

Office of the Comptroller Directive No. 2-09

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Directive Compliance Guidelines for Higher Education Institutions

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Informational Documents Available on DOA's Website

- Higher Education Institution Accounting Procedures
- Manual Leave Liability Calculation Guidelines
- Additional Information: Attachment HE-10 – TAB 3 – Part 4 regarding GASBS No. 42
- Additional Information: Attachment HE-10 – TAB 7 – Part 16 regarding GASBS No. 49
- GASBS No. 48 – Commonwealth of Virginia Intra-Entity Reporting List (referred to in Attachment HE-10 – TAB 7 – Part 15)

Attachments HE-1 Through HE-14

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| Attachment HE-1, FY 2008 Off-Balance Sheet Financial Obligations - Update |
| Attachment HE-2, Contact Survey |
| Attachment HE-3, Beginning Net Asset Reconciliation |
| Attachment HE-4, On-Behalf Payments |
| Attachment HE-5, Optional Retirement Plans |
| Attachment HE-6, <u>GASBS No. 14</u> Checklist Modified to Reflect <u>GASBS No. 39</u> |
| Attachment HE-7, Federal Schedules |
| Attachment HE-8, Appropriation Available and Appropriation Revenue |
| Attachment HE-9, Treasury's Reimbursement Programs |
| Attachment HE-10, Financial Statement Template |
| Attachment HE-11, Adjustments |
| Attachment HE-12, Schedule of Cash, Cash Equivalents, and Investments at June 30 |
| Attachment HE-13, Report of Financial Condition |
| Attachment HE-14, FY 2009 Off-Balance Sheet Financial Obligations |

Office of the Comptroller Directive No. 2-09

Directive Compliance Guidelines for Higher Education Institutions

Introduction

Purpose

This Directive provides guidance to higher education institutions for submitting the following items to the Department of Accounts (DOA) primarily to assist in the preparation of the Commonwealth's Comprehensive Annual Financial Report (CAFR).

- Financial statement template based on generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB)
 - Other financial information
-

Institution compliance

Institutions are required pursuant to the *Code of Virginia, §2.2-803* and *§2.2-813*, as amended, to submit a financial statement template and / or other financial information for the following reasons.

- The financial information required by this Directive is necessary for DOA to prepare the CAFR. The CAFR must be audited and issued by December 15th.
 - The bond rating agencies use the CAFR to determine Virginia's bond rating. Maintaining an unqualified opinion on the CAFR is critical to Virginia retaining its AAA bond rating.
 - The bond rating agencies require that parts of the CAFR be included in bond offering statements.
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Effective date

This is effective for fiscal years ended June 30, 2009, and thereafter.

This Directive rescinds and replaces Office of the Comptroller's Directive No. 2-08, "*Financial Statement Template Preparation for Higher Education Institutions.*"

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Introduction, Continued

Applicability

This Directive applies to the Roanoke Higher Education Authority (RHEA), Innovative Technology Authority (ITA), Institute for Advanced Learning and Research (IALR), Southwest Virginia Higher Education Center (SWVHEC), Southern Virginia Higher Education Center (SVHEC), New College Institute (NCI), and all of the following state-supported higher education institutions:

- Christopher Newport University (CNU)
- The College of William & Mary (CWM) – includes Richard Bland College and the Virginia Institute of Marine Science
- George Mason University (GMU)
- James Madison University (JMU)
- Longwood University (LU)
- Norfolk State University (NSU)
- Old Dominion University (ODU)
- Radford University (RU)
- University of Mary Washington (UMW)
- University of Virginia (UVA) – includes UVA College at Wise and the UVA Hospital
- Virginia Community College System (VCCS)
- Virginia Commonwealth University (VCU) – includes the VCU Health System Authority (VCUHSA)
- Virginia Military Institute (VMI)
- Virginia Polytechnic Institute and State University (VPI&SU)
- Virginia State University (VSU)

Financial statements – two versions

GASB reporting requirements have increased over the years and have resulted in two different versions of each institution's financial statements (institution format vs. CAFR format). Each institution must ensure that internal controls over the institution's individually published financial statements and also the directive submissions provided to DOA for preparation of the CAFR are strong and result in complete and accurate information.

Continued on next page

Introduction, Continued

Failure to comply

The *Code of Virginia, §2.2-5004 A3*, identifies “substantial compliance with all financial reporting standards approved by the State Comptroller” as an integral part of the financial and administrative management standards. **DOA will evaluate both the timeliness and accuracy of submissions to DOA to help determine whether the higher education institutions have complied with this management standard.** Failure to comply with this Directive could result in the following:

- The institution may not meet financial and administrative management standards; and
 - The Comptroller may disclose such failure in the *Quarterly Report on Statewide Financial Management and Compliance*.
-

SAS 112

Statement on Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit* (SAS 112) states that the identification by the auditors of a material misstatement is an indicator of a control deficiency that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control. This includes misstatements involving estimation and judgments. This also includes restatements of previously issued financial statements to reflect a correction of a material misstatement. This applies to whether the auditors or the HEI discovers the restatement. (Note: This does not apply to a change in accounting principle to comply with a new accounting principle or a voluntary change from one GAAP to another.) Institutions must ensure controls are in place to avoid material misstatements and/or misclassifications in the individually published financial statement (institution format) and the financial statement template (CAFR format).

Institutions that are required to report foundations that follow FASB reporting requirements in their individually published financial statements as a discrete component unit are responsible for obtaining the information from the foundations in order to comply with this directive. As stated in the appendix to SAS 112, one example of a potential material weakness is the failure to obtain timely and accurate consolidating information required for financial statement reporting.

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Introduction, Continued

Questions

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Directive availability

This Directive is available at www.doa.virginia.gov. Higher education institutions' fiscal officers are notified via e-mails. The Commonwealth Accounting and Reporting System (CARS) users are notified via the CARS Broadcast Screen.

Communications

Each institution is responsible for properly preparing the institution's individually published financial statements and the directive submissions. However, if DOA determines guidance on a reporting issue is required, this will be communicated to the institutions as needed. It is important to read emails from DOA soon after receipt of the email to ensure you understand and comply with the guidance.

Due Dates

Listing of attachments & supplemental information

The column below titled “Complete for HEI or Foundation(s)” documents the financial information that must be reported on the attachments and supplemental information. In this section, the acronyms are defined as follows:

- **HEI:** Higher education institution including any blended component units of the HEI.
- **Foundation(s):** For purposes of this directive, this includes any foundation/entity that is a discrete component unit of the HEI as required by GASBS No. 39.

| <i>Attachment Number</i> | <i>Complete for HEI or Foundation(s)</i> | <i>Attachment or Supplemental Information</i> | <i>Due Date</i> |
|--------------------------|--|--|--------------------|
| HE-1 | HEI | FY 2008 Off-Balance Sheet Financial Obligations – Update | July 16 |
| HE-2 | HEI | Contact Survey | July 16 |
| HE-3 | HEI/ Foundation | Beginning Net Asset Reconciliation | July 30 |
| n/a | Tier III HEIs | Supplemental Information Items 1a, 1b, 2, 3 | July 30 |
| n/a | All HEIs | Supplemental Information Item 4 | July 30 |
| HE-4 | HEI | On-Behalf Payments | August 13 |
| HE-5 | HEI | Optional Retirement Plans | August 13 |
| HE-6 | HEI | <u>GASBS No. 14</u> Checklist Modified to Reflect <u>GASBS No. 39</u> | August 13 |
| HE-7 | HEI | Federal Schedules | August 27 |
| HE-8 | HEI | Appropriation Available and Appropriation Revenue | September 3 |
| HE-9 | HEI | Treasury’s Reimbursement Programs | September 7 |
| HE-10 | HEI/ Foundation | Financial Statement Template & Supplemental Information Item 7 | Staggered due date |
| HE-11 | HEI/ Foundation | Adjustments | Staggered due date |
| HE-12 | HEI | Schedule of Cash, Cash Equivalents, and Investments at June 30 | Staggered due date |
| HE-13 | HEI HEI/ Foundation | Report of Financial Condition & Supplemental Information Item 8 | Staggered due date |
| n/a | HEI/Foundation* | Supplemental Information Item 9 (Note* required for CWM, UVA, VCU, VPI&SU) | November 23 |
| HE-14 | HEI | FY 2009 Off-Balance Sheet Financial Obligations | January 21, 2010 |

Due Dates, Continued

Staggered due dates

The due dates for the Attachments HE-10, HE-11, HE-12, and HE-13 are as follows:

| Attachments HE-10, HE-11, SNA & SRECNA (Supplemental Information Item 7) | Attachment HE-12 | Attachment HE-13 & Final Individually Published Financial Statements (Supplemental Information Item 8) | HEI acronyms |
|--|---------------------|--|---|
| September 24 | September 29 | October 8 | GMU, IALR, ITA, JMU, NCI, RU, RHEA, SVHEC, SWVHEC |
| September 28 | October 1 | October 12 | CNU, LU, UMW, NSU, ODU, VMI, VPI&SU, VSU |
| September 30 | October 5 | October 14 | CWM*, UVA, VCU, VCCS* |

Note*: The following Supplemental Information Items 5 & 6 are required along with the Attachment HE-10 submission:

- **The College of William and Mary (CWM) - Supplemental Information Item 5:** Supporting schedules for the Statement of Net Assets and Statement of Activities that includes amounts for the CWM, Virginia Institute of Marine Science, Richard Bland College, blended component units (if any), and elimination entries of significant intrafund balance/activity amounts.
- **Virginia Community College System (VCCS) - Supplemental Information Item 6:** Supporting schedules for the Statement of Net Assets, Statement of Activities, and elimination entries of significant intrafund balance/activity amounts.

Separate communications

If DOA determines additional information is needed from the institution not included in this Directive, DOA will contact the institution as needed and provide specified due dates. Separate communications may be sent anytime during the CAFR preparation period or other times during the year as needed.

In addition, if DOA needs additional information regarding the foundation(s), the institution will be responsible for obtaining the information from the foundation(s).

Attachments - Overview

Instructions

Each attachment has instructions that are in the pdf format on DOA’s website. These instructions must be read and understood prior to completing the attachments. If you do not understand the instructions and/or have any questions, contact any of the individuals listed in the **Questions** section to discuss.

Attachment changes from the prior year

Refer to the instructions for each attachment for a summary of the changes to the attachment from the prior year. In addition, a listing of changes and items of interest was e-mailed to fiscal officers and is posted on DOA’s website at www.doa.virginia.gov. Click on the “Financial Statement Directives” link.

Excel format - attachments

Most attachments* are in an Excel format. There are numerous comments within the Excel attachment spreadsheets that provide clarification regarding information that should be provided. Many cells have validation features to ensure information is entered correctly. If information is not entered correctly, an “ERROR” message will display. Some of the validation functions are as follows:

- only yellow highlighted cells allow for data entry,
- only enter whole dollar amounts,
- amounts on the Attachment HE-10’s financial statement template (FST), Combining FST, or Elimination Entries to FST must agree to the applicable footnote/informational or reconciliation tabs.

Check figures are displayed in red and provide total amounts and variance amounts that should help determine why an “ERROR” message appears in a cell. If there is an “ERROR” message that does not make sense and you cannot correct, contact DOA.

Note*: The Attachment HE-6 is in the Word format and the Attachment HE-13 is in a pdf format.

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Attachments - Overview, Continued

Verify prior year amounts

The Attachments HE-3, HE-8, HE-9, and HE-10 (FST, TAB 3 & TAB 5) have prior year amounts. Prior year amounts will appear on the applicable tab after selecting the institution's acronym. The prior year amounts should be as follows:

prior year Attachment HE-10 amounts
plus or minus
correcting adjusting journal entries (AJEs)

Verify the prior year adjusted amounts and contact DOA if amounts do not agree to the prior year's Attachment HE-10 submission as adjusted for correcting AJEs. This should be done as soon as possible in order to resolve any discrepancies.

Revision control log (RCL) tab

The following attachments include a Revision Control Log (RCL) tab: Attachments HE-3, HE-4, HE-5, HE-7, HE-8, and HE-9. If the institution submits a complete and accurate attachment, the RCL tab would be left blank. If the institution discovers that a correction is needed to any of these six attachments, the attachment must be revised and resubmitted. The changes to the attachment from the first submission to the final corrected submission must be documented on the RCL tab.

DOA analyzes the attachment submissions. If an attachment is revised, this causes extra work for DOA because another analysis will have to be done on the revised submission. Institutions should strive to ensure that these attachments are complete and accurate to avoid having to submit revised attachments.

Continued on next page

Attachments - Overview, Continued

No revision control logs

The purpose of this year's Attachment HE-1 is to provide any revisions to the prior year's Attachment HE-14 submission regarding FY 2008 Off-Balance Sheet Financial Obligations. The current year's Attachment HE-14 is to provide similar information for FY 2009 and any revisions to this attachment will most likely be requested in next year's Attachment HE-1. Therefore, the current year's Attachments HE-1 & HE-14 do not include a RCL tab.

Attachments HE-2 and HE-6 are informational attachments and do not include a RCL tab. The Attachment HE-2 is to obtain contact information to update DOA's contact listing for the directive. The Attachment HE-6 is an informational attachment regarding the GASBS No. 14/GASBS No. 39 checklist. If these attachments need to be revised after the original submission, a revised attachment can be sent to DOA with an explanation in the email as to why the revision is needed.

The Attachments HE-10 & HE-12 do not have a RCL tab. A complete and accurate Attachment HE-10 & HE-12 must be submitted by the applicable due date and **revised attachment submissions are not allowed**. Institutions must ensure that internal controls are in place to ensure the preparation of these attachments are completed by the applicable due dates so that the **first and only submission of these attachments are complete and accurate**.

Certification tab

Most attachments* have a Certification tab. The purpose of this tab is to certify that all tabs and any additional information submitted along with the attachment is as follows:

- Complete and accurate;
- Reviewed;
- Segregation of duties exist between the preparer & reviewer; and
- Instructions were read and are understood (**new language**).

Institutions should ensure that there is sufficient time for an adequate and complete review of the attachments before the submission due dates because this is an important internal control.

Note*: As previously noted, the Attachment HE-2 is an informational attachment and a Certification tab is not included in this attachment. Attachment HE-13 is a notarized statement that the financial statements or information submitted are true and correct; therefore, a certification is not also needed.

Supplemental Information

Tier III institutions

Tier III institutions (institution #s: 204, 207, 208, 209, 229, 246, 268, and 948) must provide the following by institution # to DOA by **July 30, 2009** for fiscal year-end June 30, 2009*:

- **Item 1a:** Total expenditures for fiscal year to date for all funds and personal service cost expenditures in object code 11xx. (Previously reported on the CARS 1439 Option A2 report, Agency YTD Expenditure Funding Analysis, as of fiscal year end)
- **Item 1b:** Net expenditures by institution for fiscal year to date for selected object codes 1297, 1397, 1597, 2197, 2297, and 2397 by fund-fund detail. (Previously reported on the CARS ACTR 1436 report, State Net Expenditures By Agency, Selected Object 1297, 1397, 1597, 2197, 2297, and 2397)
- **Item 2:** Net revenue by fund for fiscal year to date recorded in revenue source codes 09071, Recovery of Statewide Indirect Cost Grant/Contract Administration, 09073, Recovery of Higher Education Institution Indirect Cost Grant/Contract Administration, and 09076, Recovery of Statewide Indirect Cost Grant/Contract Administration - ARRA. (Previously reported on the CARS 1673, Net Revenue Fund Report as of fiscal year end)
- **Item 3:** Listing of expenditures, where the payment has been made to other state agencies / institutions. Include in the listing the fiscal month the expenditure was recorded, your institution's number, the transaction amount, fund / fund detail, program / subprogram, revenue source code, object code, and agency / institution name that the payment was made to.

All institutions

Provide the information listed below to DOA by **July 30, 2009** if the institution received any of the following that offset the cost of goods and services purchased by the institution during fiscal year 2009: 1) purchase discounts, 2) rebates or allowances, 3) recoveries or indemnities on losses, 4) insurance refunds or rebates, or 5) adjustments of overpayments or erroneous charges*.

- **Item 4:** Description, fund-fund detail, revenue source code or expense program, and amount

Questions

Note *: Contact Penny Williams at (804) 225-3804 or Penny.Williams@doa.virginia.gov if you have any questions regarding the supplemental information items 1a, 1b, 2, 3, and 4.

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Supplemental Information, Continued

The College of
William and
Mary (CWM)

Item 5: The following is due to DOA by **September 30, 2009**: Supporting schedules for the Statement of Net Assets and Statement of Activities that include amounts for CWM, Virginia Institute of Marine Science, Richard Bland College, blended component units (if any), and elimination entries of significant intrafund balance/activity amounts.

Virginia
Community
College System

Item 6: The following is due to DOA by **September 30, 2009**: Supporting schedules for the Statement of Net Assets, Statement of Activities, and elimination entries of significant intrafund balance/activity amounts.

All
institutions

Item 7 – SNA & SRECNA: The Attachment HE-10 instructions require that each institution provide a copy of the Statement of Net Assets (SNA) and the Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA) that were used to prepare the reconciliation tabs. **The SNA & SRECNA must be submitted electronically along with the Attachment HE-10 submission.** This submission can be in a Word, Excel, or pdf file.

Note: This is not a new requirement. It has just been added to the **Supplemental Information** section and it is still included in the instructions and submission requirements of the Attachment HE-10.

All
institutions

Item 8 – Final Individually Published Financial Statements: The Attachment HE-13 instructions require that each institution provide an electronic copy of the final individually published financial statements to include the following: Management’s Discussion and Analysis, SNA, SRECNA, Statement of Cash Flows, and Notes to the Financial Statements. **This must be submitted along with the Attachment HE-13 submission.** This submission can be in a Word, Excel, or pdf file.

Note: This is not a new requirement. It has just been added to the **Supplemental Information** section and it is still included in the instructions and submission requirements of the Attachment HE-13.

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Supplemental Information, Continued

CWM, UVA,
VCU,
VPI&SU

Item 9 – Investment & Variable Rate Debt Subsequent Disclosure is due to DOA by **November 23, 2009**. This disclosure should include the following: The value for your reporting entity's holdings (including any component units as well as foundations) as of November 13, 2009. This information should consider the portfolio taken as a whole and be comparable to the information that would have already been provided to DOA pursuant to the GASB 3/40 disclosures with a valuation date of June 30. Please provide any significant inflows or outflows of funds since June 30 that could have impacted the bottom line value of the holdings as of November 13 when compared with June 30. In addition, please provide a brief description of any risk mitigation strategies that have either been, or are anticipated to be, employed. For declines in values for your entity's holdings, please specify the amount that was due to market deteriorations versus those related to risk mitigation strategies. Please also provide information on any holdings that may be financially impaired as of November 13 (i.e., companies in bankruptcy) and the extent of these holdings in relation to the total portfolio. An assessment of the potential risk exposure, expressed as a percentage of the June 30 portfolio value, is also required.

In addition to the investment portfolio changes, include any interest rate changes, and associated costs, related to variable rate debt if the changes have a significant potential dollar impact and / or impact on your entity's operations.

Submission Requirements

Email addresses to send to DOA & copy APA

Except as noted in instructions for specific attachments, DOA **requires** the institution to e-mail the attachments*, and / or supplemental information to DOA's e-mail address at: finrept-HE@doa.virginia.gov and copy APA at APAFinRept@apa.virginia.gov.

DOA will e-mail a confirmation of receipt for each electronic submission. Institutions should follow-up with DOA if the institution does not receive a confirmation. **Institutions should not submit paper copies of e-mailed attachments.**

DOA will also notify institutions if submissions do not meet the specified standards. If a submission is deemed unacceptable and rejected by DOA, the institution will be provided a new due date to resubmit the information in a manner that adequately addresses the deficiencies noted by DOA.

Note*: Submission instructions for the Attachment HE-13 are different. There are two submission requirements for this attachment as follows: 1) notarized statement – goes to APA only (either mail the notarized statement or email a pdf file of the notarized statement), and 2) final individually published financial statements (Supplemental Information Item 8) go to APA **and** DOA in an electronic format via email.

Email problems – after work hours

If you try to submit an attachment or supplemental information after work hours on the due date and the email does not go through, you do not have to continue to try and send the email. Contact DOA the next morning.

Additional submission requirements – supplemental information

For the supplemental information submissions, include the following information within the text of the email:

- Institution name or acronym
- Contact name, phone #, email address
- Name of preparer
- Name of reviewer
- Description of the supplemental information

The filename for the supplemental information should be the institutions' acronym – Supplemental Item # (i.e. VCCS – Supplemental Item 6).

Supporting Work Papers

Introduction

Each institution must prepare supporting work papers that clearly support any attachment or supplemental information submitted to DOA.

Guidelines for financial statement template work papers

Work papers for the financial statement template (Attachment HE-10) should include any year-end adjusting entries and support of the financial statement template for the HEI, combining FST for the foundations, the applicable footnote/informational tabs, and any elimination entries. In addition, the reconciliation between the financial statement template and the individually published financial statements must be properly documented and supported. Below are some of the selected preparation requirements:

- Reconcile work papers to the internal accounting system.
 - Provide an adequate audit trail so the work papers may be tested to ensure the accuracy of the amounts presented.
 - Have work papers ready for review by the APA as soon as possible after year-end close, but not later than the submission of the associated statements, schedules and attachments.
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Suggested work papers

The following is a list of suggested work papers but is not all-inclusive:

- Trial balances for all funds;
 - An itemized listing of capital assets as of year-end which reconciles to the institution's internal accounting system; and
 - A detailed reconciliation of institution debt balances to Department of Treasury audit confirmation schedules.
-