

FUND ACCOUNTING TRAINING

Module 7

Financial Statements

The University of Texas System

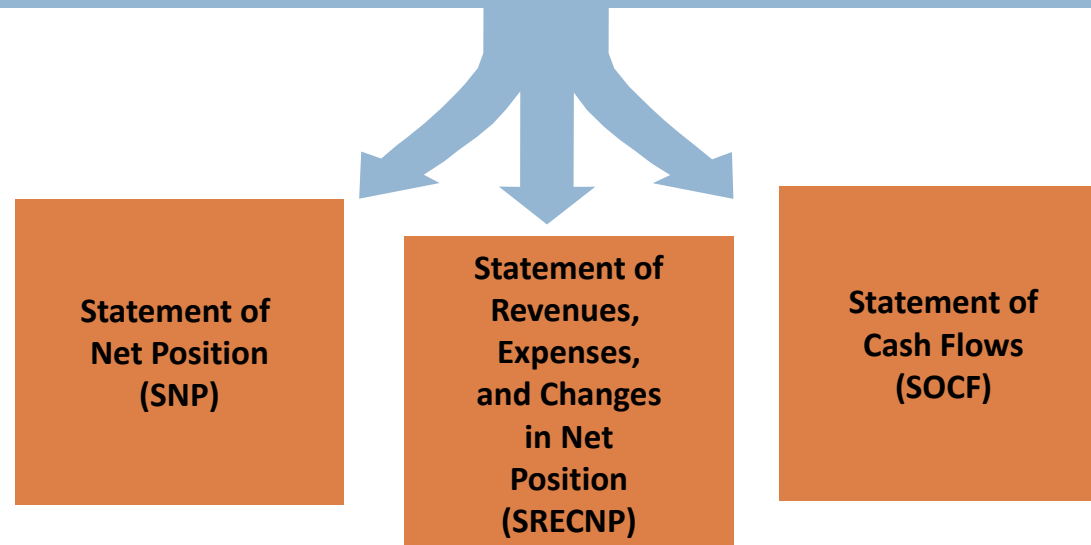
OBJECTIVES

- Identify the primary financial statements of U. T. System
- Describe basic content and layout of the three proprietary fund financial statements
- Identify interrelated elements among these statements
- Explain Annual Financial Report preparation process
- Identify principal users of financial information

FINANCIAL STATEMENTS – OVERVIEW

U. T. System has five primary financial statements
(3 proprietary fund and 2 fiduciary fund statements):

Primary Financial Statements – Proprietary Funds



Primary Financial Statements – Fiduciary Funds:

- Statement of Fiduciary Net Position (SFNP)
- Statement of Changes in Fiduciary Net Position (SCFNP)

Note: This training will focus mostly on the proprietary fund financial statements.

MD&A AND NOTES TO FINANCIAL STATEMENTS

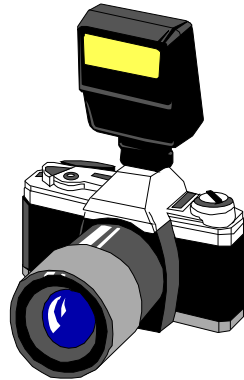
Preceding the primary financial statements is the Management's Discussion and Analysis (MD&A), which provides a high-level overview of the financial position and activities of U. T. System.

Another important component of the financial statement is the Notes to the Financial Statements. The Notes describe in greater detail various data presented in the statements themselves. For example, some of the topics of the Notes included in the U. T. System's Consolidated Financial Statements are:

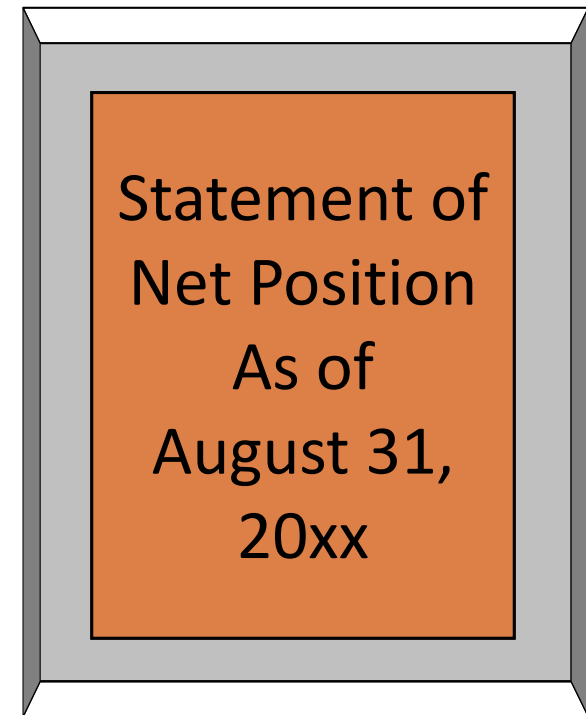
- Reporting Entities such as blended entities
- Summary of Significant Accounting Policies
- Deposits and Investments
- Capital Assets
- Bonds Payable
- Pension and Other Post Employment Benefits (OPEB) Obligations

FINANCIAL STATEMENTS (CONTINUED)

There are two different approaches to presenting information in the financial statements. The first is reporting information as of a particular date . . . a snapshot in time.



A snapshot
in time

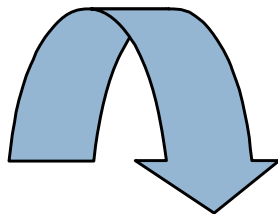


The Statement of Net Position is reported as of a particular date. One can think of the Statement of Net Position as a “**snapshot**” of the financial position of an institution on the reporting date.

FINANCIAL STATEMENTS (CONTINUED)

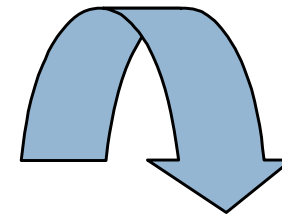
Flow of Activities

Both the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP) and the Statement of Cash Flows report activity for the entire year. These statements show the “flow” of resources into, and out of, the institution.

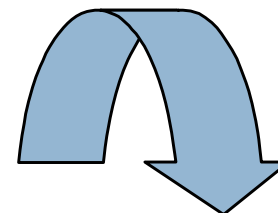


Statement of Revenues, Expenses, and Changes in Net Position

Statement of Cash Flows



For the Year Ended August 31, 20XX

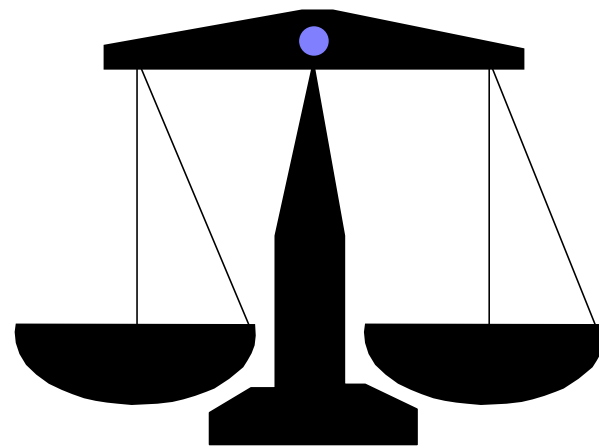
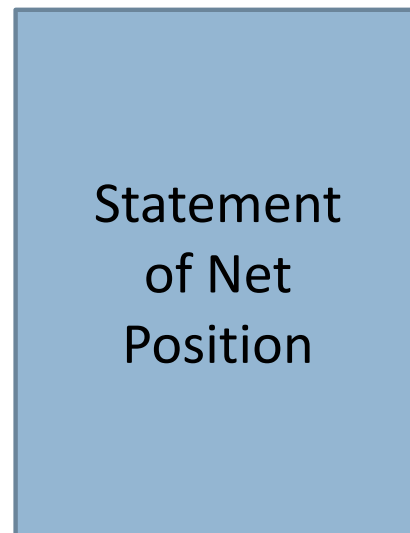


FINANCIAL STATEMENTS – STATEMENT OF NET POSITION

The first proprietary fund statement we will examine is the Statement of Net Position. This statement is presented as “Exhibit A” in the completed report.

Unlike the SRECNP and the Statement of Cash Flows, this statement reports information **as of a particular date**. After the statement’s title, the reporting time frame of the statement is identified: As of August 31, 20XX

The Statement of Net Position reports the financial position of the institution at the report date.



FINANCIAL STATEMENTS – STATEMENT OF NET POSITION

Statement Layout:

The Statement of Net Position is presented in columnar form. For the final published statement, all the fund groups are collapsed and only the total of all fund groups appears on the statement.

The Statement of Net Position is presented in three sections:

- Assets and Deferred Outflows
- Liabilities and Deferred Inflows
- Net Position

The assets and liabilities are further separated into current and non-current sections. Deferred outflows and deferred inflows are segregated from assets and liabilities. Assets plus deferred outflows less liabilities plus deferred inflows equals Net Position.

The University of Texas System - Statement of Net Position		
(\$ in millions)	Current Year	Prior Year
ASSETS AND DEFERRED OUTFLOWS		
Assets		
Current assets	\$ 7,532.6	7,838.1
Noncurrent investments	54,007.2	46,645.9
Other noncurrent assets	560.7	481.7
Capital assets, net	16,889.3	16,216.4
Total assets	<u>78,989.8</u>	<u>71,182.1</u>
Deferred Outflows		
Total deferred outflows	<u>996.2</u>	<u>1,256.0</u>
Total assets and deferred outflows	<u>79,986.0</u>	<u>72,438.1</u>
LIABILITIES AND DEFERRED INFLOWS		
Liabilities		
Current liabilities	9,167.3	8,219.4
Noncurrent liabilities	23,617.0	24,250.9
Total liabilities	<u>32,784.3</u>	<u>32,470.3</u>
Deferred Inflows		
Total deferred inflows	<u>1,791.2</u>	<u>746.9</u>
Total liabilities and deferred inflows	<u>34,575.5</u>	<u>33,217.2</u>
NET POSITION		
Net Investment in capital assets	6,632.4	6,334.6
Restricted	42,050.2	36,732.3
Unrestricted	(3,272.1)	(3,846.0)
Total Net Position	<u>45,410.5</u>	<u>39,220.9</u>

FINANCIAL STATEMENTS – SRECNP

SRECNP:

Of the three primary proprietary fund financial statements, the Statement of Revenues, Expenses and Changes in Net Position is the most detailed statement. The statement is presented as “Exhibit B” in the completed report.

To determine exactly what is reported in the statement, let’s dissect the statement’s title:

Statement of [REVENUES]
[EXPENSES] and [CHANGES] in
[NET POSITION]

Statement of
Revenues,
Expenses, and
Changes in Net
Position



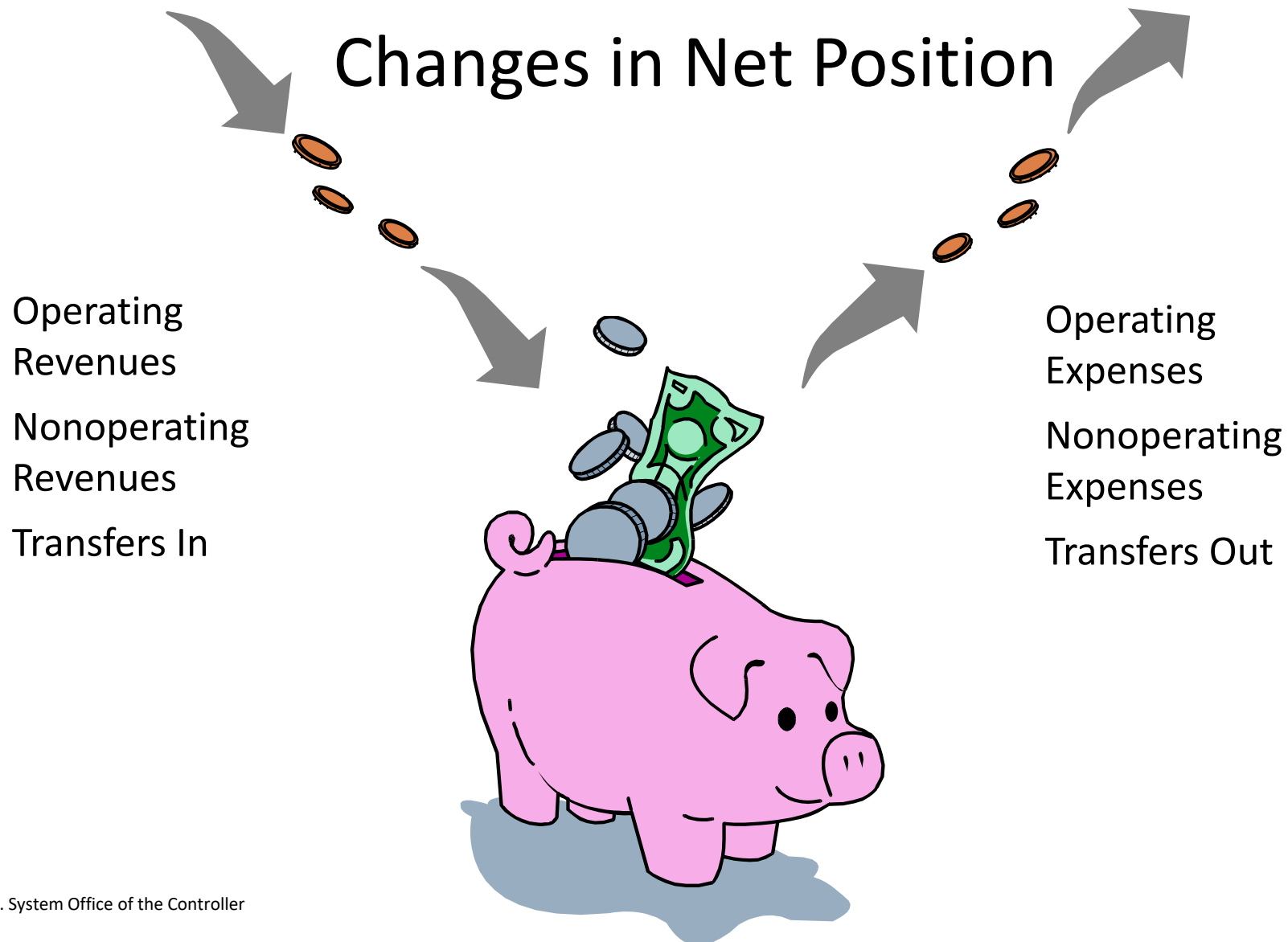
FINANCIAL STATEMENTS – SRECNP (CONTINUED)

As discussed earlier, the SRECNP reports **activity** for the year. After the statement's title, the reporting time frame of the statement is identified:

For the Year Ended August 31, 20XX

So, we can conclude that this statement reports activity (in-flows or **Revenues**, out-flows or **Expenses**, and the impact on net position) for **all funds** for the fiscal year September 1, 20XX through August 31, 20XX.

FINANCIAL STATEMENTS – SRECNP (CONTINUED)



FINANCIAL STATEMENTS – SRECNP

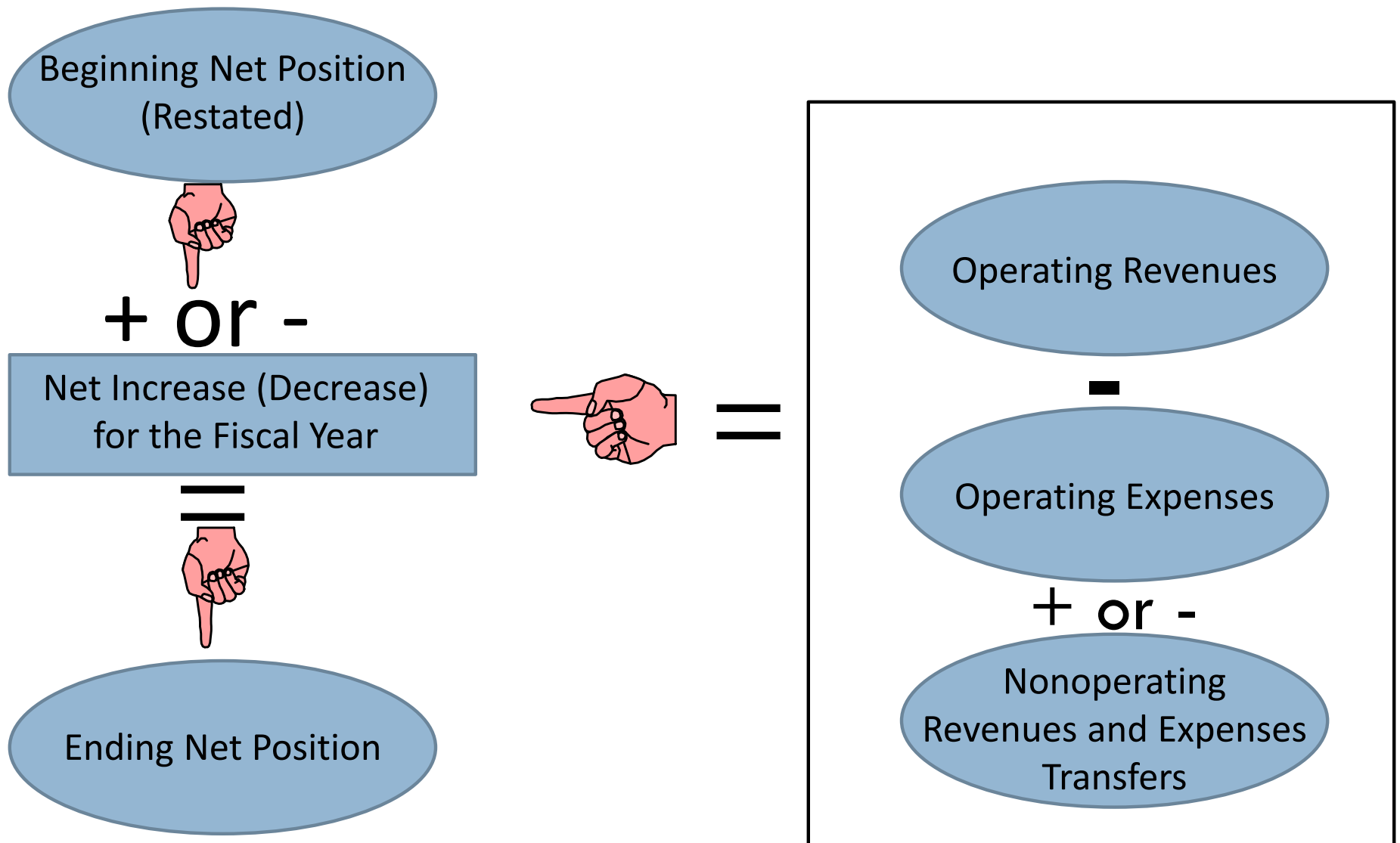
Statement Layout:

The SRECNP is presented in columnar form and all the fund groups are collapsed. The statement is divided into the following sections:

- Operating Revenues
- Operating Expenses
- Nonoperating Revenues (Expenses)
- Other Revenues, Expenses, Gains/(Losses) and Transfers (not labeled)
- Net Position

The University of Texas System - SRECNP		
(\$ in millions)	Current Year	Prior Year
Operating revenues:		
Net student tuition and fees	\$ 1,828.3	1,718.4
Sponsored programs	3,298.0	3,198.2
Net patient care revenues	8,195.9	7,598.6
Net auxiliary enterprises	625.8	593.5
Other	936.8	926.9
Total operating revenues	14,884.8	14,035.6
Total operating expenses	(18,722.1)	(18,306.1)
Operating loss	(3,837.3)	(4,270.5)
Nonoperating revenues (expenses):		
State appropriations	2,268.1	2,226.3
Nonexchange Sponsored Programs	424.3	394.8
Gift contributions	448.1	446.6
Net investment income	4,279.3	3,178.0
Net inc. (dec.) in fair value of investments	3,105.6	1,512.8
Interest expense on capital asset financings	(281.7)	(262.6)
Net other nonoperating revenues (expenses)	(61.4)	50.3
Income before other revenues, expenses, gains or losses	6,345.0	3,275.7
Capital gifts and grants, add. to perm. endow.	458.3	319.7
Net Transfers to other State entities	(613.7)	(182.9)
Change in net position	6,189.6	3,412.5
Net position, beginning of the year	39,220.9	41,282.1
Restatements	-	(5,473.7)
Net position, beginning of the year (as restated)	39,220.9	35,808.4
Net position, end of the year	\$ 45,410.5	39,220.9

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION



FINANCIAL STATEMENTS - STATEMENT OF CASH FLOWS

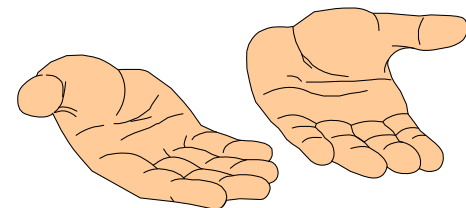
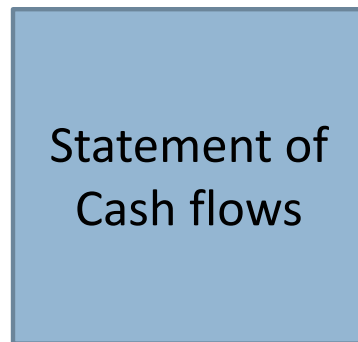
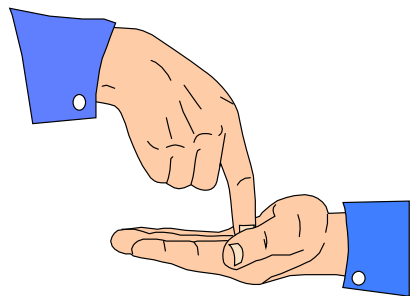
Statement of Cash Flows:

The final statement of the three primary proprietary fund financial statements we will examine is the Statement of Cash Flows. This statement is presented as “Exhibit C” in the completed report.

As discussed earlier, this statement also reports **activity** for the year. After the statement’s title, the reporting time frame of the statement is identified:

For the Year Ended August 31, 20XX

So, we can conclude that this statement reports the major sources and uses of cash. The reporting period includes the fiscal year 9/1/20XX through 8/31/20XX.



FINANCIAL STATEMENTS - STATEMENT OF CASH FLOWS (CONTINUED)

Statement Layout:

The Statement of Cash Flows is presented in the following sections:

- Cash Flows from Operating Activities
- Cash Flows from Noncapital Financial Activities
- Cash Flows from Capital and Related Financing Activities
- Cash Flows from Investing Activities
- Net Change in Cash and Cash Equivalents
- Reconciliation of Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities (next slide)

The University of Texas System - Cash Flows

(\$ in millions)	Current Year	Prior Year
Cash flows:		
Net cash provided (used) by operating activities	\$ (1,532.0)	(1,774.7)
Net cash provided (used) by noncapital financing activities	2,304.9	2,691.0
Net cash Provided (used) in capital and related financing activities	(1,887.9)	(1,509.8)
Net cash (used in)/provided by investing activities	<u>1,129.0</u>	<u>906.3</u>
Net (decrease)/increase in cash and cash equivalents	14.0	312.8
Cash and cash equivalents, beginning of year	<u>3,189.5</u>	<u>2,876.7</u>
Cash and cash equivalents, end of year	<u>\$ 3,203.5</u>	<u>3,189.5</u>

The objective of this statement is to show the changes in the cash and cash equivalents that occurred throughout the fiscal year. To accomplish this objective, the statement first tells the reader the major sources and uses of cash by activity.

FINANCIAL STATEMENTS - STATEMENT OF CASH FLOWS (CONTINUED)

Statement Layout (continued):

Next, the change in cash is computed based upon the sources (inflows) and uses (outflows) of cash throughout the year. This change in cash is used to determine the amount of cash and cash equivalents at year end.

Then, a reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities is performed.

A list of non-cash transactions that do not impact the inflows and outflows of cash is provided at the bottom of the statement.

The University of Texas System - Cash Flows (Continued)		
(\$ in millions)	Current Year	Prior Year
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:		
Operating Loss	\$ (3,837.3)	(4,270.5)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation, Impairment, and Bad Debt Expense	2,907.0	3,259.4
Changes in Assets and Liabilities	(601.7)	(763.6)
Total Adjustments	<u>2,305.3</u>	<u>2,495.8</u>
Net Cash Provided (Used) by Operating Activities:	\$ <u>(1,532.0)</u>	<u>(1,774.7)</u>
Noncash Transactions:		
Net Increase (Decrease) in Fair Value of Investments	2,881.8	1,830.5
Donated Capital Assets	58.6	26.0
Capital Assets Acquired Under Capital Lease Purchases	1.4	0.7
Miscellaneous Noncash Transactions	(20.8)	19.5

FINANCIAL STATEMENTS

Interrelated Elements:

The *Annual Financial Report* consists of numerous schedules and statements that are interrelated. The scope of this presentation is limited to three primary proprietary fund financial statements; the explanation of interrelated elements will also be limited to these three statements.

FINANCIAL STATEMENTS (CONTINUED)

The University of Texas System - Statement of Net Position

(\$ in millions)	Current Year	Prior Year
Assets and Deferred Outflows:		
Cash and cash equivalents	\$ 3,203.5	3,189.5
Current assets	4,336.5	4,653.8
Noncurrent investments	54,007.2	46,645.9
Other noncurrent assets	553.3	476.5
Capital assets, net	16,889.3	16,216.4
Deferred Outflows	996.2	1,256.0
Total assets and deferred outflows	<u>79,986.0</u>	<u>72,438.1</u>
	-	-
Liabilities and Deferred Inflows:		
Current liabilities	9,167.3	8,219.4
Noncurrent liabilities	23,617.0	24,250.9
Deferred inflows	1,791.2	746.9
Total liabilities and Deferred Inflows	<u>34,575.5</u>	<u>33,217.2</u>
	-	-
Net Position:		
Net Investment in capital assets	6,632.4	6,334.6
Restricted	42,050.2	36,732.3
Unrestricted	(3,272.1)	(3,846.0)
Total Net Position	<u>45,410.5</u>	<u>39,220.9</u>

Statement of Net Position – The sum of cash and cash equivalents (unrestricted and restricted) reported as both current and non-current assets must equal the cash and cash equivalents at year end on the Statement of Cash Flows.

The University of Texas System - Cash Flows

(\$ in millions)	Current Year	Prior Year
Cash flows:		
Net cash provided (used) by operating activities	\$ (1,532.0)	(1,774.7)
Net cash provided (used) by noncapital financing activities	2,304.9	2,691.0
Net cash Provided (used) in capital and related financing activities	(1,887.9)	(1,509.8)
Net cash (used in)/provided by investing activities	<u>1,129.0</u>	<u>906.3</u>
Net (decrease)/increase in cash and cash equivalents	14.0	312.8
Cash and cash equivalents, beginning of year	<u>3,189.5</u>	<u>2,876.7</u>
Cash and cash equivalents, end of year	<u>\$ 3,203.5</u>	<u>3,189.5</u>

FINANCIAL STATEMENTS (CONTINUED)

The University of Texas System - SRECNP		
(\$ in millions)	Current Year	Prior Year
Operating revenues:		
Net student tuition and fees	\$ 1,828.3	1,718.4
Sponsored programs	3,298.0	3,198.2
Net patient care revenues	8,195.9	7,598.6
Net auxiliary enterprises	625.8	593.5
Other	936.8	926.9
Total operating revenues	14,884.8	14,035.6
Total operating expenses	(18,722.1)	(18,306.1)
Operating loss	(3,837.3)	(4,270.5)
Nonoperating revenues (expenses):		
State appropriations	2,268.1	2,226.3
Nonexchange Sponsored Programs	424.3	394.8
Gift contributions	448.1	446.6
Net investment income	4,279.3	3,178.0
Net inc. (dec.) in fair value of investments	3,105.6	1,512.8
Interest expense on capital asset financings	(281.7)	(262.6)
Net other nonoperating revenues (expenses)	(61.4)	50.3
Income before other revenues, expenses, gains or losses	6,345.0	3,275.7
Capital gifts and grants, add. to perm. endow.	458.3	319.7
Net Transfers to other State entities	(613.7)	(182.9)
Change in net position	6,189.6	3,412.5
Net position, beginning of the year	39,220.9	41,282.1
Restatements	-	(5,473.7)
Net position, beginning of the year (as restated)	39,220.9	35,808.4
Net position, end of the year	\$ 45,410.5	39,220.9

The University of Texas System - Statement of Net Position		
(\$ in millions)	Current Year	Prior Year
ASSETS AND DEFERRED OUTFLOWS		
Assets		
Current assets	\$ 7,532.6	7,838.1
Noncurrent investments	54,007.2	46,645.9
Other noncurrent assets	560.7	481.7
Capital assets, net	16,889.3	16,216.4
Total assets	78,989.8	71,182.1
Deferred Outflows		
Total deferred outflows	996.2	1,256.0
Total assets and deferred outflows	79,986.0	72,438.1
LIABILITIES AND DEFERRED INFLOWS		
Liabilities		
Current liabilities	9,167.3	8,219.4
Noncurrent liabilities	23,617.0	24,250.9
Total liabilities	32,784.3	32,470.3
Deferred Inflows		
Total deferred inflows	1,791.2	746.9
Total liabilities and deferred inflows	34,575.5	33,217.2
NET POSITION		
Net Investment in capital assets	6,632.4	6,334.6
Restricted	42,050.2	36,732.3
Unrestricted	(3,272.1)	(3,846.0)
Total Net Position	45,410.5	39,220.9

Interrelated Elements:

The ending net position from the SRECNP must agree to the ending net position reported on the Statement of Net Position.

FINANCIAL STATEMENTS (CONTINUED)

A reader can look at the Statement of Net Position and determine the amount of the net position for each fund group. However, if the reader wants to analyze the changes in the net position since the last reporting period, they should look at the SRECNP.

The University of Texas System - Statement of Net Position		
(\$ in millions)	Current Year	Prior Year
ASSETS AND DEFERRED OUTFLOWS		
Assets		
Current assets	\$ 7,532.6	7,838.1
Noncurrent investments	54,007.2	46,645.9
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Total operating revenues	14,884.8	14,035.6
Total operating expenses	(18,722.1)	(18,306.1)
Operating loss	(3,837.3)	(4,270.5)
Nonoperating revenues (expenses):		
State appropriations	2,268.1	2,226.3
Nonexchange Sponsored Programs	424.3	394.8
Gift contributions	448.1	446.6
Net investment income	4,279.3	3,178.0
Net inc. (dec.) in fair value of investments	3,105.6	1,512.8
Interest expense on capital asset financings	(281.7)	(262.6)
Net other nonoperating revenues (expenses)	(61.4)	50.3
Income before other revenues, expenses, gains or losses	6,345.0	3,275.7
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Net position, end of the year	\$ 45,410.5	39,220.9

FINANCIAL STATEMENTS (CONTINUED)

The University of Texas System - SRECNP

(\$ in millions)	Current Year	Prior Year
Operating revenues:		
Net student tuition and fees	\$ 1,828.3	1,718.4
Sponsored programs	3,298.0	3,198.2
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Net position, beginning of the year (as restated)	39,220.9	35,808.4
Net position, end of the year	\$ 45,410.5	39,220.9

Interrelated Elements: The SRECNP is also interrelated with the Statement of Cash Flows. Total operating income (loss), as well as depreciation and amortization expense, flows to the reconciliation section of the Statement of Cash Flows.

The University of Texas System - Cash Flows

(\$ in millions)	Current Year	Prior Year
Cash flows:		
Net cash provided (used) by operating activities	\$ (1,532.0)	(1,774.7)
Net cash provided (used) by noncapital financing activities	2,304.9	2,691.0
Net cash Provided (used) in capital and related financing activities	(1,887.9)	(1,509.8)
Net cash (used in)/provided by investing activities	1,129.0	906.3
Net (decrease)/increase in cash and cash equivalents	14.0	312.8
Cash and cash equivalents, beginning of year	3,189.5	2,876.7
Cash and cash equivalents, end of year	\$ 3,203.5	3,189.5
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:		
Operating Loss	\$ (3,837.3)	(4,270.5)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation, Impairment, and Bad Debt Expense	2,907.0	3,259.4
Op. Income & Cash Flow Categories Classification Differences	-	-
Changes in Assets and Liabilities	(601.7)	(763.6)
Total Adjustments	2,305.3	2,495.8
Net Cash Provided (Used) by Operating Activities:	\$ (1,532.0)	(1,774.7)
Noncash Transactions:		
Net Increase (Decrease) in Fair Value of Investments	2,881.8	1,830.5
Donated Capital Assets	58.6	26.0
Capital Assets Acquired Under Capital Lease Purchases	1.4	0.7
Miscellaneous Noncash Transactions	(20.8)	19.5

FINANCIAL STATEMENTS (CONTINUED)

Preparation of the Annual Financial Report

The *Texas Education Code* requires U. T. System to submit the *Consolidated Primary Financial Statements* to the Texas Comptroller of Public Accounts each fiscal year. The financial statements must be in compliance with Governmental Accounting Standards Board (GASB) pronouncements. The Financial Reporting team from the Office of the Controller at U. T. System Administration consolidates the institutions' annual reports into a consolidated Systemwide report. The Financial Reporting team also acts as a liaison to the Texas Comptroller of Public Accounts regarding reporting changes or questions concerning the preparation of the report.

The Financial Reporting team assists the institutions in the preparation of their reports by conducting an annual AFR workshop. Employees from the U. T. institutions who are responsible for preparing the institutions' annual financial reports are invited to attend this annual meeting to discuss topics relevant to the preparation process. In addition, the Financial Reporting team conducts monthly mini-AFR meetings and posts information on updates/changes throughout the year for any changes necessitated by GASB or the Texas Comptroller of Public Accounts to the Financial Reporting Teams site.

FINANCIAL STATEMENTS (CONTINUED)

Preparation of the Annual Financial Report (continued)

After August 31st, the close of the fiscal year, institution employees prepare all annual report financial statements and supporting schedules for their institution. Then, they submit the annual financial report to U. T. System Administration. The Financial Reporting team conducts high-level reviews of the institutions' reports. Any inconsistencies or errors noted are communicated to the appropriate person at each institution, and revisions or corrections are made by the institution as needed.

The institutions are also required to submit variance explanations for line items in the primary proprietary fund financial statements that meet a certain threshold, which threshold is determined by the Financial Reporting team. The main purpose of providing variance explanations is to detect possible reporting errors. The Financial Reporting team also reviews the variance explanations to ensure they fully explain the reason behind the fluctuation in a particular line item. If an explanation does not make sense to the Financial Reporting team, then the institution's staff will be asked to explain further. The external auditors and the Texas Comptroller of Public Accounts also request fluctuation analysis for significant variances in line items on the primary proprietary fund financial statements.

FINANCIAL STATEMENTS (CONTINUED)

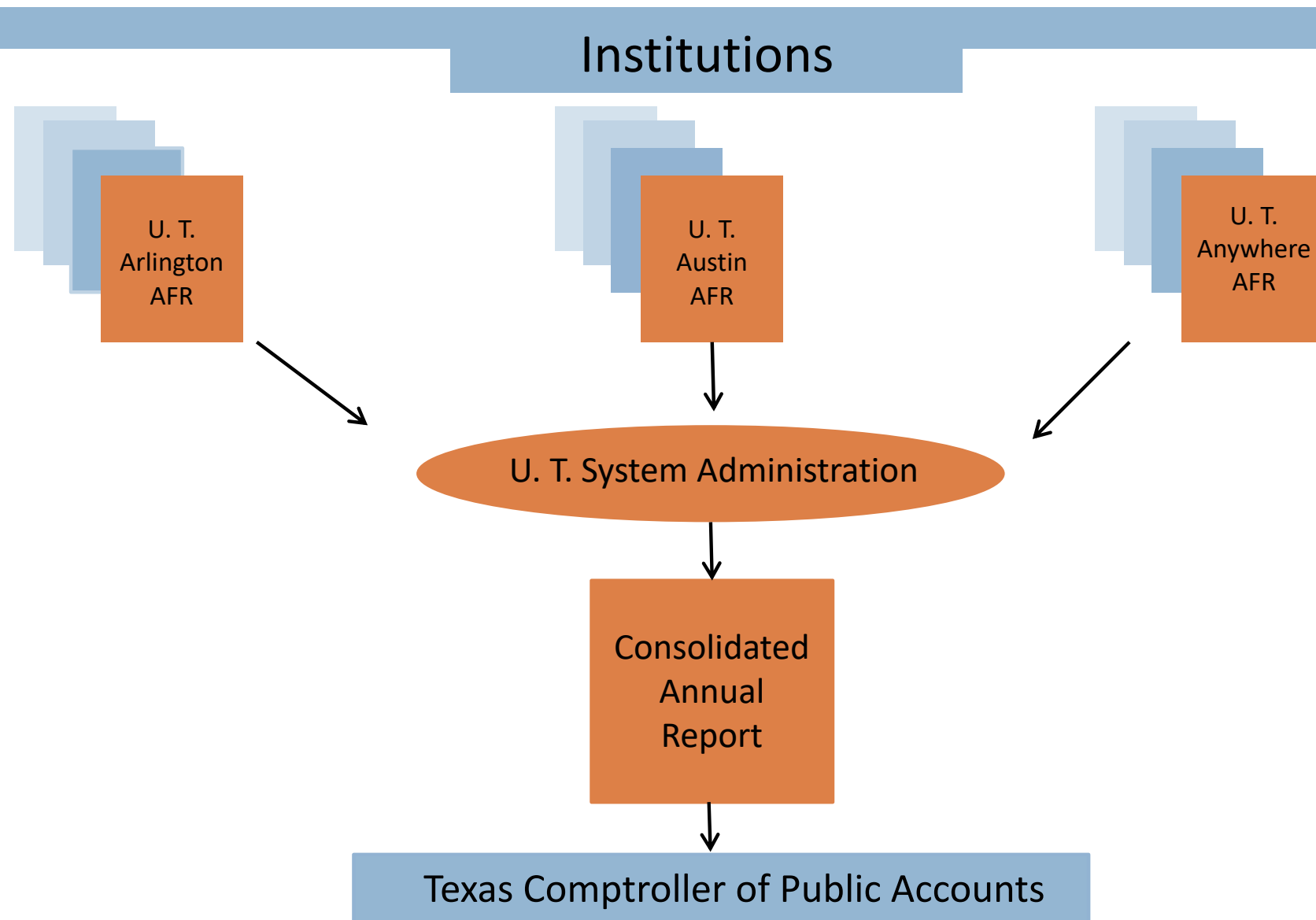
Preparation of the Annual Financial Report (continued)

After an institution completes all revisions and the report is deemed final by the Financial Reporting team, they begin work on preparing a final “print-ready” pdf document of their report. While the Financial Reporting team collects the print-ready reports, it is up to each institution to review their own print-ready report and coordinate printing of those reports.

The Financial Reporting team is also charged with the task of consolidating the primary statements of all institutions and producing the *Consolidated Primary Financial Statements*. The consolidated financial statements and notes to the financial statements of U. T. System are audited by external auditors.

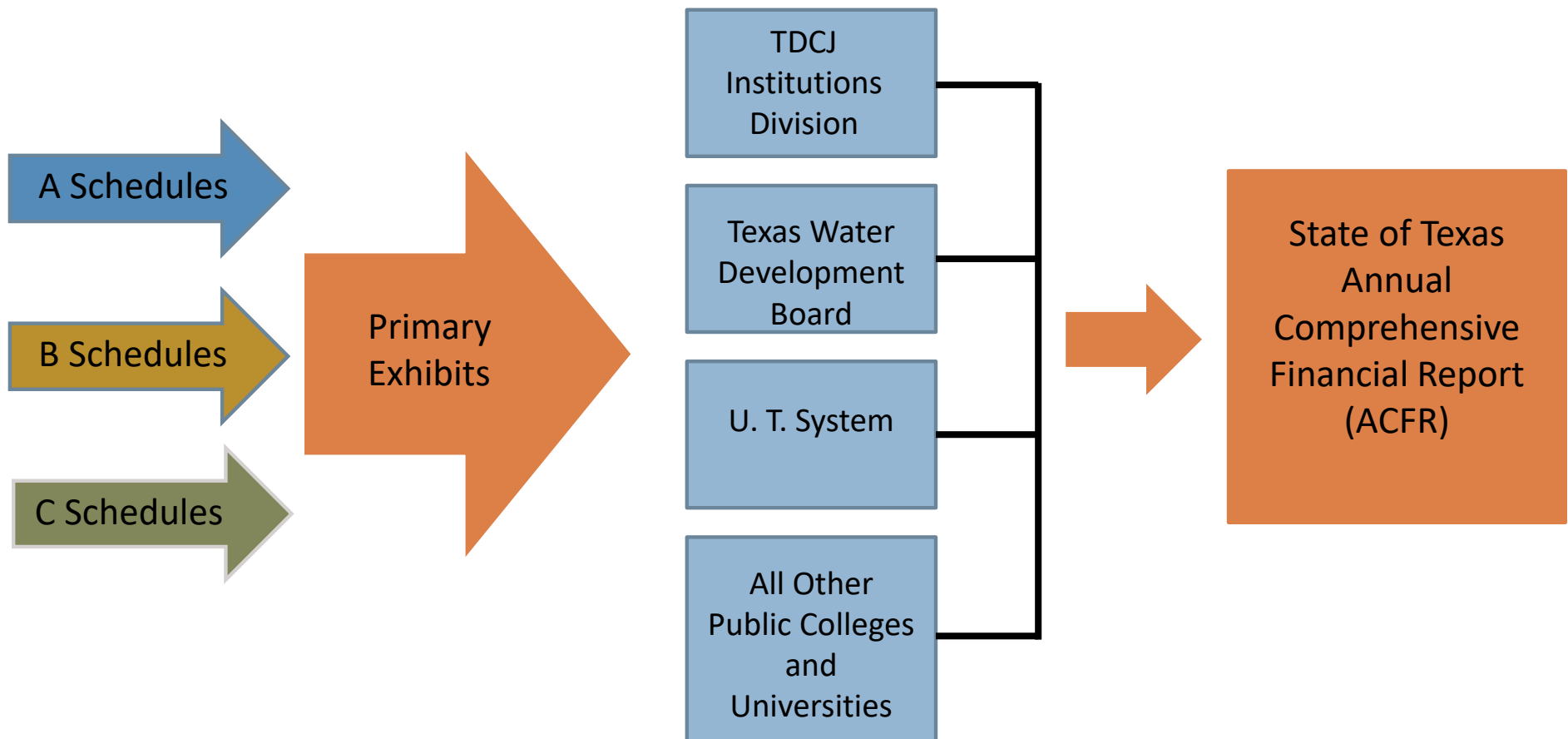
The *Consolidated Financial Statements* are entered into USAS for the Texas Comptroller of Public Accounts, who consolidates this financial information into the *State of Texas Annual Comprehensive Financial Report (ACFR)*.

FINANCIAL STATEMENTS (CONTINUED)



FINANCIAL STATEMENTS (CONTINUED)

Enterprise Funds



FINANCIAL STATEMENTS (CONTINUED)

The reporting objectives discussed above are set forth in the:

- GASB (Governmental Accounting Standards Board) Statements and Interpretations
- GASB Technical Bulletins
- AICPA (American Institute of Certified Public Accountants) Practice Bulletins
- GASB Implementation Guides
- NACUBO (National Association of College and University Business Officers) Financial Account and Reporting Manual for Higher Education
- Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements for Colleges and Universities

These publications were developed to increase uniformity and adequate disclosure in institutional accounting and reporting practices. They are the primary authoritative guidance for the preparation of U. T. System's financial statements.

FINANCIAL STATEMENTS (CONTINUED)

The *Annual Financial Report* for the entire U. T. System is prepared in accordance with Generally Accepted Accounting Principles (GAAP) and the Texas Comptroller of Public Accounts' guidelines.

The annual financial report is audited each year and U. T. System has received a clean audit opinion every year.

The U. T. System Board of Regents and Bond Rating Agencies rely on financial reports to make important planning decisions, such as if U. T. System can afford to issue more bonds.

Executive Management uses the reports to determine if there are enough resources available to fund operations for the fiscal year.

The reports influence the decisions made at every level of management throughout U. T. System. Accurate, reliable information will facilitate sound management decisions.

CONCLUSION

You have completed the Fund Accounting Training. Exit the training by clicking the link below and access the exam.

[Fund Accounting Training](#)