

**BALANCE SHEET/SNA ACCOUNTS**

**TABLE OF CONTENTS – CHAPTER 9**

Purpose.....	1
Balance Sheet Accounts.....	1
Assets .....	1
Cash.....	1
Accounts Receivable.....	2
Accounts Receivable Allowances.....	4
Loans and Notes Receivable.....	4
Loans and Notes Allowances.....	5
Inventories.....	6
Other Assets .....	6
Non-Current Assets.....	9
Capital Assets.....	9
Liabilities .....	10
Payables .....	10
Accrued Expenses.....	12
Accrued Compensated Absences.....	14
Other Liabilities .....	15
Other Liabilities and Debt.....	18
Fund Balance .....	19

## BALANCE SHEET/SNA ACCOUNTS

### I. PURPOSE OF CHAPTER 9

Chapter 9 of *The Guide* focuses on Balance Sheet Accounts, which are used to record transactions pertaining to assets, liabilities, and fund balance. This chapter describes selected balance sheet accounts and provides guidelines for using these accounts. For a complete listing of balance sheet accounts, visit the Controller's Office.

### II. BALANCE SHEET ACCOUNTS

The balance sheet/statement of net assets is the financial statement that reports the financial position of a particular entity, such as ASC, as of a certain point in time. The balance sheet/statement of net assets provides information about the entity's assets, liabilities, and fund balance. Within the Finance System, designated ranges of accounts have been assigned to these balance sheet classifications.

#### A. Assets

An asset is defined as tangible and intangible personal and real property such as cash, investments, inventory, accounts receivable, loans receivable, prepaid expenses, equipment, buildings, land, improvements to land other than buildings, etc. All asset accounts, except for allowance accounts, should be in **debit** status. Allowance accounts, should be in **credit** status.

#### 1. Cash

The cash accounts include:

- Cash
- Petty Cash
- Change Fund
- Checking Account
- Restricted Cash and Cash Equivalents

**Note regarding Loan Fund:** Since all cash balances in the Loan Funds are restricted to make loans to students, each month, to the extent that cash exceeds current liabilities, a transaction is recorded which changes the classification of some of the cash in Loan Fund from unrestricted to restricted. The same analysis is done for capital construction Plant Fund funded with debt.

## BALANCE SHEET/SNA ACCOUNTS

### a) **Petty Cash Account**

Petty cash is an amount of money issued to a department, in the charge of a custodian, to be used on a revolving basis for the payment of small, incidental expenses.

The account is debited for the amount of the fund when the petty cash fund is established, or when the amount of the fund is increased. This account is credited when the amount of the petty cash fund is reduced, or when the petty cash fund is terminated.

Purchases made using petty cash funds should be charged to an appropriate expense account.

For additional information concerning accounting for petty cash, refer to the *Guide* Chapter 10, *Cash Control, Petty Cash Fund*.

The normal status for the petty cash account is **debit**.

### b) **Change Fund Account**

This account records change funds held by departments. A change fund is an amount of money advanced to a department that accepts cash receipts from customers and, therefore, must have cash available to make change. Change funds should always consist of cash in the exact amount of the advance. An example of a change fund would be the currency and coins found in a department's cash register or cash drawer.

This account is debited for the amount of the fund when the change fund is established, or when the amount of the fund is increased. This account is credited when the amount of the change cash fund is reduced, or when the change fund is terminated.

For additional information about change funds, refer to the *Guide* Chapter 10, *Cash Control*.

The normal status for the change fund account is **debit**.

## 2. **Accounts Receivable**

Accounts within this series are used to record amounts owed to the college. The most common use for accounts receivable is to record the sale of goods or services that have a future payment date. Accounts receivable represent a legal and enforceable claim. A few examples of

## BALANCE SHEET/SNA ACCOUNTS

other accounts receivable at ASC include parking tickets, late payment fees, and NSF check charges.

Items of note concerning accounts receivable include the following:

1. Date of delivery, not date of contract, is the effective sale date.
2. Additional uses of accounts receivable include any other amounts owed to the college such as fines, insufficiently funded checks, etc.
3. The accounts receivable structure in the Finance System has been designed to meet the requirements of accounts receivable reporting to the State Controller.
4. Accounts receivable cannot be used for interdepartmental (IN) sales.
5. An allowance for uncollectibles or doubtful accounts must be determined for any account receivable. All accounts receivable must be administered in accordance with the provisions of the State of Colorado's *Accounts Receivable Collections Administrative Rule* that is on the Web at [http://www.colorado.gov/dpa/dfp/sco/acct\\_rec/ar\\_rule.pdf](http://www.colorado.gov/dpa/dfp/sco/acct_rec/ar_rule.pdf).

The status for accounts within the accounts receivable series is normally **debit**. The status for the allowance accounts within the accounts receivable series is normally **credit**.

Refer to *The Guide* Chapter 12, *Accounts Receivable and Allowances*, for complete instructions on working with accounts receivable.

- Particular accounts of note within the accounts receivable series are those associated with student receivables.

**a) Student Accounts Receivable (SAR):**

SAR receivables can be recorded only by the SAR sub-system in Banner. The direct entry of any SAR transaction into this account through the Finance System is not allowed.

SAR, the main student accounts receivable system, is used to record amounts owed by a student for a sale of services. The SAR is used primarily for billing the following charges:

- Tuition
- Fees
- Housing

## BALANCE SHEET/SNA ACCOUNTS

- Telecommunications
- Parking permits
- Library
- Board

Items of note concerning SAR accounts receivable include:

- An allowance for uncollectibles or doubtful accounts must be determined for any accounts receivable.
- All accounts receivable must be administered in accordance with the provisions of the State of Colorado's *Accounts Receivable Collections Administrative Rule* on the Web at [http://www.colorado.gov/dpa/dfp/sco/acct\\_rec/ar\\_rule.pdf](http://www.colorado.gov/dpa/dfp/sco/acct_rec/ar_rule.pdf).

The normal status for accounts within the accounts receivable SAR series is **debit**.

### 3. Accounts Receivable Allowances:

This series of accounts is used to record the estimation of accounts receivable that management believes will not be collected. It is imperative that departments have guidelines addressing accounts receivable allowances, as allowance recognition and calculation must be logical and consistent.

**Note:** The *recording* of an allowance *does not remove* the account receivable from the Finance System. The allowance is a valuation code. Refer to *The Guide* Chapter 12, *Accounts Receivable and Allowances* for more information about accounts receivable allowances.

The normal status for accounts within the accounts receivable allowance series is credit.

### 4. Loans and Notes Receivable

The loans and notes receivable accounts are not available for departmental use. If you believe you have a valid reason to use a loans and notes receivable account, contact your area accountant prior to executing the transaction.

These accounts are used to record loans receivable in the Loan Fund (Fund 4200) and notes receivable.

**Loans** are different from accounts receivable. A loan is *an advancement of money* to a student, and is supported by a promissory note that outlines the terms of the loan. An account receivable is generated by *selling goods and/or services on credit*.

## BALANCE SHEET/SNA ACCOUNTS

All Loan Funds are administered by the Student Business Services Office in conjunction with the Controller. At a minimum, a promissory note must be executed for each loan made. Federal and state regulations may stipulate additional requirements. Additionally, a loan subsystem must be maintained. This subsystem will track each loan by individual and show the following information: amount of the loan, date the loan was made, date of payment, the breakdown of each payment between principal and interest, and the outstanding balance of each loan. The outstanding loan balances by individual must be reconciled at least monthly to the control amounts in the Finance System, as adjusted by the principal payments recorded in loan payment clearing. Contact the Director of Student Business Services for more information about loans.

A **Note Receivable** is a “designation of receivables for which a written statement acknowledging the obligation has been received from the obligor”. This is in contrast to an Account Receivable in which “no written statement acknowledging the obligation has been received from the obligor”.

Notes receivable accounts are not generally used on campus. As previously stated, loan promissory notes are accounted for in the loans receivable accounts. In contrast, all accounts receivable, even those supported by a written statement from the obligor acknowledging the obligation, are accounted for the accounts receivable accounts. This is done in order to provide the accounts receivable categories required in reporting to the State Controller.

Loans and notes receivable can be either current or non-current. Current refers to those loans and notes receivable whose resources will be realized within the current year. Non-current refers to those loans and notes receivable whose resources will not be realized until a period beyond a year.

The normal status for accounts within the loans and notes receivables series is **debit**.

### 5. Loans and Notes Allowances

Entries into loans and notes allowance accounts are made only by the Student Business Services office and/or accounting staff, and are not available for departmental use.

These accounts are used to record the estimation of loans receivable and notes receivable that management feels will not be collected. Like the

## BALANCE SHEET/SNA ACCOUNTS

loans receivable and notes receivable accounts, the associated allowance accounts can be either current or non-current.

**Note:** Recording a transaction in an allowance account does not remove the receivable from the Finance System. The allowance is a valuation code.

The normal status for accounts within the loans and notes allowances series is **credit**.

### 6. Inventories:

Inventory consists of goods, in excess of \$100,000 per site, which are planned to be sold or consumed either within one year, or within an annual business cycle such as a fiscal year. Thus, amounts in inventory accounts represent the cost of unsold or unused goods that belong to the department.

The inventory accounts are used primarily in Auxiliary Fund Org. Units, but may also be used in General Fund Org. Units

Refer to *The Guide* Chapter 11, *Inventory*, for additional information and accounting instructions pertaining to this topic.

The normal status for inventory accounts is **debit**.

### 7. Other Assets:

Frequently used other assets accounts include:

- Prepaid Expenses
- Deferred Charges
- Travel Advances
- Expense Advances.

#### a) **Prepaid Expense:**

Discretion is required when using this account to insure that only true prepaid items are recorded. Prepaid expenses should be recorded only if the amount of the payment is material. Recording a prepaid expense is not necessary for small dollar amounts (under \$1,000) or for recurring payments such as subscriptions, dues, maintenance agreements, etc., where the amount expensed from one year to the next is essentially the same.

A prepaid expense is an expense that is paid before the benefits are realized. Examples include rent and insurance premiums. For instance, rent may be paid for six months in advance. The prepaid expense

## BALANCE SHEET/SNA ACCOUNTS

account is used for proper accrual accounting, by matching expenses to the period in which the goods/services are received. Prepaid expense can be either current or non-current. Using a current account indicates that the prepaid expense will benefit the current year. Using a non-current account indicates that the benefit derived from the prepaid expense will impact a period exceeding a year.

The prepaid expense entry should be done at the time the payment is made. Prepaid expenses should either be re-classified monthly to expense, or as needed according to when the benefits are received. This is particularly important at fiscal year end so as to prevent the recording of future year's expense in the current year.

The prepaid expense system consists of:

- The prepaid expense balance on the Balance Sheet.
- The Finance System Org. Unit where the expense is to be recorded.
- A schedule of the amount of the prepaid expense, and when to prepare the journal entry to charge prepaid expense to expense.

### Procedure for a Prepaid Expense

1. Pay the prepaid expense and record it in account number 1600 of the appropriate fund.
2. The Controller will convert the prepaid expense to a regular expense according to the established schedule. This is done using a JE which will credit the prepaid expense account and debit the appropriate expense account
3. The Controller will compare and reconcile the account to the respective expense account to verify that the prepaid expense related entries are being recorded in the correct accounts and in the correct amount.
4. If a prepaid expense item is cancelled, request a refund from the vendor. Deposit the refund into the prepaid expense account. **Note:** If a journal entry has already been done to record the prepaid expense as an expense, then the refund should be deposited directly to the actual expense account in order to reduce the expense.

The normal status for the prepaid expense accounts is **debit**.

## BALANCE SHEET/SNA ACCOUNTS

**b) *Deferred Charges:***

Use of the deferred charges account is limited to specific situations, and may not be used unless prior approval is received from the Controller.

The deferred charges account is used for payment of expenses associated with goods and services that have been received and used by the college, but for which recognition of the expense is deferred until a future period. When charges are deferred correctly, proper accrual accounting is demonstrated because expenses are matched to revenues.

The normal status of the deferred charges account is **debit**.

**c) *Travel Advance***

**d) *Expense Advance***

Departments should not make entries to either the travel advance or expense advance accounts. These advance accounts are used only by accounting staff because it is accounting staff that issues the advances.

The travel and expense advance accounts record temporary cash advances from the college to an employee. An advance is used for either approved travel, or for a purchase when normal college procurement services are not available or cannot be used. The balance listed in the respective account indicates the total amount of outstanding advances.

Accrual accounting requires the recording of the financial effects of transactions in the fiscal period in which they have their economic impact, rather than when the cash is received or disbursed. Thus, advances cannot be recorded as expenses *before* the travel is completed or *before* the purchase is made. However, the disbursement of cash and its replacement with a different asset, (either a travel advance or an expense advance), must be recorded in order to state fairly the financial condition of the college.

In addition to following proper accounting procedures, the college must control its resources by documenting each advance with approved and authorized request forms. Such forms must indicate the due date by which the employee must return the funds. The normal status for the travel advance and expense advance accounts is **debit**.

## BALANCE SHEET/SNA ACCOUNTS

### 8. Non-Current Assets:

A non-current asset is an economic resource (tangible and intangible personal and real property such as cash, investments, inventory, accounts receivable, loans receivable, prepaid expenses, equipment, etc.) representing expected future economic benefits to be obtained (cash, accounts receivable, inventory, etc.) or controlled by an entity that will not be converted into cash or used to provide goods or services within one year.

The normal status for the non-current asset accounts is **debit**.

### 9. Capital Assets:

The capital asset accounts are to be used only by the Controller or delegated accounting staff, and may not be used by departments.

According to the Higher Education Accounting Standards #5, *Capital Asset Reporting* which is available on the Web through <http://www.colorado.gov/dpa/dfp/sco/standard.htm>, a capital asset is defined as any physical resource that benefits a program for more than one year. The capital asset accounts are used in the Investment In Plant Fund to record the capitalization of capital expenditures such as land, improvements to land, building, leasehold improvements, equipment, collections, library books, and construction in progress. The capital asset account titled *Construction in Progress* is used in the Capital Construction Plant Fund during the course of the year, and then moved to Investment In Plant Fund at year end. Changes in capital asset result from entering transactions for fixed assets acquisitions, additions, adjustments, and disposal during the year. The College follows the policy of capitalizing only those plant assets with an initial cost or fair value equal to or greater than \$5,000.

The normal status for a capital asset accounts is **debit**.

#### a) Depreciation:

Depreciation is the systematic allocation of the cost of an asset to expense over the accounting periods making up the asset's estimated useful life. Depreciation is usually measured in years, but sometimes it is based upon the volume of usage.

Additional information about depreciation can be found in Higher Education Accounting Standard #5—issued by the State Controller—at <http://www.colorado.gov/dpa/dfp/sco/standard.htm>.

The normal status for a depreciation accounts is **credit**.

**BALANCE SHEET/SNA ACCOUNTS**

**B. Liabilities**

A liability is an amount owed to an external entity.

Per the Uniform Commercial Code, a liability is created upon receipt of goods from a common carrier, unless notice has been given to the vendor—within a reasonable time—that the goods are unacceptable. Upon acceptance of the goods and/or services, a liability and expense are created. **Note:** This accounting entry occurs upon acceptance of the goods and/or services, *regardless* of when the vendor is paid.

A liability of deferred or unearned revenue is created upon the receipt of payment from a customer *in advance* of the college having earned the revenue through the provisions of goods and/or services.

Liability accounts are normally in a **credit** status.

**1. Payables:**

Most accounts within the payables series are used to record amounts owed to vendors for goods or services received. The normal status for accounts within the payables series is a **credit**.

**a) A/P System Generated:**

Direct entries to this account are not allowed. Transactions are recorded in this account as a result of the following:

Initially, an encumbrance is created in the expense account when the purchase order is issued. An encumbrance is also created in an expense account when an item is ordered using a departmental purchase order. Purchases made using a procurement card or payment voucher are not encumbered..

When the goods and/or services are received, invoices are then processed for payment. At this time, the appropriate expense account will be debited, the balance sheet liability account will be credited, and the encumbrance will be deleted. Upon actual payment of the amount due, the balance sheet liability account will be debited, and the balance sheet cash account will be credited.

The normal status for the A/P system generated account, account is **credit**.

## BALANCE SHEET/SNA ACCOUNTS

**b) A/P Manual:**

Except at fiscal year end, departments do not use the A/P manual account. Use of this account is typically limited to accounting staff.

Accounts within this range are used to record accrued amounts owed to any external entity that are not processed through the A/P system. This account is also used extensively at fiscal year end to accrue items not automatically accrued through the A/P system. A journal entry, with a description that identifies the entity and explains the amount accrued, is booked on the June preliminary statements for all accounts payable items accrued for the year-end. Examples include travel, equipment, supplies, etc. The journal entry credits the balance sheet account and debits the appropriate expense account. This entry is reversed in July.

The normal status for accounts within the range A/P manual is **credit**.

**c) A/P SAR Clearing:**

The SAR clearing accounts are not for departmental use.

These accounts are used by the SAR for clearing various types of transactions.

Depending upon the transaction involved, the status for the SAR clearing accounts may be either **debit** or **credit**.

**d) Sales Tax Payable:**

Sales taxes are collected from a buyer by the seller when the buyer purchases certain goods and services. In turn, the seller remits the amounts collected to the taxing authority that levied the tax. This is usually a state, county, municipality, or special taxation district.

Sales taxes are collected and remitted as a matter of local and state law. Cash register tapes, sales journals, or other original record of the sales transactions, should be available to the taxing authority, so that it can determine that the correct amount of taxes was collected.

While the sales taxes are still in possession of the seller, they are reported on the balance sheet as a liability, since they are an amount owed to a taxing authority. When taxable sales occur, use the appropriate account to record that portion of the proceeds which represents sales tax. This holds true whether the sale is for cash or for credit. Then, by looking at the balance in the account statement readers can determine the amount of sales tax collected—but not yet paid—to the taxing authority as of the statement date.

**BALANCE SHEET/SNA ACCOUNTS**

The normal status for sales tax payable is **credit**.

**2. Accrued Expenses:**

Accounts in this series are used to record a variety of liabilities. Examples include interest, salaries, wages, payroll withholding, and construction contract retainage. There is also an account within this series called other accrued expenses. This account records liabilities that cannot reasonably be classified in any of the other liability accounts.

The normal status of accrued expense accounts is **credit**.

**a) Accrued Interest Payable:**

Most departments will not use the accrued interest payable account.

This account is used to accrue interest expense payable, which is usually related to debt and other liabilities such as bonds payable, notes payable, mortgages payable, etc. Interest payable and interest expense should be accrued as of the date it is payable. Complete a journal entry to accrue the interest payable and the interest expense. Process a payment voucher to make the interest payment. This accrual process is done primarily at fiscal year end for financial statement and audit purposes.

The normal status for the accrued interest payable account is **credit**.

**b) Accrued Salaries and Wages:**

This account typically should not be used by departments, because it is system maintained.

If, at fiscal year end, the accrual process has missed any transaction(s), departments should contact the Controller to determine whether or not it is suitable to accrue salaries or wages.

If salaries and wages are accrued, benefits are also normally accrued.

It is used primarily in three areas:

1. Accrual of salaries payable to faculty holding ten month appointments, but who are being paid over 12 months (10 pay 12)
2. Year-end accrual of the salary payroll
3. Year-end accrual of the hourly payroll.

▪ **Faculty 10 pay 12**

## BALANCE SHEET/SNA ACCOUNTS

The payroll system is programmed to accrue the salaries for the 10 pay 12 faculty. This process accrues the amounts for August through May. The payroll system then pays out these amounts from June through July. In other words, ten-twelves of the faculty member's pay is withheld each month during the period of August through May and is then paid out during the months of June and July.

- **Year end accrual of salary payroll**

At year-end, some June salary payroll expense and payroll expense transfers do not get processed in time for the June payroll cutoff. Since the employee's work was done in June, the salary expense must be reflected as a June expense. The amount of June payroll expenses and payroll expense transfers that were not processed in the June payroll are accrued.

- **Year end accrual of hourly payroll**

At year-end, special accrual programs are run to accrue the hourly payroll that represents the work completed through June 30, but not to be paid until after June 30. The hourly expense is booked in the appropriate departmental accounting string as designated in the Human Resources System. The accrued salaries and wage liabilities are booked in select balance sheet accounts as needed for financial statement reporting. These accrual transactions are automatically reversed in July.

The normal status for accrued salaries and wages is **credit**.

**c) Payroll Withholding:**

Since no action is needed on the part of the department with respect to payroll withholding the payroll withholding account should not be used by departments.

Accounts within this range are used to accrue payroll withholdings from employee paychecks, and also to accrue any campus matching amounts. These include, but are not limited to, withholding and matching for

- Income tax
- Retirement programs
- Insurance programs
- Tax sheltered annuity programs.

Within the range of payroll withholding accounts are found both short term and long-term accounts. Using a short-term account indicates that

## BALANCE SHEET/SNA ACCOUNTS

the liability will become due in a period of less than one year. Using a long-term account indicates that the liability will become due in a period exceeding one year.

The normal status for accounts within the payroll withholding series is **credit**.

**d) Construction Contract Retainage: (Current and Non-Current)**

Since construction activity is administered primarily by Facilities Management with assistance from the Controller, the construction contract retainage account is not used by departments.

This account is used to record the retainage liability on construction contracts that will become due within a year (current), and to record the retainage liability on construction contracts that will become due beyond a year. It is common practice in the construction industry to withhold an agreed upon percentage of each payment to the contractor pending satisfactory completion of the construction project. Thus, for each payment made to the contractor,

1. The full invoice is charged as construction costs,
2. The retainage amount is credited to the account, and
3. The net difference is paid to the contractor.

Upon satisfactory completion of the construction project, a payment voucher is processed to pay this liability to the contractor.

The normal status for the construction contract retainage accounts is **credit**.

### **3. Accrued Compensated Absences: (Current and Non-Current)**

The accrued compensated absence accounts should not be used by departments. They are used only by the Controller for year-end accrual adjustments and financial reporting.

Accounts within this series are used to record the college's liability arising out of vested annual and sick leave accruals. Using a current account indicates that the liability will become due in a period of less than one year. Using a long-term account indicates that the liability will become due in a period exceeding one year.

The normal status for the accrued compensated absence accounts, both current and non-current, is **credit**.

## BALANCE SHEET/SNA ACCOUNTS

### 4. Other Liabilities:

The accounts within this series record liabilities that cannot reasonably be classified in any of the other liability accounts. Examples include:

- Unearned Revenue
- Undistributed Receipts
- Deposits Held in Custody

The normal status for the other liabilities accounts is **credit**.

#### a) **Unearned Revenue: (Current and Non-Current)**

Discretion is required in the use of the unearned revenue account, as only true unearned revenue can legitimately be recorded. Current operating revenue should not be recorded in this account.

Accounts in this series are used to record funds received prior to a good or service being provided when it is anticipated the good or service will be provided within a year (current) . A non-current account is used to record funds received prior to a good or service being provided when it is anticipated the good or service will be provided beyond the period of one year. The correct use of these accounts is essential for proper accrual accounting, by recognizing revenue in the period in which the goods or services were provided, rather than by when the cash was actually received.

A cash receipt is the source document for recording unearned revenue. Credit the balance sheet account for current unearned revenue or an unearned revenue non-current when depositing the cash.

#### **Procedure for Unearned Revenue**

1. Receive the unearned revenue and record it, using a cash receipt, in the appropriate departmental accounting string using the appropriate current or non-current account.
2. When the goods or services have been provided, prepare a journal entry to convert the unearned revenue to normal revenue in the appropriate revenue account.  
The transaction on the journal entry is
  - Debit: appropriate balance sheet account
  - Credit: appropriate revenue account
3. Compare and reconcile the revenue account to the unearned revenue account to verify that the entries are going into the proper accounts for the correct amount and at the correct time.

## BALANCE SHEET/SNA ACCOUNTS

4. Supply a list explaining unearned revenue balances by customer as of June 30th to Controller as directed in the fiscal year end closing instructions.

The normal status of accounts for current and non-current unearned revenue is **credit**.

### **b) Undistributed Receipts**

*State of Colorado Fiscal Rules* (Chapter 3, section 4.40) require that receipts be deposited in a timely fashion. Thus, for departments receiving funds on a daily basis, this would mean making daily deposits. Departments that receive only nominal amounts on a sporadic basis are permitted to hold their receipts until they total \$200.00 before making the deposit. **In any event, all receipts on hand at the last working day of each month must be deposited that day.**

Occasionally funds are received for which the college does not know the purpose of the payment. Thus, it is not possible to determine the correct Banner account combination for depositing the funds. The undistributed receipts account is used to facilitate the timely deposit of these funds, as required by *State Fiscal Rules*, while the purpose of the payment and the correct account is being determined.

### **Procedure for Undistributed Receipts**

A cash receipt is the source for recording undistributed receipts. Funds should be credited to the proper undistributed cash receipt account in a departmental ORG UNIT. The department must then determine the purpose of the payment. This may involve talking to other departments who might reasonably have been the intended payee. In addition, it may require contacting the payer for more information on the purpose of the payment.

The department should maintain a record of each deposit and reconcile these to the undistributed cash receipt account. When the purpose of the payment has been determined, a journal entry should be processed to move the funds from the undistributed receipts account to the appropriate revenue account within the ORG UNIT.

The transaction for this journal entry is:

- Debit: undistributed cash receipt balance sheet account
- Credit: correct account

The normal status for the undistributed cash receipt account is **credit**.

## BALANCE SHEET/SNA ACCOUNTS

### **c) Deposits Held in Custody**

Discretion is required in the use of this account, as only true deposits held-in-custody can be legitimately recorded. Departments must maintain detailed records, by payer, of the amounts due. Deposits to be recognized as college revenue must be done so on a timely basis, when the payer fails to meet the conditions required for the return of the deposit.

This account records receipts that are not normally college revenue. This is cash held by the college that is to be returned to the payer upon their satisfactory performance. In other words, when certain future conditions are met, funds are returned to the payer. If the conditions are not met, the cash is retained by the college as revenue.

An example would be a security deposit held for the issuance of college keys. When the keys are returned, the deposit is returned to the payer. If the keys are not returned, the deposit held-in-custody is moved to a revenue account.

Deposits abandoned by the depositor become escheat property to the college.

### **Procedure for Deposits Held in Custody**

A cash receipt is the source for recording deposits held in custody. Funds should be credited to the proper account in the appropriate ORG UNIT.

The department should maintain a record of each deposit and reconcile these to the deposits held in custody account. When certain conditions are met, funds are returned to the payer by processing a payment voucher.

In some cases, the funds become the property of the department and should then be recorded as revenue in a departmental ORG UNIT. For example, a key for which a deposit has been paid is lost instead of being returned.

The journal entry transaction for this situation is:

- Debit: deposits held in custody balance sheet account
- Credit: appropriate revenue account.
  - An auxiliary enterprise ORG UNIT should use an auxiliary enterprise revenue account
  - All other departments will use an account tied to miscellaneous income.

## BALANCE SHEET/SNA ACCOUNTS

The normal status for deposits held in custody is **credit**.

### **Other Liabilities and Debt**

These accounts are not for the general use of departments. Most debt is related to the acquisition of capital assets, and is recorded in the Plant Fund groups.

Accounts in this series are used to record the college's debt. Examples include bonds payable, lease purchase payable, certificates of participation payable, and notes/mortgages payable. Furthermore, accounts within this series can record either current or non-current liabilities. Using a current account indicates that the debt will become due in a period of less than one year. Using a non-current account indicates that the debt will become due in a period exceeding one year.

The normal status for debt accounts is **credit**.

### **Procedures Pertaining To Debt**

The Vice President of Finance must be consulted prior to the incurrence of any debt. The Controller *must also be consulted* whenever a department is considering incurring debt. This is to ensure that the college is not exceeding its debt capacity, that all approvals are properly obtained, and that all necessary information is gathered in order to properly record the debt.

Specific procedures depend upon the type of debt being incurred, and the process for incurring the debt. Specific procedures for recording the debt will be determined by the Controller for each debt issuance.

Debt related to capital construction activity is initially recorded in the construction in progress within the Plant Fund. Upon completion of the construction project, the debt and the related asset are transferred to the Investment In Plant Fund. Once the debt has been incurred and recorded, then debt payments must be made.

All debt has a payment schedule. Payment of debt related to Plant Fund fixed assets must be paid through the Retirement Of Indebtedness (ROI) Fund. This process requires a mandatory transfer of funds to the designated ROI, and a payment voucher made payable to the appropriate entity.

The Controller's office is responsible for making most major debt payments.

## BALANCE SHEET/SNA ACCOUNTS

With respect to debt, at year-end the Controller will do the following:

- Adjust the debt payable for total debt payments for the year,
- Confirm the outstanding debt balance,
- Determine the amount of debt to be paid over the next 12 months,
- Adjust the current and non-current portions of the debt payable.

### **C. Fund Balance/Net Assets**

Fund balance accounts are not to be used by departments.

Fund balance accounts are not to be used on any input document under any circumstances.

Fund balance represents the difference between assets and liabilities as represented in the following equation:  $\text{assets} - \text{liabilities} = \text{fund balance}$ . In other words, fund balance is the amount of unexpended resources within a ORG UNIT. For example, if a department were to convert all of its assets to cash at book value, and then pay of all its liabilities and debt, the amount of cash left over would be the fund balance.

All transactions recorded in revenue, expense, and transfer accounts affect fund balance. Credit transactions will increase fund balance, and debit transactions will decrease fund balance. Revenue (with the exception of refunds) and transfer-in are credit transactions. Therefore, these will increase fund balance. Expense and transfer-out are debit transactions. Thus, these will decrease fund balance. Offsetting entries in balance sheet accounts (assets and liabilities) have no effect on the fund balance.

The normal status for accounts within the fund balance series is **credit**.