

**The University of Texas System  
Revenue and Expenditure/Expense Analysis  
Fiscal Years 1999 - 2008**

During the year ended August 31, 2002, the University of Texas System (the System) adopted Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – Management’s Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the entity as a whole. Previously, financial statements focused on the accountability of individual fund groups rather than on the entity as a whole.

Because of the change in the financial reporting model, certain differences exist between the amounts reported as revenue and expenditures in FY 1999 through FY 2001 and the revenue and expense totals for FY 2002 through FY 2008. The Revenue and Expenditure Analyses prepared in years prior to FY 2002 were prepared under the old method of financial reporting and differ from the categorization of revenues and expenses on the FY 2002 and future Statements of Revenues, Expenses and Changes in Net Assets (SRECNA). On the ten-year comparative graphs presented in this analysis, similar items from both models (e.g. general revenue, tuition and fees) have been plotted on the same charts; however, in most cases, variations exist between years before and after the change. A detailed discussion of each component of revenues and expenditures/expenses follows:

**Revenues:**

**TUITION AND FEES** – All student tuition and fee revenues earned at the U. T. institution for educational purposes. Beginning with FY 2002, an adjustment to discount tuition and related scholarship/fellowship activities in accordance with GASB rules has been recorded. Tuition and fee income paid from institutional scholarship funds is not discounted in the prior years.

**SPONSORED PROGRAMS** – Funding received from local, state and federal governments or private agencies, organizations or individuals. Includes amounts received for services performed on grants, contracts, and agreements from these entities for current operations. In years prior to FY 2002, this primarily included sponsored research and services paid from “Restricted” funds. Contract and grant income such as that related to the Texas Southmost College/U. T. Brownsville agreement or TEXAS Grants were not included because they were recorded in other fund groups (i.e. E&G, Designated). Beginning with FY 2002, sponsored programs includes all related revenues without regard to fund group. Although Overhead on Sponsored Projects (Indirect Cost Recoveries) is reported as Sponsored Programs in the SRECNA for 2002 through 2008, it has been separately reported for purposes of this analysis in all years.

**NET SALES AND SERVICES OF EDUCATIONAL ACTIVITIES** – Revenues that are related to the conduct of instruction, research, and public service and revenues from activities that exist to provide an instructional and laboratory experience for students that create goods and services that may be sold. This category was not reported prior to FY 2002.

**HEALTH CARE** – Revenues (net of discounts, allowances, and bad debt expense) generated from U.T. health institutions’ daily patient care, special or other services, as well as revenues from health clinics that are part of a hospital. Also includes revenues (net of discounts, allowances, and bad debt expense) derived from the fees charged by the professional staffs at U.T. health institutions as part of the Medical Practice Plans. Examples of such fees include doctor’s fees for clinic visits, medical and dental procedures, professional opinions, and anatomical procedures, such as analysis of specimens

after a surgical procedure, etc. In all years, correctional care related activities at U. T. Medical Branch at Galveston have been included in this category. Except for the potential for income from certain contracts within the practice plans to be reflected as Sponsored Programs, significant differences do not appear to exist in the methodology for this line item.

AUXILIARY ENTERPRISES – Revenues derived from a service to students, faculty, or staff in which a fee is charged that is directly related to, although not necessarily equal to the cost of the service (e.g., bookstores, dormitories, dining halls, snack bars, inter-collegiate athletic programs, etc.). Differences for years before and after FY 2002 may exist due to adjustments made for scholarship/fellowship activities in a manner similar to the discounting of tuition and in accordance with GASB rules.

OTHER – For FY 2002 and future years, this includes Other Operating Revenue and Other Nonoperating Revenues reported on the SRECNA. Other Operating Revenues are generated from sales or services provided to meet current fiscal year operating expenses, which are not included in one of the preceding categories. Other Nonoperating Revenues are those not directly associated with the primary missions of System institutions and not included in another category. In prior years, "Other" included a variety of revenue and non-revenue items such as the Texas Southmost College/U. T. Brownsville agreement and Available University Fund Support for U. T. Austin and U. T. System Administration.

GENERAL REVENUE - Appropriations from the State General Revenue Fund, which supplement the U. T. institutional revenue in meeting operating expenses, such as faculty salaries, utilities, and institutional support. Also includes Higher Education Assistance Funds (HEAF), which is a source of state appropriated general revenue to U. T. Brownsville and U. T. Pan American. HEAF is appropriated for construction, library and equipment expenses for Texas public universities that do not benefit from the Permanent University Fund (PUF) bond proceeds. Differences exist for years before and after FY 2002 due to the inclusion of State-paid staff benefits on the 2002 and future SRECNA's and exclusion of those benefits from prior year totals.

GIFT CONTRIBUTIONS FOR OPERATIONS – Consist of public and private gifts used in current operations, excluding gifts for capital acquisition and endowment gifts. In years prior to 2002, this category was based on the Other Gifts and Grants and included endowment income that supported restricted activities such as scholarships, fellowships and endowed chairs/professorships.

NET INVESTMENT INCOME – Interest and dividend income, Long Term Fund and Permanent Health Fund distributions paid from current year income and patent and royalty income. Unrealized gains or losses on investment assets of the System are also included. No comparable figures exist for years prior to FY 2002.

DESIGNATED ACTIVITIES – This category is not comparable between FY 2002 and prior years. In years prior it included all income recorded in Designated Funds that was not related to tuition and fees, correctional care or practice plan activities. In FY 2002 and future years, this revenue has been included in the appropriate SRECNA categories (primarily Sales and Services of Educational Activities, Sponsored Programs and Other).

**Expenditures/Expenses:**

PERSONNEL COSTS – Costs of salaries, wages and associated fringe benefits for faculty and staff. This category differs for years before FY 2002 due to the exclusion of State-paid staff benefits in those prior years.

MAINTENANCE, OPERATIONS, EQUIPMENT – HOSPITALS AND CLINICS – Non-personnel expenditures of U. T. health-related institutions with teaching hospital affiliations for costs associated with providing patient care and operating the entity (i.e., labs, pharmacies, etc.)

MAINTENANCE, OPERATIONS, EQUIPMENT – ALL OTHER – Non-personnel expenditures by U. T. institutions for departmental operations, maintenance of facilities, utilities, etc. and not related to hospital and clinic activities.

DEPRECIATION AND AMORTIZATION – Systematic allocation of long-lived assets such as buildings, infrastructure and equipment to current period operations. Depreciation was not included in the System's financial statements prior to FY 2002.

INTEREST EXPENSE ON CAPITAL ASSET FINANCING –Interest expense associated with bond and note borrowings utilized to finance capital improvement projects. With the exception of Constitutional Appropriation Bonds at U. T. Pan American and debt associated with the Suida-Manning Art Collection at U. T. Austin, U. T. System Administration reports all interest expense as the debt legally belongs to the Board of Regents. In prior years, this total, along with associated principal repayments, was reported as part of Capital Projects and Debt Service.

CAPITAL PROJECTS AND DEBT SERVICE – This category is no longer used beginning with FY 2002. In prior years, this category included capital outlay paid from operating funds and principal and interest payments on debt.

**Other Notes:**

The Revenues and Expenses totals presented for the System agree to those in the System's consolidated Annual Financial Report. Also included in this report are combined totals for the health institutions, the academic institutions and the U. T. System Administration. To prevent the double counting of the same funds as revenue and expenses, eliminations are made during the System-wide consolidation process. Because these eliminations have not been reflected in the totals of the health institutions, academic institutions and the U. T. System Administration presented in this report, it is not possible to add these three summaries together to arrive at the amounts presented for the System.

Due to the implementation of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (OPEB) in 2008, the System reported \$422.7 million for the net OPEB obligation liability. GASB 45 requires accrual-based measurement and recognition of OPEB expenses, such as retiree medical and dental costs, over the employees' years of service, along with the related liability. Pursuant to GASB 45, the System has accrued the liability and is recognizing it over a 30-year period so that the increase in the liabilities does not occur all in one year. The System is not required to fund the OPEB liability; instead, the difference between the OPEB cost and the System's contributions to the plan will increase the unfunded actuarial accrued liability. As a result, the expense category of "Maintenance, Operation, and Equipment – All Other" shows a significant increase between 2007 and 2008 for both the combined System and for the U. T. System Administration, where the liability and expense are recorded.