

Top Finance Must Know Terms at the University of Texas System

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Return on Investment

- Return on Investment (ROI) is simply the Return or Profit divided by the Investment or Cost.
- ROI = Profit ÷ Money Invested
- An ROI of 10% indicates for every dollar invested in a project, the project returns 1 dollar and 10 cents.
- ROI is important because it quantifies the value of a project and makes it easier to compare the outcomes of different projects with similar timeframes. It is often used as a performance measure.
- ROI doesn't take into account the concept of time value of money and gives no indication of **when** the investment profits will be realized, so it should be used carefully.

Zero-Based Budgeting

- Zero-based budgeting means each item in the budget must be justified at the time the budget is developed without any assumptions regarding continuation of any program or services.
- Pros: Zero-based budgeting assures active monitoring of the link between institutional activities and institutional goals, with resource allocation resting on articulation of the linkage and evidence of performance.
- Cons: Extremely labor intensive. Additionally, Zero-based budgeting can have the unintended consequence of providing a disincentive to commit deeply to pursue an initiative that may or may not be funded in future.
- Zero-based budgeting works wonderfully in theory but it is far more common to see some hybrid of Zero-based budgeting in practice.

Primary Elements of the Budget

There are 2 primary elements in any budget: Revenue and Expenses.

Revenue: Public university systems, such as UT System, receive funds from a variety of sources that place restrictions on the use of funds.

- Sources of the funds for UT System are

- ❖ Tuition and Fees
- ❖ State Appropriations
- ❖ Federal, State and Local Sponsorships
- ❖ Hospital, clinic and professional fees
- ❖ Gifts
- ❖ Investment Income
- ❖ Auxiliary enterprises
- ❖ Educational Activities

- Most non-profit organizations, including institutions of higher education, use fund accounting to present their financial statements. **Fund accounting** is a method of accounting in which assets are segregated into categories according to restrictions placed on their use by the funding source.

Expenses: Expenses can be grouped by functional or natural classification. In practice, functional classification may be useful at an institutional level, and natural classification at a unit level.

- **Functional classification** of expenses shows expenses according to the purpose for which they were incurred. Under functional classification the categories are

- ❖ Instruction
- ❖ Research
- ❖ Public Service
- ❖ Hospitals/Clinics
- ❖ Academic Support
- ❖ Student Services
- ❖ Institutional Support, etc.

- **Natural classification** of expenses shows expenses by broad type. The categories are

- ❖ Salaries and Wages
- ❖ Payroll related costs
- ❖ Travel, etc.

Financial Statements Overview

- The Annual Financial Report for the entire UT System is prepared in accordance with Generally Accepted Accounting Principles (GAAP) and the Texas State Comptroller's guidelines.
- There are 3 main types of financial statements

Statement of Net Position

- ❖ This statement is reported as of the end of a specific date. For UT System, it is August 31, 20XX, which marks the end of fiscal year 20XX.
- ❖ One can think of this statement as a "snapshot" of the financial position of the institution on August 31.
- ❖ This statement shows the assets, liabilities, and the net asset position (assets minus liabilities).

Statement of Revenues, Expenses and Changes in Net Position

- ❖ Reports the flow of funds into and out of the institution for the entire year (i.e., from Sept 1 of prior year to August 31 of current year).
- ❖ This statement shows in-flows or Revenues, and out-flows or Expenses, and the impact on net assets for all funds for the fiscal year.

Statement of Cash Flows

- ❖ Reports cash flow activity for an entire year.
- ❖ This statement reports the sources and uses of cash.

- Notes to Financial Statements are another important component and provide a greater detail about the data presented in the statements themselves.

- Management's Discussion and Analysis (MD&A) precedes the primary financial statements and provides an overview of financial position and activities.

For UT System, the financial reports can be accessed at www.utsystem.edu/offices/controller/state_required_reports

The Permanent and Available University Fund (PUF and AUF)

- In 1876, the Texas Constitution set aside land ("university lands") in West Texas to support The University of Texas and Texas A&M systems of higher education, and prescribed its governance, investment and use.
- Today, that land – encompassing 2.1 million acres – is leased to oil and gas companies whose wells generate revenue that flows into the PUF. Land also is leased for grazing, wind farms and other revenue-generating activities ("surface income").
- The PUF endowment is managed by The University of Texas Investment Management Company (UTIMCO), under the authority of the UT System Board of Regents, and the land is managed by the University Lands office.
- The Constitution also established the AUF, which consists of distributions from the PUF and surface income. UT System Board of Regents determines the amount to be distributed from the PUF to the AUF in any year.
- The Texas constitution stipulates that The University of Texas System gets 2/3 of the annual distribution to the AUF and the Texas A&M system gets 1/3.
- UT System's share of the AUF can only be used for PUF bond debt service, support and maintenance of UT Austin and UT System Administration.
- The Constitution authorizes UT System and Texas A&M System to issue bonds (called PUF Bonds) guaranteed by the AUF. PUF bonds may be issued for the benefit of all 14 UT System institutions, but may only be used to finance capital expenditures and cannot be used for operational expenses of either system administration or a campus.
- The AUF income and distributions available to UT System were \$549 million and \$606 million in 2016 and 2017, respectively. Per the most recent AUF report, the market value of PUF was \$19.2 billion in Feb 2017.
- For more information, visit <https://www.utsystem.edu/puf>

REFERENCES

- Information on this poster was culled from various UT System websites including but not limited to UT System Controllers' Office website
- "Budgets and Financial Management in Higher Education" – Margaret J. Barr and George S. McClellan