OP 62.16: Annual Financial Report and Year-End Processes

DATE: November 3, 2014

PURPOSE: The purpose of this Operating Policy/Procedure (OP) is to (a) identify financial accounting and reporting requirements as prescribed by state law; and (b) establish the deadlines, policies, and requirements for completing the annual financial close process, the Annual Financial Report (AFR) for Texas Tech University (TTU) and Texas Tech University System Administration (TTUSA), and the Combined Annual Financial Report (CAFR).

REVIEW: This OP will be reviewed in July of even-numbered years by the managing director of Financial Services and Tax (FST) and the managing director of the Office of Research Accounting (ORA) with substantive revisions forwarded to the assistant vice president for financial & managerial reporting services and the chief financial officer and vice president for administration and finance (CFO) by August 1.

POLICY/PROCEDURE

1. Definitions

   a. Fiscal Year End (FYE) - Fiscal year end is August 31 of each year.

   b. Generally Accepted Accounting Principles (GAAP) - Accounting principles as defined by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

   c. Uniform Statewide Accounting System (USAS) - The Texas Comptroller of Public Accounts (CPA) has prescribed an accounting, responsibility reporting, and appropriations control system for state institutions and agencies. TTU and TTUSA are each considered a “reporting agency” for USAS purposes; USAS is not the internal accounting system for TTU/TTUSA. TTU and TTUSA must comply with the requirements of the Texas Comptroller Manual of Accounts and such other instructions regarding USAS as may be issued by the CPA for all funds deposited with and/or disbursed from the state treasury.

2. General Policy

   a. Authority

      The Texas Comptroller of Public Accounts (CPA), as authorized by the Texas Education Code, has prescribed that the financial accounting and reporting requirements of state institutions and agencies shall be maintained in accordance with generally accepted accounting principles (GAAP) and shall incorporate, as much as possible, the provisions of the Financial Accounting and Reporting Manual for Higher Education (FARM) published by the National Association of College and University Business Officers (NACUBO). With the exception of modifications...
necessitated by the Appropriations Act and/or other state statutes or federal laws, the financial accounts of TTU and TTUSA must be maintained and presented in formal financial reports in accordance with GAAP and as recommended in the *Financial Accounting and Reporting Manual for Higher Education* (FARM).

b. Financial Accounting

The financial accounting model of TTU/TTUSA is based on the principles and practices of fund accounting, a methodology by which resources are classified in accounting records and internal reports according to purposes and limitations imposed by sources outside of TTU/TTUSA, or as directed by the Board of Regents. Please refer to AFISM’s website for more information on fund group, category, and class structure of our internal accounting system: http://www.depts.ttu.edu/afism/referencev2/crosswalksCodecharts.asp

c. Annual Financial Report (AFR)

Section 2101.011 of the Texas Government Code specifies that TTU will publish annually a complete financial report in accordance with standards established by the CPA. Copies of the report must be furnished to the governor, CPA, state auditor, Texas Higher Education Coordinating Board, Legislative Budget Board (LBB), Legislative Reference Library, and the Texas State Publications Clearinghouse by November 20 of each year. The AFR is prepared in accordance with GAAP and as recommended in the FARM.

3. Responsibilities

a. Chief Financial Officer (CFO)

The respective CFO for TTU and TTUSA is responsible for the completeness and accuracy of the financial statements/AFR and for furnishing the report in accordance with the established due dates. The respective CFO certifies that the financial statements/AFR for TTU/TTUSA are presented fairly and materially accurate and any significant internal control deficiencies, material weaknesses, and all known frauds have been reported and addressed.

b. Assistant Vice President for Financial & Managerial Reporting Services (AVPFMRS)

The AVPFMRS is responsible for (1) reviewing the financial statements/AFR for TTU/TTUSA to ensure compliance with accounting standards and reporting requirements; (2) establishing and documenting a system of internal controls; and (3) interpreting and revising this OP as necessary to meet the changing needs of TTU and statutory and regulatory requirements. The AVPFMRS is also responsible for preparing the CAFR, including determining the content and format of presentation, reviewing and approving the schedules and reports, preparing the footnotes and statements, and publishing and distributing the CAFR.

c. Managing Director of Financial Services and Tax

The managing director of Financial Services and Tax is responsible for determining the content and format of presentation, establishing the production timetable, reviewing and approving the schedules and reports (including conducting variance/fluctuation analysis), and publishing and distributing the financial statements/AFR for TTU.
d. Financial Services and Tax (FST), Accounts Receivable (AR), and the Office of Research Accounting (ORA)

Throughout the fiscal year, FST, AR, and ORA are responsible for maintaining the official books of record and monitoring financial accounting records to ensure that items are recorded correctly. After fiscal year-end close, FST and ORA are responsible for preparing the AFR schedules and reports. The respective managing director of FST and ORA should review and approve the schedules and reports prepared within his/her areas.

c. Departments/Business Managers

It is the responsibility of FST, AR, and ORA to instruct and assist business managers concerning the records of financial transactions maintained by departments and similar administrative units. It is the responsibility of each business manager to keep such records as are necessary to furnish accurate information on sales, transfers, other credits, expenditures, other charges, and encumbrances. Records maintained by the business manager should be limited to those necessary to supplement FST, AR and ORA records as documented in Operating Policy 10.10.

d. Auditing

Financial accounts and reports are subject to audit by the system internal audit staff, state auditor, and, in some operations, by federal, state, and private agencies.

5. Year-End Processes and Scheduled Deadlines

Various deadlines exist to facilitate the annual financial close process for TTU/TTUSA and allow for the timely completion of the Annual Financial Reports as described above.

a. Procurement Services

(1) Encumbrances – Requests for release, increases, or decreases to any encumbrances must be received by Purchasing no later than the last business day prior to FYE. Requests after that date must first be submitted to the appropriate accountant in FST or ORA.

(2) Invoices – Invoices must be received by Payment & Travel Services no later than three business days after FYE but should be submitted as early as possible to ensure processing within the fiscal year.

(3) Procurement Cards – All purchases made prior to August 20 will be posted to the fiscal year being closed. Allocations should be processed throughout the month of August but no later than three business days after FYE.

(4) Travel Vouchers – Vouchers must be received by the Travel Office no later than one business day after FYE.

b. Financial Services and Tax

(1) Inventories - Consumable supplies and goods for resale inventories must be counted as of August 31, and a count for all inventories in excess of $10,000 must be submitted to FST no later than three business days after FYE.
(2) **Revenue Clearing Accounts** – Any claims for amounts in the holding accounts must be received by AR no later than three business days after FYE. Any amounts remaining after this date will be swept and deposited in accordance with OP 62.07.

(3) **Accruals** - All revenue and expense accruals will be processed by FST or ORA.

   (a) **Revenue** – Any amounts earned in the fiscal year being closed but not received must be accrued. All deposits should be recorded using the bank deposit date. All deposits posted on September 1 or after will need to be accrued. Accounts Receivable listings must be provided to FST by the 2nd day after close.

   (b) **Expenses** – If goods or services have been received but the invoice has not been received or cannot be processed by Payment Services prior to close, then an expense must be accrued. FST will evaluate this information to determine if additional accrual entries are needed.

(4) **Deferrals** - Revenue and expense deferrals will be processed as necessary.

   (a) **Revenue** – Any amounts received prior to August 31 but not earned in that fiscal year must be deposited as deferred revenue with the appropriate balance sheet coding to indicate that it is deferred revenue. Contact FST to determine the appropriate deposit coding.

   (b) **Expenses** – Payment Services will identify prepaid expenses according to the invoices and receiving reports received by its office. Payment Services will notify FST or ORA of such expenses for consideration of a year-end deferral entry to record the related prepaid asset. All prepaid assets should be appropriately expensed in the following fiscal year.

(5) **Internal Billings** - All internal billings for services must be entered no later than four business days after FYE.

(6) **Journal Vouchers** - All cost transfers, revenue journal vouchers, and other adjustments must be received no later than four business days after FYE.

(7) **Labor Redistributions** - Redistributions must be received by Budget no later than four business days after FYE.

(8) **Unclaimed Property** - All unclaimed property, including stale dated checks with an issue date that is on or before March 1 of the prior calendar year, must be submitted to Accounts Receivable no later than March 31. Please attempt to submit this information earlier when possible because of the amount of effort involved in processing the documents. Payroll checks will be held in a liability account until they are submitted to the state by July 1 of each year. All other amounts will be held in a liability account for two calendar years and may be claimed through Accounts Receivable during that time. After that time, the property will have been submitted to the state and must be claimed through their Unclaimed Property website.

(9) **Valuation letters** – Valuation letters for the libraries whose book and reference material purchases exceed $5,000.00 annually, for collections consisting of works of art and
historical treasures, and valuation of purchased livestock are due to FST by two days after close.

(10) **Fund Balances** – Fund balance reports are continuously available via Cognos.

(a) Deficit Fund Balances - Any non-sponsored accounts causing a negative fund balance should be corrected as soon as possible. Deficits existing after close must be cleared within two business days either by *Budget Revision Funding Transfer* or *Cost Transfer*. If either of those documents is not received in FST by the second business day following close, the deficit will be covered by the backup fund indicated on the fund setup form. Once a department has been notified of a deficit balance on its fund, it is the department’s responsibility to submit the appropriate transfer forms to clear the deficit prior to the indicated deadlines or accept funding coverage from the backup fund.

(b) Balances - The fund balance reported by FST or ORA will be the fund balance of record. Any questions or possible discrepancies in fund balance calculations must be communicated to FST or ORA within five business days after FYE. If no resolution can be made to define or correct the discrepancy, the fund balance calculated by FST or ORA will be reported.

(11) **Deadline Exceptions** - Exceptions to the deadlines included in this OP will be kept to a minimum and may only be granted by the managing director of FST or ORA. Cost transfers will only be processed the two business days following close if they relate to the clearing of deficit fund balances. Continued disregard of the established deadlines may result in further disciplinary action as deemed appropriate.

(12) **Forms and Contacts** - Contact lists for FST, AR, and ORA can be found on each respective department’s website, and current system links and forms are provided on A&F Work Tools.

(13) **Year End Reclassifications** - Any significant adjustments to the financial records that occur as part of the review and preparation of the AFR schedules should be clearly documented and included as a component work paper for each reviewer described in section 3 above.