the financial reporting entity and the basis of accounting used in the Oregon University System (OUS) annual financial report.

The financial reporting entity identifies the organizations included in the OUS annual financial report. The OUS financial reporting entity includes the legal entity of OUS, and also includes other organizations that are related to but legally separate from OUS. This policy identifies the other organizations to be included in the OUS financial reporting entity.

The basis of accounting refers to the measurement and recognition of revenue and expense. The basis of accounting identifies which transactions comprise revenue and expense and the timing of when revenue and expenses are recognized in the accounting records and annual financial
statements. Common bases of accounting include the cash basis, modified accrual basis, and accrual basis. The basis of accounting must be held consistent to provide for year-to-year comparability in the annual financial statements.

.110 POLICY RATIONALE

OUS seeks to ensure that the definition of the financial reporting entity of OUS and the basis of accounting used by OUS are documented, communicated, clearly understood, and consistently applied.

.120 AUTHORITY

- ORS 351.085 - Duties and Powers of Chancellor
- OAR 580-040-0005 - Delegation and Assignment of Responsibility
- IMD 6.001 - Finance and Business Affairs Accounting Policies - Assignment of Responsibility

.130 APPROVAL AND EFFECTIVE DATE OF POLICY

Approved by the Associate Vice Chancellor for Finance & Administration/Controller on April 2, 2010. The effective date of this policy is April 2, 2010.

.140 KNOWLEDGE OF THIS POLICY

All institutional and Chancellor's Office personnel with financial management responsibilities should have knowledge of this policy.

.150 DEFINITIONS

None

.160 RESPONSIBILITIES

A. CHANCELLOR'S OFFICE

- To define the financial reporting entity and the basis of accounting used by OUS.
- To ensure that the OUS annual financial statements report the financial activity of the entire OUS financial reporting entity in accordance with the OUS basis of accounting.

B. INSTITUTIONS

- To apply this policy to ensure that all financial activity considered part of OUS’s financial reporting entity is correctly recorded in the Banner FIS accounting records and/or in schedules required by the year-end closing of the books instructions.
.210 CRITERIA

OUS is both a university system and governmental entity, and therefore follows the accounting standards of the Governmental Accounting Standards Board (GASB), and accounting guidance of the National Association of College and University Business Officers (NACUBO). Non-governmental entities follow the accounting standards of the Financial Accounting Standards Board (FASB). GASB allows governmental entities the option of applying all new FASB statements issued after November 30, 1989, so long as they do not conflict with GASB. OUS has chosen to not apply new FASB statements.

Sections of the GASB codification applicable to defining the OUS financial entity and basis of accounting comprise the following:

Section 2100: Defining the Financial Reporting Entity, specifically:

GASB Statement No. 14:
The Financial Reporting Entity, and

GASB Statement No. 39:
Determining Whether Certain Organizations are Component Units — an amendment of GASB Statement No. 14

Section 1600: Basis of Accounting and Section N50: Non-exchange Transactions.

.310 FINANCIAL REPORTING ENTITY

A. PRIMARY GOVERNMENT AND COMPONENT UNITS

In accordance with GASB Statement No. 14 terminology, the OUS financial reporting entity comprises the primary government and component units. The primary government is comparable to the legal entity of OUS. All accounting transactions of OUS must be recorded in the Banner FIS accounting records; therefore, the OUS primary government comprises the combined Banner FIS accounting records of the seven state universities and the Chancellor’s Office.

- Eastern Oregon University (EOU)
- Oregon Institute of Technology (OIT)
- Oregon State University (OSU)
- Portland State University (PSU)
- Southern Oregon University (SOU)
- University of Oregon (UO)
- Western Oregon University (WOU)
- Chancellor’s Office (CO)

Component units are entities related to but legally separate from OUS, for which OUS is either financially accountable or for which exclusion of their financial statements would cause the OUS financial statements to be considered misleading or incomplete. Based on criteria within GASB Statement No. 39, the following organizations are recognized as component units of the OUS financial reporting entity:
Eastern Oregon University Foundation
Oregon Tech Foundation
Oregon State University Foundation
Portland State University Foundation
Southern Oregon University Foundation
University of Oregon Foundation
Western Oregon University Development Foundation
Agricultural Research Foundation

The OUS annual financial report includes the financial statements of OUS (the primary government) and a separate series of financial statements for the component units. Because the component units are separate legal entities, their financial statements are separately presented and not blended into the OUS financial statements.

B. OTHER ORGANIZATIONS

The following other types of organizations are NOT considered part of the OUS financial reporting entity. These other types of organizations may have some financial activity related to OUS (which would be reflected in the OUS accounting records and financial statements) but their financial statements are not included in the OUS financial reporting entity or the OUS annual financial report:

Joint Ventures

An organization governed by representatives of multiple organizations including OUS, for which OUS has a financial interest or financial responsibility. The OUS financial statements would include the portion of the joint venture’s assets, liabilities, revenue, and expenses attributable to OUS. To our knowledge, OUS, as a governmental agency, does not have the authority to and does not participate in joint ventures.

Jointly Governed Organizations

An organization governed by representatives of multiple organizations including OUS, for which OUS has no financial interest or responsibility.

Related Organizations

An organization to which OUS may appoint a voting majority of the organization’s governing board, for which OUS has no financial interest or responsibility.

Undivided Interests

An ownership arrangement where two or more parties (including OUS) own property in which title is held individually to the extent of each party’s interest. No organization has been created by the parties. The OUS financial statements would include OUS’s share of the assets, liabilities, revenue, and expense associated with the jointly held property.

Joint Building or Finance Activities
Similar to an undivided interest except that a formal organization has been created. An example would be a joint building authority whose sole purpose is to construct or acquire capital assets for the participants and subsequently lease the facilities to the participants. The OUS financial statements would report OUS’s respective share of the assets, liabilities, and operations of the joint building and finance authority.

**Pools**

A multi-jurisdictional arrangement with characteristics of a joint venture, but with additional features that distinguish it for financial reporting purposes. Investment pools have “open membership” – participants are free to join, resign, and increase/decrease their participation in the pool without knowledge or consent of other participants. OUS financial statements would include OUS’s share in the pool.

**Cost-Sharing Arrangements**

Cost-sharing projects or joint purchasing agreements, where a group of participants agree to purchase a commodity or service over a specified period of time and in specified amounts. These are not reported in the financial statements because the participants do not retain an ongoing financial interest or responsibility in the projects.

**.410 BASIS OF ACCOUNTING**

OUS is considered a special purpose governmental entity engaged only in business-type activities Accordingly, OUS follows the economic resources measurement focus and accrual basis of accounting. The accrual basis recognizes revenue when earned and expenses when incurred, regardless of when the funds are actually received or disbursed. The timing differences between the recognition of revenue and expense versus the receipt and disbursement of funds results in the following asset and liability accounts:

- **Accounts receivable**: Revenue earned for which funds are still to be received.
- **Accounts payable**: Expenses incurred for which funds are still to be disbursed.
- **Prepaid expense**: Funds disbursed for expenses not yet incurred.
- **Deferred revenue**: Funds received for revenue not yet earned.

The determination of revenue earned and expenses incurred may be inexact and may require estimates. Estimates of revenue and expense accruals must be supported by adequate documentation showing the methodologies and calculation of the estimates.

At a minimum, all year-end balances in the accounting records must be on the accrual basis. Fiscal year-end accrual of revenue earned but not received, and expenditures incurred but not yet paid, must be supported by auditable records.

To the extent feasible, OUS encourages and supports (but does not require) full accrual-based month-end accounting. Full-accrual monthly accounting records are not always feasible. For
example, tuition and fees are generally recorded as revenue at the beginning of term even though the revenue is technically earned over the course of the term. Subscriptions expense may be recorded in month one even though the subscription is not fully used up until a later month. Therefore, a requirement for full-accrual monthly accounting would force additional estimates and accounting entries, which could further complicate the accounting records and further increase the risk of error. Therefore, to the extent feasible, OUS encourages and supports (but does not require) full-accrual based month-end accounting.

A. NONEXCHANGE TRANSACTIONS

Non-exchange transactions, such as gifts are transactions where one party gives or receives value without directly receiving (or giving) equal value in exchange. Gifts are recognized as revenue when received or when pledged with a supporting pledge agreement that shows that all eligibility requirements have been fulfilled.

The OUS primary government and its component units are separate legal entities and have separate financial statements. Revenue of a component unit is not automatically recognized as revenue of OUS until a transaction occurs between the component unit and OUS.

The university foundation provides donations, gifts, and other revenues to the university, but is a separate legal entity and issues its own audited financial statements. For accounting and financial reporting purposes, OUS recognizes revenue from the university foundation similar to recognizing revenue from other donors and in accordance with the provisions of GASB Statement No. 33 – “Accounting and Financial Reporting for Non-exchange Transactions.”

Revenue is recognized by the university under any one of the following conditions:

1. Funds are received from the university foundation.

2. The university has made expenditures that per formal agreement are to be reimbursed by the university foundation.

3. The university has a written pledge document from the university foundation, and the university has met the conditions of the pledge document.

Although the university foundation raises funds for the benefit of the university, the funds at the foundation are generally not considered revenue to the university until one of the above conditions occur.

At end of fiscal year, gift revenue recognized but not received in cash results in an accounts receivable from the university foundation. GASB Statement No. 33, paragraph 25, requires that non-exchange transactions such as promises to give be verifiable, measurable, and probable of collection. Absent a verifiable contractual agreement, the accrual of a receivable may be made if all of the following conditions are met:
1. The university had incurred expenses in the fiscal year that met the restrictions that donors to the university foundation placed on their donations.

2. The amount to be accrued was on hand (in the form of cash, cash equivalents, and/or short-term investments) in the appropriate fund at the university foundation at the close of the fiscal year.

3. The university had requested reimbursement of said expenses in a timely fashion (before fiscal year-end close of period 14).

4. The monies requested are actually received by the university in a timely fashion.

The accrual of a receivable and recognition of revenues, in the absence of a verifiable contractual agreement, is justifiable in this instance (above conditions have been met) because the only event necessary for the revenue to have been recognized by the university without an accrual was the making of a transfer by year end. Two conditions help support the validity of the accounts receivable accrual:

1. The university foundation reports a corresponding payable to the university in its annual audited financial statements, and/or

2. The university foundation has forwarded the funds to the university at the beginning of the following fiscal year. We presume that the funds should be forwarded by the close of period 02 (August).

If neither of the above has occurred, other information and support is needed to support the validity of the accounts receivable accrual. This would require a confirmation request from our external auditors to the university foundation to confirm both the amount of cash donations on hand in the applicable foundation fund as of fiscal year end, as well as the amount the university foundation owes from that fund to the university at fiscal year end. The information received will serve as sufficient verification and will be used as the basis for the receivable accrual.

Refer to closing of the books instructions for additional information for documentation support required for year-end accruals of Gifts Receivable.

**B. ADDITIONAL GUIDANCE**

The following provides additional guidance to the recognition of different types of revenue and expenses in the OUS accounting records:

1. Revenue may be recognized when initially billed so long as the entire revenue is earned before the close of the fiscal year. Billings comprising both revenue of the current fiscal year and revenue of the following fiscal year would be divided into revenue and deferred revenue.

2. To the extent feasible, OSU encourages and supports (but does not require) full accrual-based month-end accounting. Expenditures may be expensed at the
beginning of the year so long as the expense will be fully incurred before the end of the fiscal year. For year end, expenditures for expenses that cross into the subsequent fiscal year should be divided into expense and prepaid expense.

3. Payroll expense is considered incurred as of the time the payroll services are performed, regardless of the benefit the work performed will have on operations in the subsequent fiscal year. For example, payroll amounts for services performed at the beginning of summer session in the last two weeks of June would apply to that same fiscal year and not to the subsequent fiscal year. Payroll amounts for services performed during July would be recognized as expense in the subsequent fiscal year.

4. Hourly payroll for the period June 16 through June 30, but not paid until the July month-end payroll distribution is recorded as a July expense in the Banner FIS accounting records but is a June expense for financial reporting purposes. The Controller's Division makes an adjustment to the financial statements.

5. Depreciation expense for fixed assets is allocated/amortized over the estimated service life of the asset. Due to materiality, practicality, and ease of the accounting records, fixed assets expenditures less than a capitalization threshold are expensed at the time of purchase and not allocated to depreciation expense. The capitalization threshold amount varies depending on the type of fixed asset. Refer to Fiscal Policy 55.100 – Fixed Assets Accounting Policies for the capitalization thresholds and additional information.

6. Exchange-like transactions (funds in support -- of but not in direct exchange -- for services e.g., state general fund appropriations) are recognized as revenue when received or when formally pledged to cover specific expenses.

**.690 CONTACT INFORMATION**

Direct questions about this policy to the following offices:

**Subject**

**Contact**

General questions from institutional personnel
Institution Office of Business Affairs

General questions from institutional central administration and Chancellor's Office personnel
Chancellor's Office Controller's Division

**.695 HISTORY**