SYSTEM REGULATION

21.01.01  Financial Accounting and Reporting

June 22, 1998
Revised February 8, 2001
Supplements System Policy 21.01

1. PURPOSE

The purpose of this regulation is to: (a) identify the financial accounting and reporting system prescribed by state law; (b) provide a general description of the accounting system; (c) define the type and frequency of mandatory financial reports; and (d) prescribe the responsibilities for administration of the financial accounting and reporting function within the System.

2. GENERAL

2.1 The State Comptroller of Public Accounts, as authorized by the Texas Education Code, has prescribed that the financial accounting and reporting systems of state institutions and agencies shall be 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 published by the National Association of College and University Business Officers (NACUBO). With the exception of modifications necessitated by the Appropriations Act, other Texas statutes or federal laws, the financial accounts of the System and its components 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.

2.2 Responsibility for the general supervision and coordination of financial accounting and reporting within the System is assigned to the System Office of Budgets and Accounting (SOBA) which will:

(1) issue such directives as are deemed necessary to ensure that the financial accounting and reporting provisions are in accordance with GAAP, the Financial Accounting and Reporting Manual for Higher Education, the Appropriations Act, other applicable state and federal laws and regulations, and that directives of the Board are complied with in a consistent and effective manner throughout the System;

(2) monitor the financial accounting and reporting system requirements, and recommend new or modified processes and procedures where appropriate;

(3) prescribe the minimum content of monthly financial reports;

(4) direct the preparation and publication of the Annual Financial Report of the System;
(5) lead the System Accounting Policies and Procedures Committee (APPC). The APPC is charged with developing and implementing consistent accounting and reporting regulations and procedures for the System and addressing other System-wide accounting and business issues. Each component business office is represented on the committee; and

(6) direct the preparation and distribution of the System Executive Management Report on a quarterly basis.

2.3 The Chief Financial Officer (CFO) of each System component is directly responsible for effective performance of the financial accounting and reporting duties assigned to the component.

3. FINANCIAL ACCOUNTING SYSTEM

3.1 Financial accounting by the System and its components is based on the principles and practices of fund accounting - a procedure by which resources are classified in accounting records and reports according to purposes and limitations as to use imposed by sources outside the System or as directed by the Board of Regents (BOR). The current account structure used within the System is composed of six fund groups. Each fund group is treated as a separate accounting entity with a self-balancing set of accounts consisting of assets, in some cases liabilities, fund balance, and, where appropriate, revenue and expenditure accounts. Following is an outline of the fund groups and the subdivisions of each:

3.1.1 Current Funds: Funds expendable for current operating purposes.

(1) Unrestricted Current Funds - operating funds available for any current purpose. These funds are reported in three categories:

(a) Educational, research, extension, administration, regulatory, forestry, and general: activities that represent the primary functions of the System components.

(b) Designated Funds: resources that have been designated by the BOR or management (assuming delegation by the BOR) to be used for specific activities, and service departments. (See System Regulation 21.01.05, Service Departments.)

(c) Auxiliary Enterprises: activities which primarily furnish goods and services to students, faculty, or staff, and which charge a fee that is directly related to, although not necessarily equal to the cost of the service, e.g., dormitories, dining halls, and bookstores.

(2) Restricted Current Funds: operating funds available for current purposes, the use of which has been restricted by external agencies or persons.

3.1.2 Loan Funds: funds available for loans to students, faculty and staff.
3.1.3 Endowment And Similar Funds

(1) **Endowment Funds**: funds for which a donor or other external agency has stipulated as a condition of a gift that the principal is to be maintained inviolate and in perpetuity, and that only the income from the investments of the funds may be expended.

(2) **Funds Functioning as Endowment**: funds that the BOR, rather than a donor or other external agency, has determined are to be retained and invested. The principal and income of Restricted Funds Functioning as Endowments have been restricted as to use by the donor or external agency; however, the principal and income of Unrestricted Funds Functioning as Endowments may be totally utilized at the discretion of the BOR.

(3) **Term Endowment Funds**: endowment funds, in which all or part of the principal may be utilized after a stated period of time or upon the occurrence of a certain event, as defined by the donor.

3.1.4 Annuity And Life Income Funds

(1) **Annuity Funds**: funds donated to an institution under a deferred-giving agreement with the condition that the institution is required to pay to the donor or designated individuals a fixed amount for a specified time or until the time of death of the annuitant.

(2) **Life Income Funds**: funds that are similar to Annuity Funds, except that the institution is required to pay to the donor or designated individuals only the income earned by the assets of the funds after deduction of appropriate management expenses.

3.1.5 Plant Funds

(1) **Unexpended Plant Funds**: funds for the construction, rehabilitation, and acquisition of physical properties for institutional purposes.

(2) **Funds for Renewals and Replacements**: funds accumulated to be used for the renewal and replacement of plant assets.

(3) **Funds for the Retirement of Indebtedness**: funds to meet debt service charges and the retirement of indebtedness on institutional plant assets.

(4) **Investment in Plant**: the total carrying value of all plant properties and facilities except those real properties that are the investment of endowment funds.
3.1.6 Agency Funds: funds held by the institution as custodian or fiscal agent for others, e.g., student organizations. (See System Regulation 21.01.07, Agency Funds.)

3.2 The business office responsible for maintaining the official books of account of the System component is the central office of accounting control for all fiscal transactions of the component. It is the responsibility of the CFO to instruct and assist account administrators concerning the records of financial transactions to be kept by departments and similar administrative units. It is the responsibility of each account administrator 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 account administrator should be limited to those necessary to supplement business office records, in accordance with System Regulation 61.99.01, Retention and Disposition of Public Records.

3.3 Statements showing transactions recorded in each account are to be prepared monthly by the business office and forwarded to each account administrator who is responsible for comparing records of his/her office to those of the business office and promptly reporting any difference to the business office. In addition to ensuring that transactions are processed correctly, departmental accounting is intended to provide up-to-date financial information for department officials, and to ensure that expenditures and/or encumbrances do not exceed budget allocations.

4. UNIFORM STATEWIDE ACCOUNTING SYSTEM (USAS)

The State Comptroller of Public Accounts has prescribed an accounting, responsibility reporting, and appropriations control system for state institutions and agencies. The System and its components are considered “reporting agencies” for USAS purposes; USAS is not the internal accounting system for the System. Each System component must comply with the requirements of the State Comptroller’s Manual of Accounts and such other instructions regarding USAS as may be issued by the State Comptroller for all funds deposited with and/or disbursed from the State Treasury.

5. MONTHLY FINANCIAL REPORT

5.1 A financial report will be issued monthly for each System component by the business office responsible for maintaining the official books of account of the component. As a minimum, this report will include information regarding: revenues, expenditures and balances, and a General Ledger Trial Balance.
5.2 The purpose of the monthly financial report is to summarize the financial status of each account of a System component for management use by the executive and financial officers of the System component and of the System Administrative and General Offices. The CFO of each System component is authorized to include such additional financial data as is considered necessary to meet this purpose.

5.3 In addition to the summary financial report described above, the academic institutions are encouraged to maintain proprietary basis reports of expenses and revenues and a comprehensive balance sheet for the results of operations of auxiliary enterprises and service departments. These reports will be utilized in management decisions regarding the activities.

5.4 The SOBA will be provided proprietary basis statements for any auxiliary enterprise or service department of the System components upon request.

6. ANNUAL FINANCIAL REPORT

6.1 Texas Government Code §2101.011 specifies that the System will publish annually a complete financial report in accordance with standards established by the State Comptroller of Public Accounts. Copies of the report must be furnished to the Governor, House Appropriation Committee, Senate Finance Committee, Comptroller of Public Accounts, State Auditor, Texas Higher Education Coordinating Board, Legislative Budget Board, Legislative Reference Library, and the State Publications Clearinghouse, by November 20th of each year.

6.2 The report, which is a joint effort of the SOBA and the business offices of the System components, is prepared in accordance with GAAP and as recommended in the Financial Accounting and Reporting Manual for Higher Education. It is the responsibility of the SOBA to determine the content and format of presentation, establish the production timetable, review and approve the reports submitted by the business offices, prepare the System combined statements, and publish and distribute the consolidated report. Each business office which maintains the official books of account of a System component is responsible for preparing the Annual Financial Report of that component or for coordinating with the CFO for that component in connection with the preparation of the report. The CFO is responsible for the completeness and accuracy of each report prepared under his/her jurisdiction and for furnishing the reports in accordance with the established due dates.

6.3 The State Auditor is charged by statute with auditing the accounts and records of the State and rendering his/her official opinion regarding the fairness with which the Statewide financial statements present the true financial situation of the state. The System’s Annual Financial Report is subject to review by the State Auditor; however, a separate opinion is not issued on the System’s report.
7. ACCRUED PAYABLES AND BINDING ENCUMBRANCES REPORT

Each System component is required to submit a quarterly report on accrued payables and binding encumbrances for current and prior years’ appropriations. Upon receiving the report, the State Comptroller will lapse any excess prior years’ appropriations authority but may later re-open the appropriation account to pay valid claims submitted by the component.

8. AUTOMATED BUDGET AND EVALUATION SYSTEM OF TEXAS (ABEST)

The Legislative Budget Board has prescribed a state-wide budget system. Each System component must comply with reporting and reconciliation requirements as issued by the Legislative Budget Board.

9. OTHER FINANCIAL REPORTS

Internal financial reports considered essential for effective administration by the System component and those external reports required by outside agencies will be prepared under the direction of the CFO of the component. Such reports issued at the System level will be prepared under the direction of the System Office of Budgets and Accounting.

10. AUDITING

Financial accounts and reports are subject to audit by the System internal audit staff, State Auditor, and, in some operations, by federal and private agencies. Regulations of the System pertaining to audits are presented in System Regulations 21.02.01, 21.02.02 and 21.03.01.

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CONTACT OFFICE: System Office of Budgets and Accounting

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Section 21 Rules