University System of Maryland Accounting Practice

Preparation of interim financial statements

General

This accounting practice document is a current guide for preparing internal-use, interim financial statements. As other projects and efforts evolve that impact financial reporting capabilities throughout the University System of Maryland, this guidance will necessarily be revised to reflect changes and developments that may mitigate or minimize the amount of effort involved relative to a certain desired level of interim financial statement accuracy or reasonableness.

Various reporting objectives dictate that the University System of Maryland prepare interim financial statements to provide information useful in assessing financial condition, trends, and preliminary operating results. Principally, these reporting objectives satisfy the needs of bond rating agencies, the Board of Regents, and internal University System management and financial staff.

The preparation of interim financial statements should be accomplished with an objective of striking an appropriate balance between the effort associated with the preparation of the interim financial statements and the resulting level of overall accuracy of the System-wide information. This accounting practice document attempts to identify minimum preparation standards for interim, unaudited System financial statements.

In general, institutions should migrate towards use of internal accounting systems in ways that minimize the amount of effort required to prepare financial statements that conform with generally accepted accounting principles. This includes:

- recording transactions so that both budgetary reporting and financial reporting objectives are satisfied on a transaction by transaction basis, or on a periodic basis through summary entries,

- recording the effect of Plant Fund transactions processed by the System Office on behalf of the institution such as debt service payments on System-wide debt, and capital asset disbursements from the proceeds of System-wide debt, or disbursements from the proceeds of the State's general obligation debt program (Maryland Capital Construction Bonds Loan),

- recording the impact of previous periods adjustments made in preparation of audited financial statements, and

- recording the effect of changes in the institutions' interest in the Common Trust Fund.

Interim financial statements will include only a Balance Sheet and Statement of Activities. No Statement of Cash Flows will be prepared, nor will information be collected to prepare note disclosures. Further, the financial statements will include only the financial statements of the University System of Maryland's legal entity, excluding component unit financial statements and the associated disclosures.

Individual financial statement items – Balance Sheet

Cash and cash equivalents

Cash with state treasurer – this amount should be the balanced reconciled to the State's RSTARS accounting system as of the balance sheet date.

Cash held by the System Office / debt trustees – this amount should be the same as that reported as of the last audited financial statement date, unadjusted

Cash associated with endowment funds - this amount should be the same as that reported as of the last audited financial statement date, unadjusted

Investments

Common Trust Fund and institutional Endowments– the portion of investments associated with the Common Trust Fund should be the total amount of market value of the institution's interest in the Common Trust Fund, less the amount of cash reported as of the last audited financial statement date. In the instance where Endowment Fund activity is not routinely recorded in the institution's accounting system, the System Office will provide a summary entry reflecting the change in Endowment Fund activity for the period since the last audited financial statement date.

Other investments – should be adjusted to market value as of the Balance Sheet date if practical and cost-effective.

Accounts receivable

Student accounts receivable – the amount reported should be reconciled to underlying detail of student receivables

Contract and grant receivables – should reflect the accounts receivable balance recorded in the institution's accounting system as of the Balance Sheet date. If the amount of unexpended awards is reflected as a component of Accounts Receivable (and net assets) as a result of the use of a standard sponsored program accounting methodology, this amount should be adjusted for in preparing the interim financial statements. It is not necessary to adjust recorded information in the accounting system for the effect of distinguishing exchange and non-exchange transactions.

Other receivables – need only reflect amounts recorded in the institution's accounting system as of the Balance Sheet date.

Allowance for doubtful accounts receivable – this amount should be the same as that reported as of the last audited financial statement date, unadjusted.

Deferred charges and prepaid expenses - this amount should be the same as that reported as of the last audited financial statement date, unadjusted

Notes receivable

Student notes receivable – should reflect the principal balance owed the institution at the interim Balance Sheet date, reconciled to the detailed listing of amounts owed provided by the loan servicing agent.

Other notes receivable – should reflect the principal balance owed the institution at the interim Balance Sheet date, reconciled to the detailed listing of amounts owed to the institution.

Allowance for doubtful notes receivable – this amount should be the same as that reported as of the last audited financial statement date, unadjusted.

Capital assets

Additions and deletions - purchases and disposals of fixed assets, including equipment, should be reflected to the extent practical. For disbursements using proceeds of System-wide debt or State general obligation debt, institutions should consider the use of simplifying assumptions to determine the amounts to be capitalized or expensed (if this is not done in the accounting records on a routine basis in the accounting records).

Accumulated depreciation and depreciation expense – if depreciation is not routinely and automatically calculated by a fixed asset system maintained throughout the year, these amounts may be estimated based on the most recent audited financial statements.

Inter-institutional balances

Amounts should reflect balances as of last audited financial statement.

Accounts payable and other accrued liabilities

Trade or vendor accounts payable – should reflect balance reported as of last audited financial statements

Accrued interest payable – should reflect balance reported as of last audited financial statements.

Other accounts payable – should reflect the amounts recorded in the institution's accounting system other than actual trade or vendor accounts payable or accrued interest payable.

Accrued workers compensation - Amounts should reflect balances as of last audited financial statement.

Accrued annual leave - Amounts should reflect balances as of last audited financial statement.

Deferred revenue – should reflect an estimate of the amount to be deferred at the interim Balance Sheet date, based on the best readily available information. There is no requirement to attempt to adjust for amounts billed or received associated with Sales and Services of Auxiliary Enterprises for future periods. Amounts recorded for spring session Tuition and fees should be reclassified to deferred revenue in its entirety (the estimated amount), while amounts recorded for mini-mester sessions or sessions that straddle the Balance Sheet date should be allocated based on the number of days in each period (the period prior to the interim balance sheet date and the number of days in the period subsequent to the interim balance sheet date).

Revenue bonds and notes payable – should reflect the balances as of last audited financial statements, increased for debt associated with disbursements from Revenue Bond proceeds or Equipment Loan Program balances, and reduced for the principal portion of debt service payments made. The difference between total debt service payments transferred to the System Office, and principal applied, is to be entirely recognized as interest expense. No amortization of premiums, discounts, or refunding gains or losses is to be reflected.

Obligations under capital lease agreements – should reflect the balances as of last audited financial statements, adjusted for principal portion of lease payments, with the balance of the lease payments made recorded as interest expense.

Net assets

Invested in capital assets, net – to be calculated as of the interim balance sheet date as the difference between the carrying value of capital assets, less debt outstanding.

Temporarily restricted net assets

Endowment funds – an estimate of the portion of the Common Trust Fund representing temporarily restricted amounts will be provided by the System Office

Contract and grant and other – balances should be taken from institution's accounting records.

Permanently restricted net assets

Endowment funds – an estimate of the portion of the Common Trust Fund representing temporarily restricted amounts will be provided by the System Office

Unrestricted net assets

Should be calculated as the residual net assets amount derived from deducting the other net assets balances from total net assets (which should be calculated as the difference between total assets and total liabilities).

Individual financial statement items – Statement of Activities

Tuition and fees - should reflect amounts recorded in the institution's accounting records, adjusted for an estimate of the amounts to be deferred as discussed in the Deferred Revenue section above.

Scholarship Allowances – no adjustment is to be made to reclassify Scholarship Allowances

Sales and Services of Auxiliary Enterprises – should reflect amounts recorded in the institution's accounting records. An allocation or estimate may be used to detail the various categories of Auxiliary Enterprises revenues.

Program expense categories – should reflect amounts recorded in the institution's accounting system, adjusted for depreciation expense and fixed assets capitalized but charged to program expense in the accounting records (if not adjusted for routinely).

Transfers to / from other USM institutions – with the exception of very large and exceptional transactions, this item should not be reported on interim financial statements

Methodology

The intention is to make preparation of interim financial statements as automated and free of manual adjustment as possible. Based on the above, the following would be the general methodology:

1. record adjustments reflected in prior years audited financial statements to adjust beginning net assets to that reported as the ending net assets in the most recent audited financial statements

2. record additions to capital assets funded through the operating budget

3. record additions to capital assets funded through proceeds of System-wide debt. The System Office will provide summary information on institution by institution disbursements, and institutions can decide whether to capitalize all, or estimate the portions which should be capitalized or expensed

4. record additions to capital assets funded through the use of proceeds of State of Maryland general obligation debt or pay-go funds

5. record known deletions of capital assets

6. record estimated or actual depreciation expense. Estimates of allocation to various program expense categories is encouraged.

7. record an estimate of the change in deferred revenue for tuition and fees.

8. record the changes in debt and capital leases outstanding by increasing debt for the value of project disbursements made from proceeds of System-wide debt, and reduced by the principal amount of debt service payments made. The System Office will provide the principal / interest breakdown of debt service payments made on an institution by institution basis

9. the preceding assumes that reconciliation processes for cash with the state treasurer, student accounts receivable, notes receivable, and clearing accounts are performed on a routine basis, and that all large and significant adjustments are being recorded in the institution’s accounting records. For those large and significant adjustments not recorded in the institution’s accounting records as of the time of preparation of the interim financial statements, the institution should consider the effort associated with the volume and extent of the adjustments required, against the increased accuracy which would result.

10. record the changes in institutional endowment funds using information provided by the System Office.