

FUND ACCOUNTING TRAINING

Module 7

Financial Statements

The University of Texas System

OBJECTIVES



- Identify three principal financial statements of colleges and universities
- Describe basic content and layout of three principal financial statements
- Identify interrelated elements among these statements
- Explain Annual Financial Report preparation process
- Identify principal users of financial information

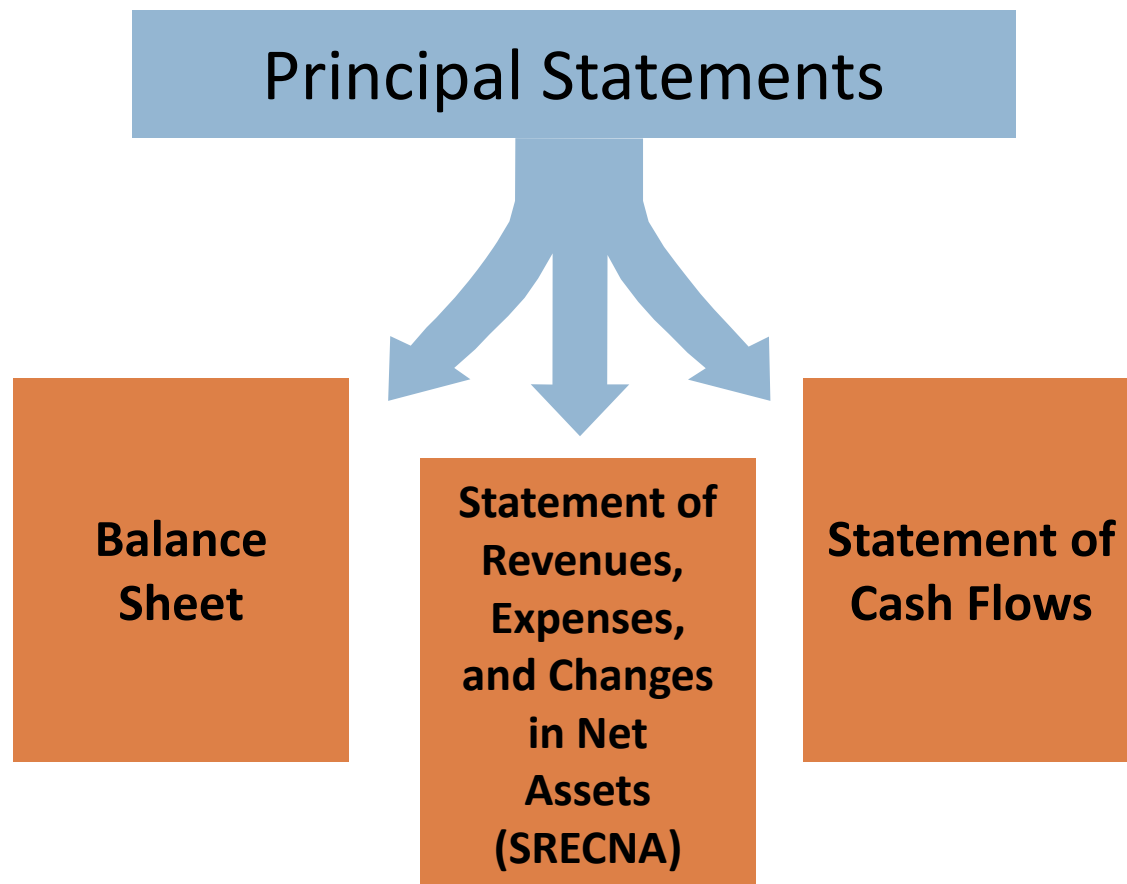
FINANCIAL STATEMENTS - OVERVIEW



- Balance Sheet
- Statement of Revenues, Expenses, and Changes in Net Assets
- Statement of Cash Flows

FINANCIAL STATEMENTS – OVERVIEW (CONTINUED)

Colleges and universities use three principal financial statements:



NOTES TO FINANCIAL STATEMENTS



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
- Summary of Significant Accounting Policies
- Deposits and Investments
- Bonds Payable
- Pending Lawsuits and Claims
- Capital Lease Obligations

FINANCIAL STATEMENTS

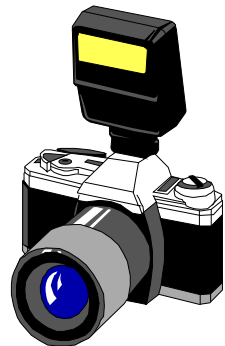


Notes to the financial statements are an integral part of the financial statements. Their ultimate purpose is to facilitate the reader's understanding of financial information.

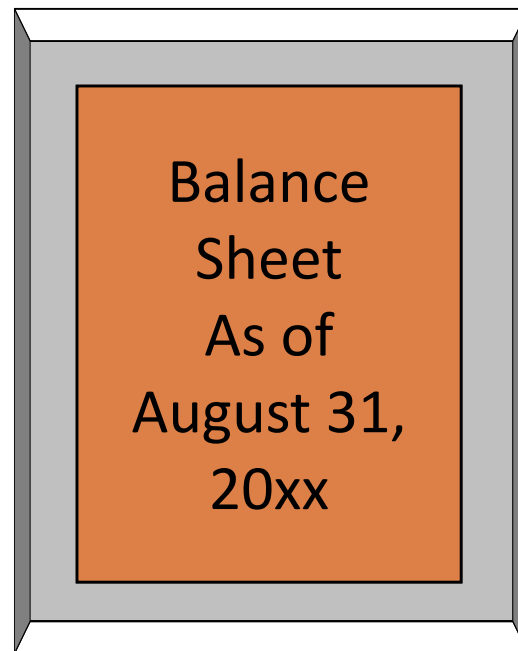
Preceding the primary financial statements is the Management's Discussion and Analysis (MD&A), which provides an overview of the financial position and activities of U. T. System.

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

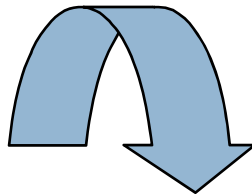


The Balance Sheet is reported as of a particular date. One can think of the Balance Sheets as a “**snapshot**” of the financial position of an institution on the reporting date.

FINANCIAL STATEMENTS (CONTINUED)

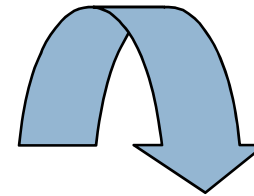
Flow of Activities

Both the Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA) 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.

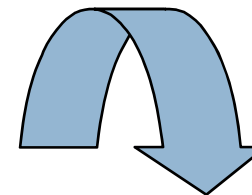


Statement of Revenues, Expenses, and Changes in Net Assets

Statement of Cash Flows



For the Year Ended August 31, 20XX

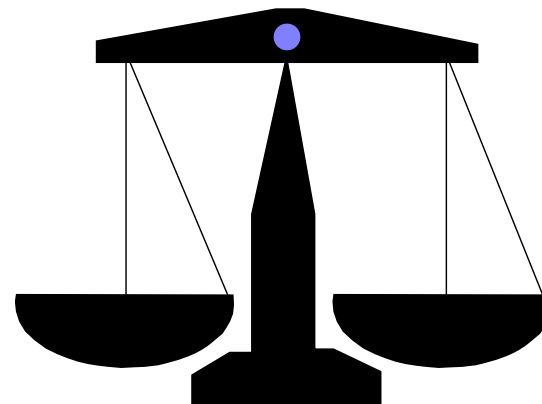
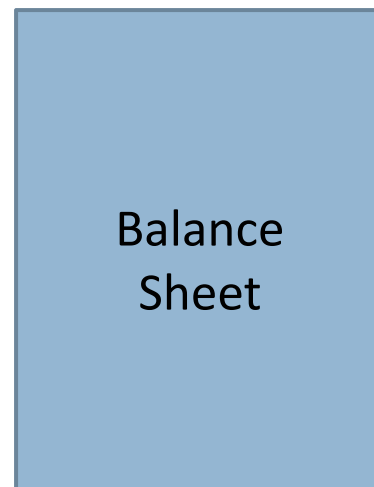


FINANCIAL STATEMENTS – BALANCE SHEET

The first statement we will examine is the Balance Sheet. This statement is presented as “Exhibit A” in the completed report.

Unlike the SRECNA 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 Balance Sheet reports the financial position of the institution at the report date.



FINANCIAL STATEMENTS – BALANCE SHEET

Statement Layout:

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

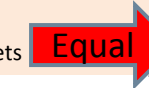
The Balance Sheet is presented in three sections:

- Assets
- Liabilities
- Net Assets

The assets and liabilities are further separated into current and non-current sections. Total Assets will **always equal** total liabilities plus total net assets, hence the name “**Balance Sheet.**”

The University of Texas System - Balance Sheet

(\$ in millions)	Current Year	Prior Year
Assets:		
Current assets	\$ 5,005.2	5,260.7
Noncurrent investments	20,890.2	25,127.9
Other noncurrent assets	266.9	281.9
Capital assets, net	10,130.7	9,300.1
Total assets	<u>36,293.0</u>	<u>39,970.6</u>
Liabilities:		
Current liabilities	6,112.4	7,405.7
Noncurrent liabilities	6,155.3	4,947.3
Total liabilities	<u>12,267.7</u>	<u>12,353.0</u>
Net assets:		
Invested in capital assets, net of related debt	4,475.1	4,492.6
Restricted	17,197.0	20,377.6
Unrestricted	2,353.2	2,747.4
Net assets	<u>24,025.3</u>	<u>27,617.6</u>
Liabilities and net assets	<u>36,293.0</u>	<u>39,970.6</u>



FINANCIAL STATEMENTS – SRECNA

SRECNA:

Of the three primary financial statements, the Statement of Revenues, Expenses and Changes in Net Assets 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 ASSETS]

Statement of
Revenues,
Expenses, and
Changes in Net
Assets



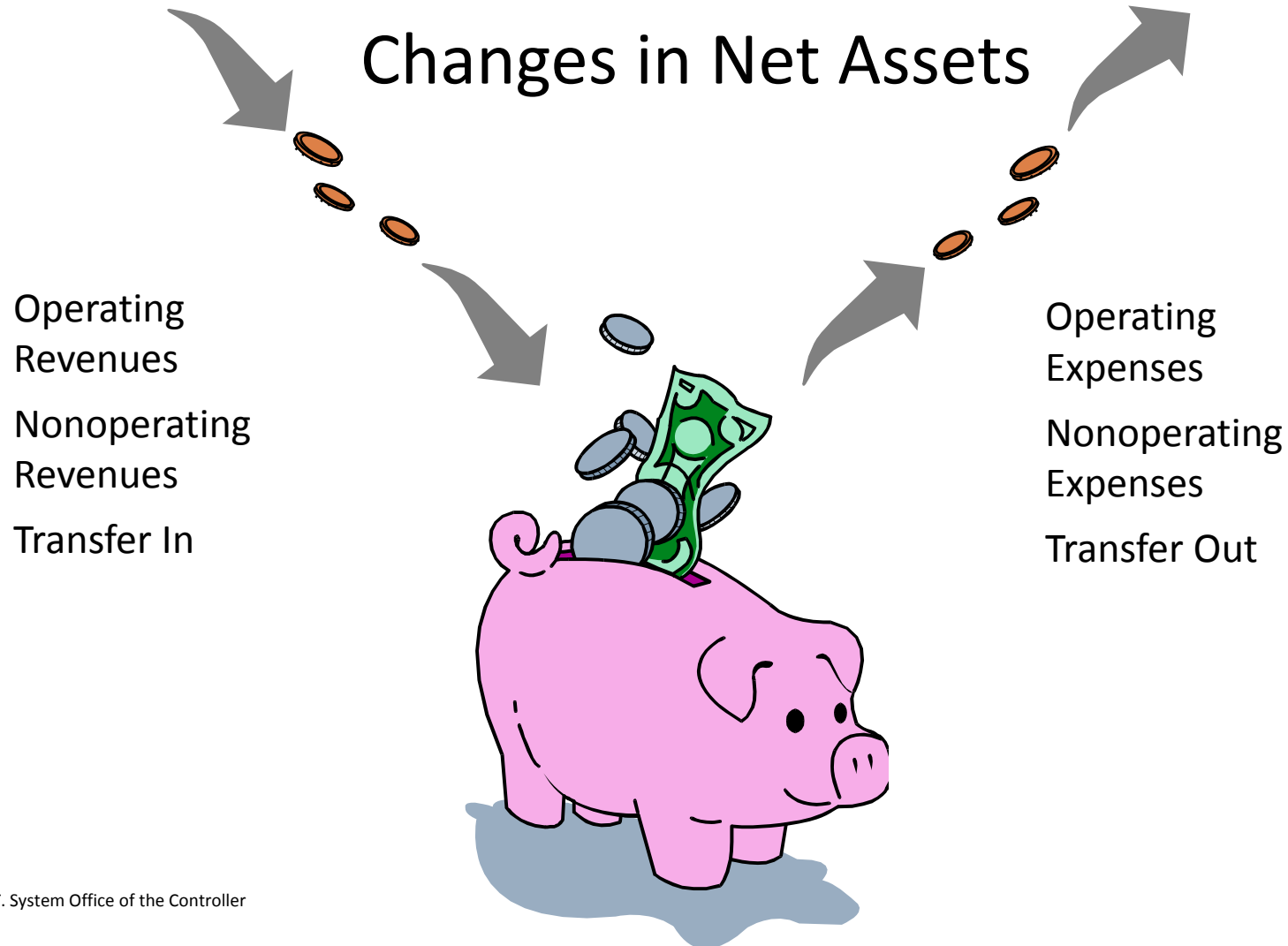
FINANCIAL STATEMENTS – SRECNA (CONTINUED)

As discussed earlier, the SRECNA 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 assets) for **all funds** for the fiscal year September 1, 20XX through August 31, 20XX.

FINANCIAL STATEMENTS – SRECNA (CONTINUED)



FINANCIAL STATEMENTS – SRECNA

Statement Layout:

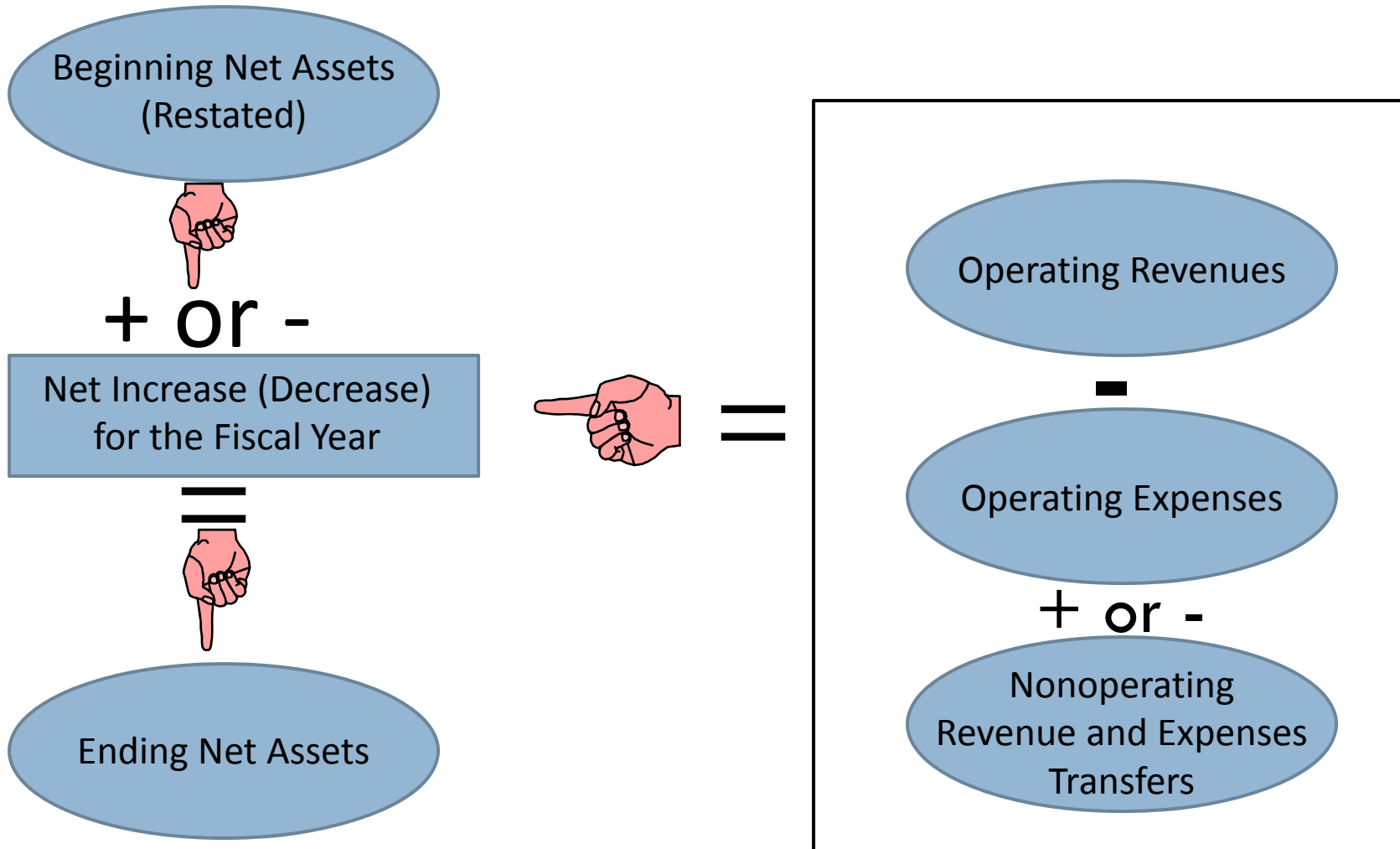
The SRECNA is presented in columnar form and all the fund groups are collapsed. The statement is divided into the following sections:

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

The University of Texas System - SRECNA

	Current Year	Prior Year
(\$ in millions)		
Operating revenues:		
Net student tuition and fees	\$ 1,104.3	1,024.0
Sponsored programs	2,517.0	2,408.8
Net patient care revenues	4,123.0	3,999.3
Net auxiliary enterprises	372.3	342.1
Other	447.6	389.1
Total operating revenues	8,564.2	8,163.3
Total operating expenses	(11,775.2)	(11,015.7)
Operating loss	(3,211.0)	(2,852.4)
Nonoperating revenues (expenses):		
State appropriations	2,115.0	1,956.7
Nonexchange Sponsored Programs	189.1	-
Gift contributions	289.6	368.8
Net investment income (loss)	(1,304.9)	1,648.3
Net inc. (dec.) in fair value of investments	(1,332.9)	(1,880.6)
Interest expense on capital asset financings	(158.9)	(161.7)
Net other nonoperating revenues (expenses)	26.9	(28.9)
Income before other revenues, expenses, gains or losses	(3,387.1)	(949.8)
Capital appropriations – Higher Education Assistance Fund (HEAF)	17.5	17.1
Capital gifts and grants, additions to permanent endowments and extraordinary items	165.4	338.7
Net Transfers to other State entities	(388.1)	(138.0)
Change in net assets	(3,592.3)	(732.0)
Net assets, beginning of the year	27,617.6	28,349.6
Net assets, end of the year	\$ 24,025.3	27,617.6

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS



FINANCIAL STATEMENTS - STATEMENT OF CASH FLOWS

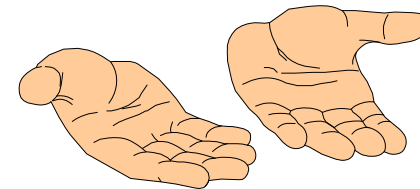
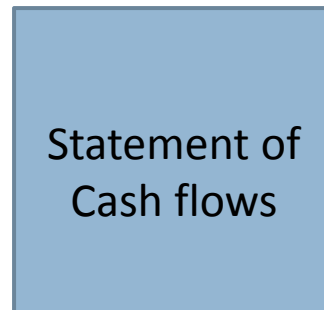
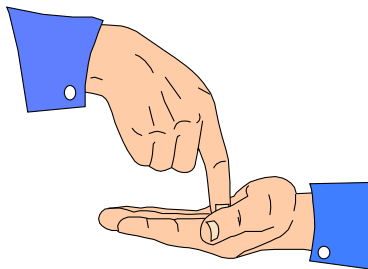
Statement of Cash Flows:

The final statement of the three principal 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 (not illustrated)

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.

The University of Texas System - Cash Flows

(\$ in millions)	Current Year	Prior Year
Cash flows:		
Cash received from operations	\$ 8,816.8	8,237.9
Cash expended for operations	(10,731.3)	(9,940.5)
Net cash used in operating activities	(1,914.5)	(1,702.6)
Net cash provided by noncapital financing activities	2,398.8	2,067.3
Net cash used in capital and related financing activities	(790.3)	(758.0)
Net cash (used in)/provided by investing activities	706.4	456.0
Net (decrease)/increase in cash and cash equivalents	400.4	62.7
Cash and cash equivalents, beginning of year	1,944.3	1,881.6
Cash and cash equivalents, end of year	\$ 2,344.7	1,944.3

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 transaction 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	\$ (3,211.0)	(2,852.4)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation, Impairment, and Bad Debt Expense	1,018.7	920.3
Op. Income & Cash Flow Categories Classification Differences	(66.3)	-
Changes in Assets and Liabilities	344.1	229.5
Total Adjustments	<u>1,296.5</u>	<u>1,149.8</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (1,914.5)</u>	<u>(1,702.6)</u>
Noncash Transactions:		
Net Increase (Decrease) in Fair Value of Investments	(1,332.9)	(1,880.6)
Donated Capital Assets	20.7	72.5
Capital Assets Acquired Under Capital Lease Purchases	0.5	3.5
Miscellaneous Noncash Transactions	9.2	(23.9)

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 statements; the explanation of interrelated elements will also be limited to these three statements.

FINANCIAL STATEMENTS (CONTINUED)

The University of Texas System - Balance Sheet

(\$ in millions)	Current Year	Prior Year
Assets:		
Cash and cash equivalents	\$ 2,344.7	1,944.3
Current assets	2,660.5	3,316.6
Noncurrent investments	20,890.2	25,127.9
Other noncurrent assets	266.9	281.7
Capital assets, net	10,130.7	9,300.1
Total assets	<u>36,293.0</u>	<u>39,970.6</u>
Liabilities:		
Current liabilities	6,112.4	7,405.7
Noncurrent liabilities	6,155.3	4,947.3
Total liabilities	<u>12,267.7</u>	<u>12,353.0</u>
Net assets:		
Invested in capital assets, net of related debt	4,475.1	4,492.6
Restricted	17,197.0	20,377.6
Unrestricted	2,353.2	2,747.4
Net assets	<u>24,025.3</u>	<u>27,617.6</u>
Liabilities and net assets	\$ <u>36,293.0</u>	<u>39,970.6</u>

Balance Sheet – 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:		
Cash received from operations	\$ 8,816.8	8,237.9
Cash expended for operations	(10,731.3)	(9,940.5)
Net cash used in operating activities	(1,914.5)	(1,702.6)
Net cash provided by noncapital financing activities	2,398.8	2,067.3
Net cash used in capital and related financing activities	(790.3)	(758.0)
Net cash (used in)/provided by investing activities	706.4	456.0
Net (decrease)/increase in cash and cash equivalents	400.4	62.7
Cash and cash equivalents, beginning of year	1,944.3	1,881.6
Cash and cash equivalents, end of year	\$ <u>2,344.7</u>	<u>1,944.3</u>

FINANCIAL STATEMENTS (CONTINUED)

The University of Texas System - SRECNA

	Current Year	Prior Year
(\$ in millions)		
Operating revenues:		
Net student tuition and fees	\$ 1,104.3	1,024.0
Sponsored programs	2,517.0	2,408.8
Net patient care revenues	4,123.0	3,999.3
Net auxiliary enterprises	372.3	342.1
Other	447.6	389.1
Total operating revenues	8,564.2	8,163.3
Total operating expenses	(11,775.2)	(11,015.7)
Operating loss	(3,211.0)	(2,852.4)
Nonoperating revenues (expenses):		
State appropriations	2,115.0	1,956.7
Nonexchange Sponsored Programs	189.1	-
Gift contributions	289.6	368.8
Net investment income (loss)	(1,304.9)	1,648.3
Net inc. (dec.) in fair value of investments	(1,332.9)	(1,880.6)
Interest expense on capital asset financings	(158.9)	(161.7)
Net other nonoperating revenues (expenses)	26.9	(28.9)
Income before other revenues, expenses, gains or losses	(3,387.1)	(949.8)
Capital appropriations – Higher Education Assistance Fund (HEAF)	17.5	17.1
Capital gifts and grants, additions to permanent endowments and extraordinary items	165.4	338.7
Net Transfers to other State entities	(388.1)	(138.0)
Change in net assets	(3,592.3)	(732.0)
Net assets, beginning of the year	27,617.6	28,349.6
Net assets, end of the year	\$ 24,025.3	27,617.6

The University of Texas System - Balance Sheet

	Current Year	Prior Year
(\$ in millions)		
Assets:		
Cash and cash equivalents	\$ 2,344.7	1,944.3
Current assets	2,660.5	3,316.6
Noncurrent investments	20,890.2	25,127.9
Other noncurrent assets	266.9	281.7
Capital assets, net	10,130.7	9,300.1
Total assets	36,293.0	39,970.6
Liabilities:		
Current liabilities	6,112.4	7,405.7
Noncurrent liabilities	6,155.3	4,947.3
Total liabilities	12,267.7	12,353.0
Net assets:		
Invested in capital assets, net of related debt	4,475.1	4,492.6
Restricted	17,197.0	20,377.6
Unrestricted	2,353.2	2,747.4
Net assets	24,025.3	27,617.6
Liabilities and net assets	\$ 36,293.0	39,970.6

Interrelated Elements:

The ending net assets from the SRECNA must agree to the ending net assets reported on the balance sheet.

FINANCIAL STATEMENTS (CONTINUED)

A reader can look at the Balance Sheet and determine the amount of the net assets for each fund group. However, if the reader wants to analyze the changes in the net assets since the last reporting period, they should look at the SRECNA.

The University of Texas System - Balance Sheet

(\$ in millions)	Current Year	Prior Year
Assets:		
Cash and cash equivalents	\$ 2,344.7	1,944.3
Current assets	2,660.5	3,316.6
Noncurrent investments	20,890.2	25,127.9
Other noncurrent assets	266.9	281.7
Capital assets, net	10,130.7	9,300.1
Total assets	36,293.0	39,970.6
Liabilities:		
Current liabilities	6,112.4	7,405.7
Noncurrent liabilities	6,155.3	4,947.3
Total liabilities	12,267.7	12,353.0
Net assets:		
Invested in capital assets, net of related debt	4,475.1	4,492.6
Restricted	17,197.0	20,377.6
Unrestricted	2,353.2	2,747.4
Net assets	24,025.3	27,617.6
Liabilities and net assets	\$ 36,293.0	39,970.6

U. T. System Office of the Controller

The University of Texas System - SRECNA

(\$ in millions)	Current Year	Prior Year
Operating revenues:		
Net student tuition and fees	\$ 1,104.3	1,024.0
Sponsored programs	2,517.0	2,408.8
Net patient care revenues	4,123.0	3,999.3
Net auxiliary enterprises	372.3	342.1
Other	447.6	389.1
Total operating revenues	8,564.2	8,163.3
Total operating expenses	(11,775.2)	(11,015.7)
Operating loss	(3,211.0)	(2,852.4)
Nonoperating revenues (expenses):		
State appropriations	2,115.0	1,956.7
Nonexchange Sponsored Programs	189.1	-
Gift contributions	289.6	368.8
Net investment income (loss)	(1,304.9)	1,648.3
Net inc. (dec.) in fair value of investments	(1,332.9)	(1,880.6)
Interest expense on capital asset financings	(158.9)	(161.7)
Net other nonoperating revenues (expenses)	26.9	(28.9)
Income before other revenues, expenses, gains or losses	(3,387.1)	(949.8)
Capital appropriations – Higher Education Assistance Fund (HEAF)	17.5	17.1
Capital gifts and grants, additions to permanent endowments and extraordinary items	165.4	338.7
Net Transfers to other State entities	(388.1)	(138.0)
Change in net assets	(3,592.3)	(732.0)
Net assets, beginning of the year	27,617.6	28,349.6
Net assets, end of the year	\$ 24,025.3	27,617.6

FINANCIAL STATEMENTS (CONTINUED)

The University of Texas System - SRECNA

(\$ in millions)	Current Year	Prior Year
Operating revenues:		
Net student tuition and fees	\$ 1,104.3	1,024.0
Sponsored programs	2,517.0	2,408.8
Net patient care revenues	4,123.0	3,999.3
Net auxiliary enterprises	372.3	342.1
Other	447.6	389.1
Total operating revenues	8,564.2	8,163.3
Total operating expenses	(11,775.2)	(11,015.7)
Operating loss	(3,211.0)	(2,852.4)
Nonoperating revenues (expenses):		
State appropriations	2,115.0	1,956.7
Nonexchange Sponsored Programs	189.1	-
Gift contributions	289.6	368.8
Net investment income (loss)	(1,304.9)	1,648.3
Net inc. (dec.) in fair value of investments	(1,332.9)	(1,880.6)
Interest expense on capital asset financings	(158.9)	(161.7)
Net other nonoperating revenues (expenses)	26.9	(28.9)
Income before other revenues, expenses, gains or losses	(3,387.1)	(949.8)
Capital appropriations – Higher Education Assistance Fund (HEAF)	17.5	17.1
Capital gifts and grants, additions to permanent endowments and extraordinary items	165.4	338.7
Net Transfers to other State entities	(388.1)	(138.0)
Change in net assets	(3,592.3)	(732.0)
Net assets, beginning of the year	27,617.6	28,349.6
Net assets, end of the year	\$ 24,025.3	27,617.6

Interrelated Elements: The SRECNA 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:		
Cash received from operations	\$ 8,816.8	8,237.9
Cash expended for operations	(10,731.3)	(9,940.5)
Net cash used in operating activities	(1,914.5)	(1,702.6)
Net cash provided by noncapital financing activities	2,398.8	2,067.3
Net cash used in capital and related financing activities	(790.3)	(758.0)
Net cash (used in)/provided by investing activities	706.4	456.0
Net (decrease)/increase in cash and cash equivalents	400.4	62.7
Cash and cash equivalents, beginning of year	1,944.3	1,881.6
Cash and cash equivalents, end of year	\$ 2,344.7	1,944.3
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:		
Operating Loss	\$ (3,211.0)	(2,852.4)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation, Impairment, and Bad Debt Expense	1,018.7	920.3
Op. Income & Cash Flow Categories Classification Differences	(66.3)	-
Changes in Assets and Liabilities	344.1	229.5
Total Adjustments	1,296.5	1,149.8
Net Cash Provided (Used) by Operating Activities:	\$ (1,914.5)	(1,702.6)

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 State Comptroller's Office each fiscal year. The Financial Reporting division of the Office of the Controller at U. T. System Administration consolidates the individual institution annual reports into the consolidated Systemwide report. The Financial Reporting division 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 staff assists the institutions in preparation of their reports by conducting the AFR workshop. Each year, employees from the U. T. institutions who are responsible for preparing the institution's annual financial report are invited to attend a meeting or videoconference to discuss topics relevant to the preparation process.

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 forward a copy to U. T. System Administration. The Financial Reporting staff review these reports primarily to determine if the principal statements and the supporting schedules tie appropriately. Any inconsistencies are communicated to the appropriate person at the institution, and revisions or corrections are made by the institution as necessary.

The Financial Reporting staff also examines any significant fluctuations in account balances from one year to the next. If an account balance changes between two years by a large percentage, the Financial Reporting staff asks the institution's staff to investigate the reason for the significant change. The main purpose of this verification is to detect possible reporting errors. State auditors and the Comptroller's Office also request fluctuation analysis for significant line items.

FINANCIAL STATEMENTS (CONTINUED)

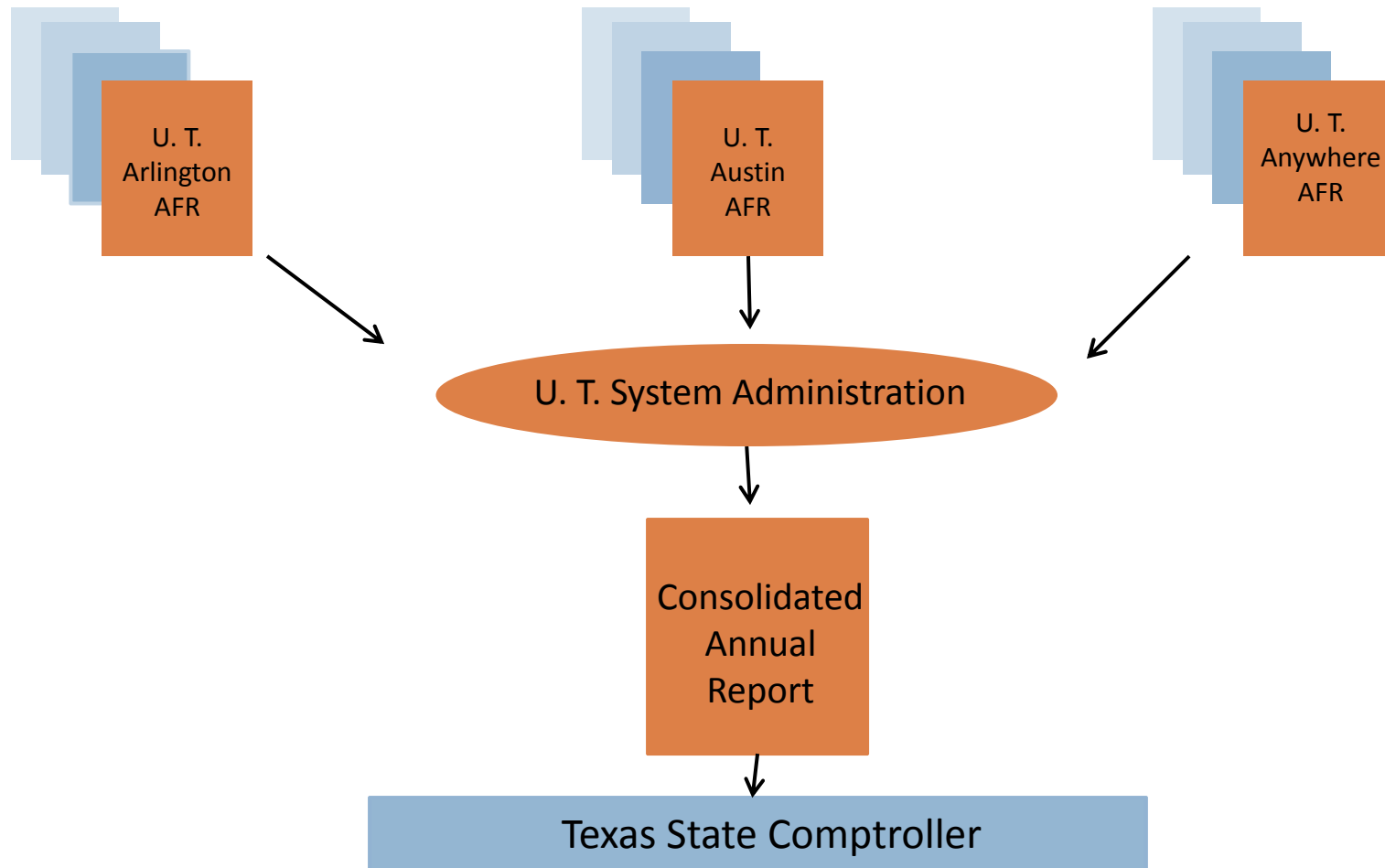
Preparation of the Annual Financial Report (continued)

When the institution completes all revisions, they begin work on preparing a final “print-ready” copy of their report. It is sent to the Financial Reporting division, which coordinates printing of the individual institution’s Annual Financial Report. Meanwhile, the Financial Reporting staff is also charged with the task of consolidating the principal (or primary) statements of all institutions and producing the *Consolidated Primary Financial Statements*.

The *Consolidated Financial Statements* are forwarded to the Texas State Comptroller’s office, which consolidates this financial information into the CAFR.

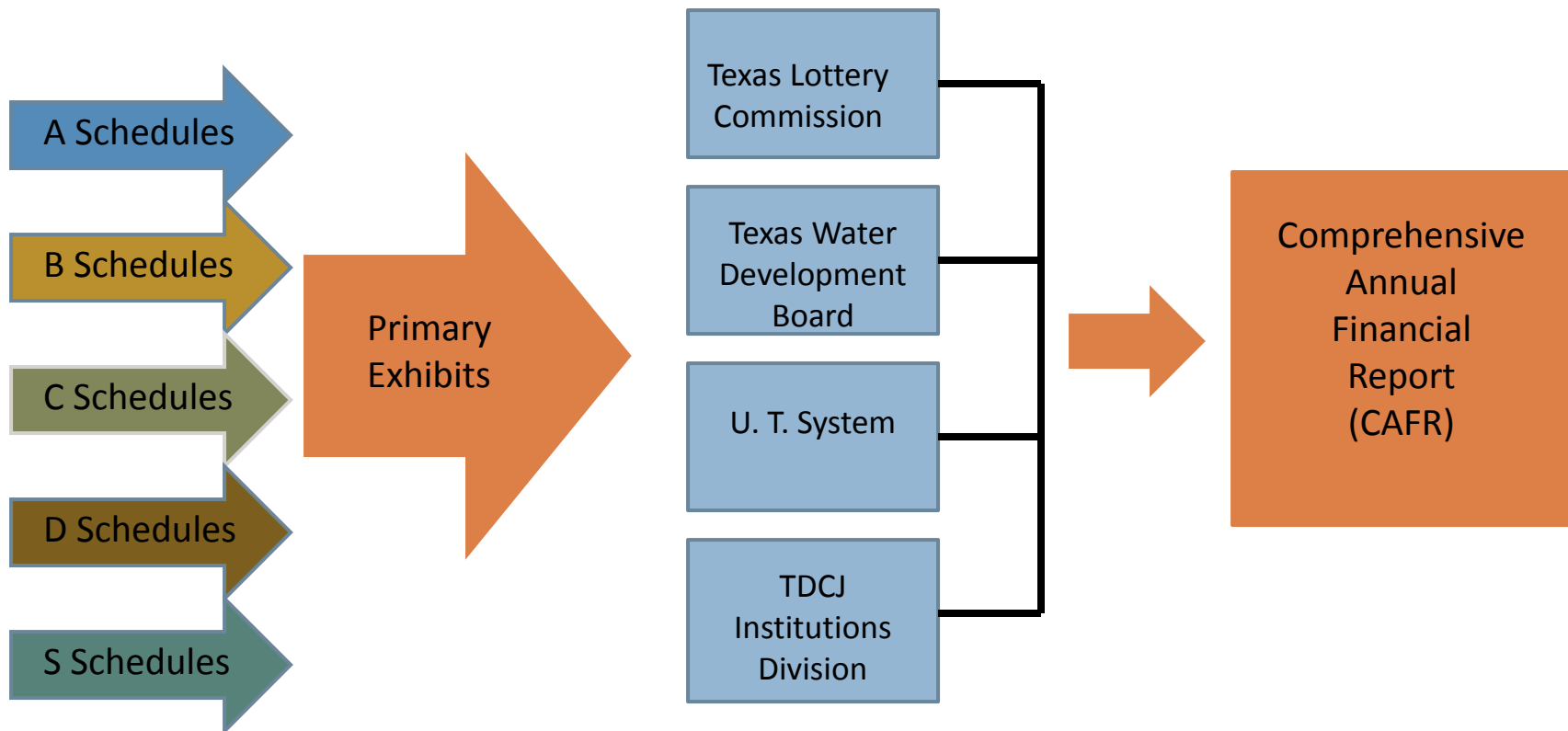
FINANCIAL STATEMENTS (CONTINUED)

Institutions



FINANCIAL STATEMENTS (CONTINUED)

Proprietary Funds



FINANCIAL STATEMENTS (CONTINUED)

The reporting objectives discussed above are set forth in the:

- GASB (Governmental Accounting Standards Board) *Statements and Interpretations*
- NACUBO (National Association of College and University Business Officers) *Financial Account and Reporting Manual for Higher Education*
- AICPA (American Institute of Certified Public Accountants) *Audits of Colleges and Universities*
- Texas State 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 the 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 State Comptroller's guidelines.

A number of people rely on U. T. System's financial reports.

The Legislative Budget Board uses the *Legislative Appropriations Request* report to recommend budget cuts (or enhancements) to the legislators.

The Board of Regents and investment managers rely on various financial reports to make important planning decisions, like whether or not the U. T. System can afford to issue more bonds.

FINANCIAL STATEMENTS (CONTINUED)



Various managers use 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 the 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.

<http://www.utsystem.edu/cont/training.html>