

# UNDERSTANDING COLLEGE & UNIVERSITY ACCOUNTING

Deciphering the Financial Statements

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# Learning Objectives

- After completing this course, you will be able to:
  - Identify the various fund types utilized by colleges and universities
  - Understand the purpose and function of these funds
  - Recognize the basic financial statements
  - Describe basic differences in financial reporting for private and public institutions
  - Hold your own at the next board meeting

# MAJOR TOPICS

- Fund accounting concepts
- Chart of accounts
- Fund accounting groups
  - Current/Non-current/Other funds
- Differences in public and private financial statements
- Review of financial statements

# CONCEPTS AND DEFINITIONS

# CHARACTERISTICS OF NOT-FOR-PROFIT ORGANIZATIONS

	Business	NFP
Individuals own it	YES	NO
Customers give money; expect products and services in return	YES	NO
Profit is primary purpose	YES	NO

# Profit

$\text{Profit} = \text{Net Income}$

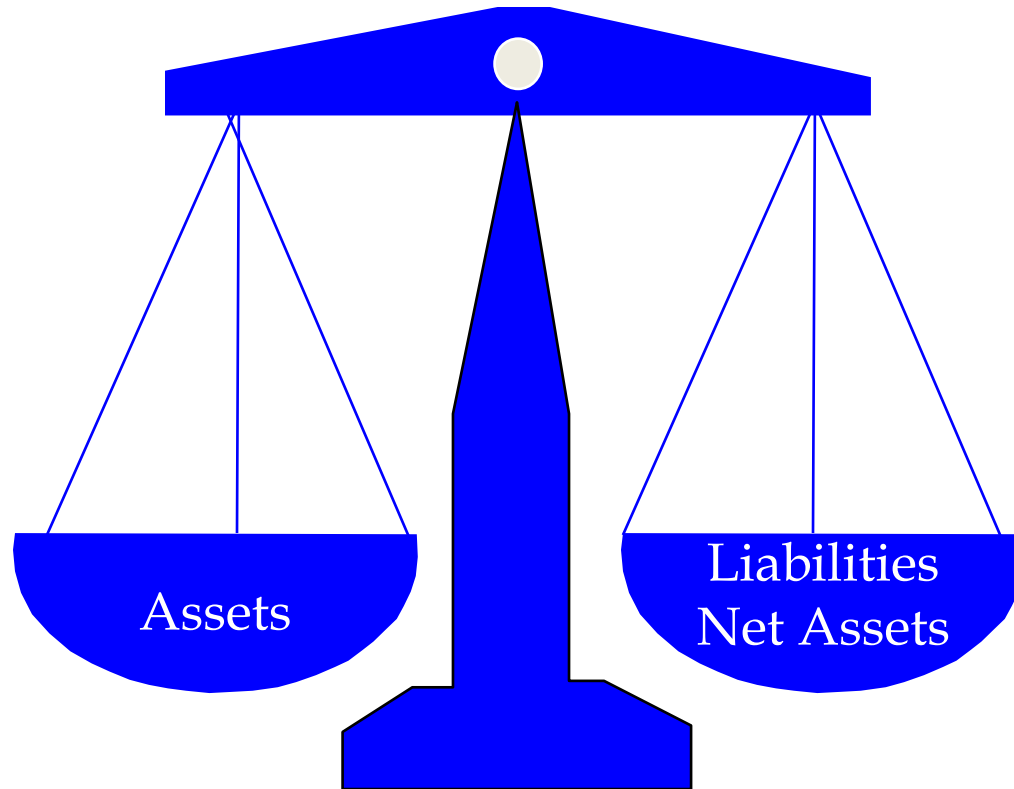
$\text{Net Income} = \text{Revenues} - \text{Expenses}$

Can a Not-For-Profit make a profit?  
(Have positive net income?)

# FUND ACCOUNTING

- Although no longer required by GAAP, fund accounting:
  - Can assist with financial reporting
  - Is an effective way to manage an institution's resources
  - Will probably be around for a while

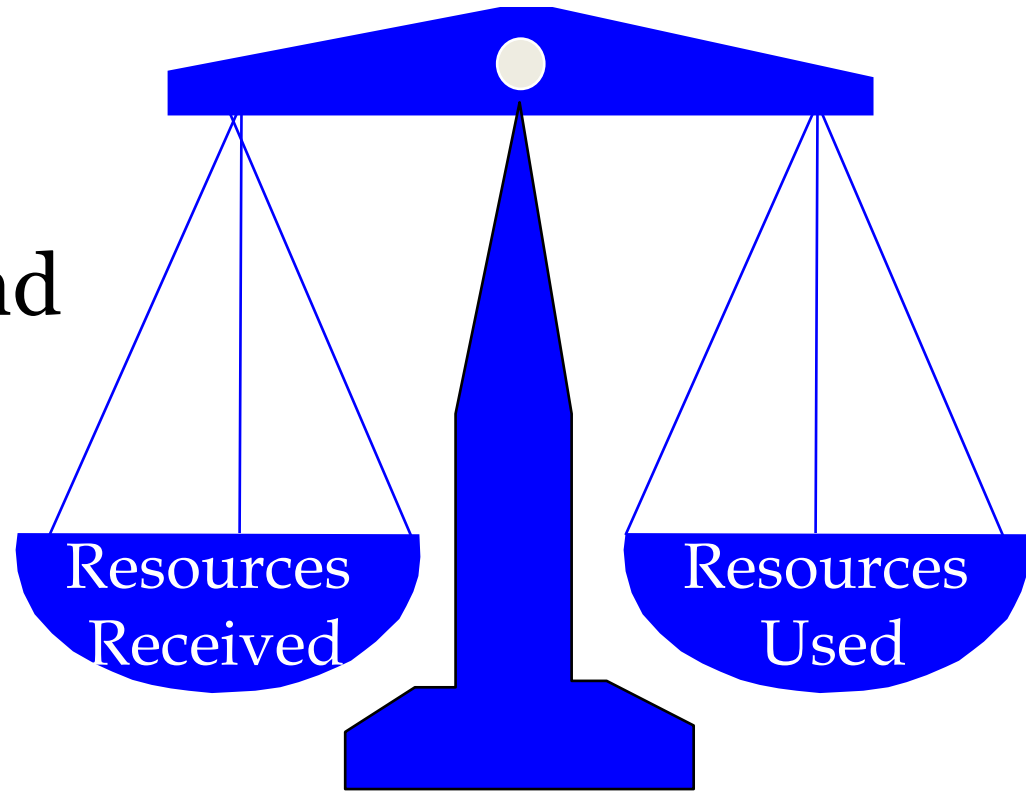
# Self-balancing





# College/University:

Revenues –  
Expenses =  
Change in Net  
Assets (aka Fund  
Balance)

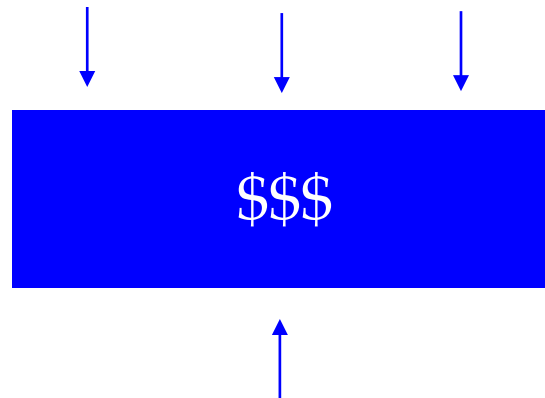


# What are Net Assets?

Funds retained for reinvestment in the enterprise

RESTRICTED

Donor  
External entity  
Federal & state



UNRESTRICTED

Institution

# Higher Education Function Codes

# What are function codes needed for ?

- IPEDS reporting
- Facilities and Administrative Rate
- Internal management of how dollars are spent
- Some states require reporting by function
- Institutions can report expenses in the operating statement by function instead of natural classification

# Educational and General Function Codes

- Instruction
- Research
- Public Service
- Academic Support
- Student Services
- Institutional Support
- Operation and Maintenance of Plant
- Scholarships and Fellowships

# FUND ACCOUNTING

# CHART OF ACCOUNTS

- Blueprint of financial structure
- Used to classify financial transactions
- Identifies fund group, function, organizational unit, ledger, etc.
- Important to internal management and external reporting

# Typical Account String

- Fund-Department-Account-Program-Activity-Location

- This is one example...

110000-521001-69010-1600

How does your campus' differ?

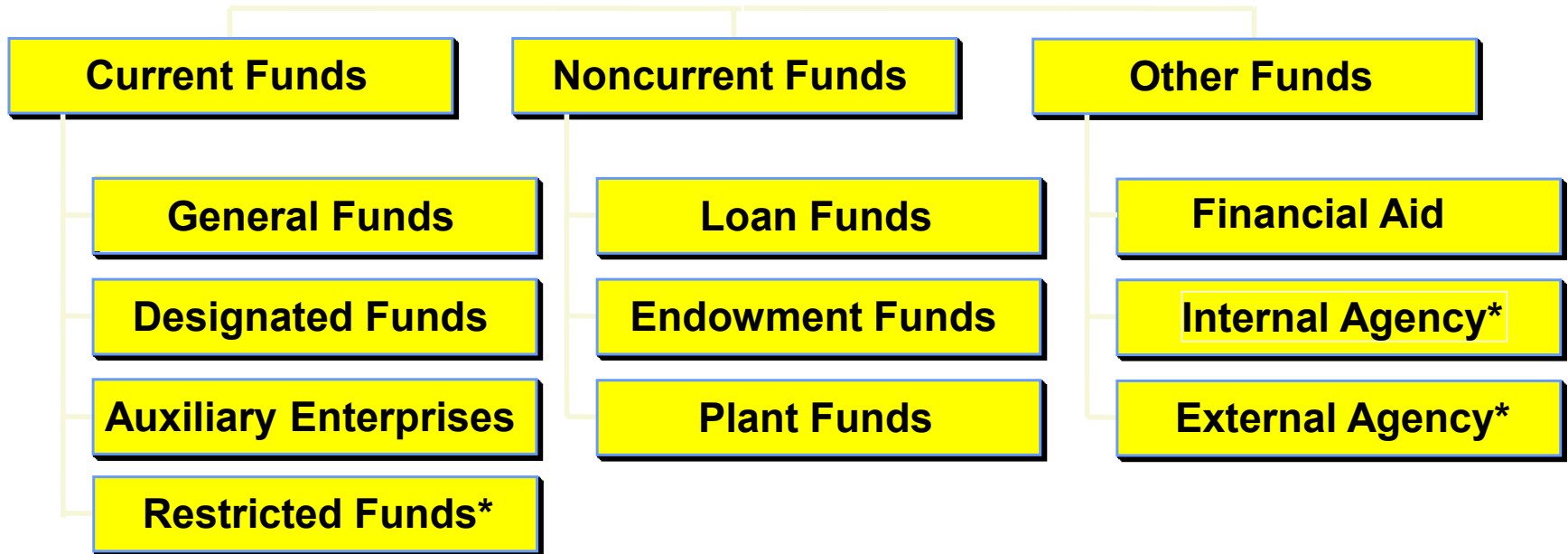


Fund Accounting is a way to organize funds within the chart of accounts based upon classification and restrictions

Ok...

So what does it look like?

# Fund Groups

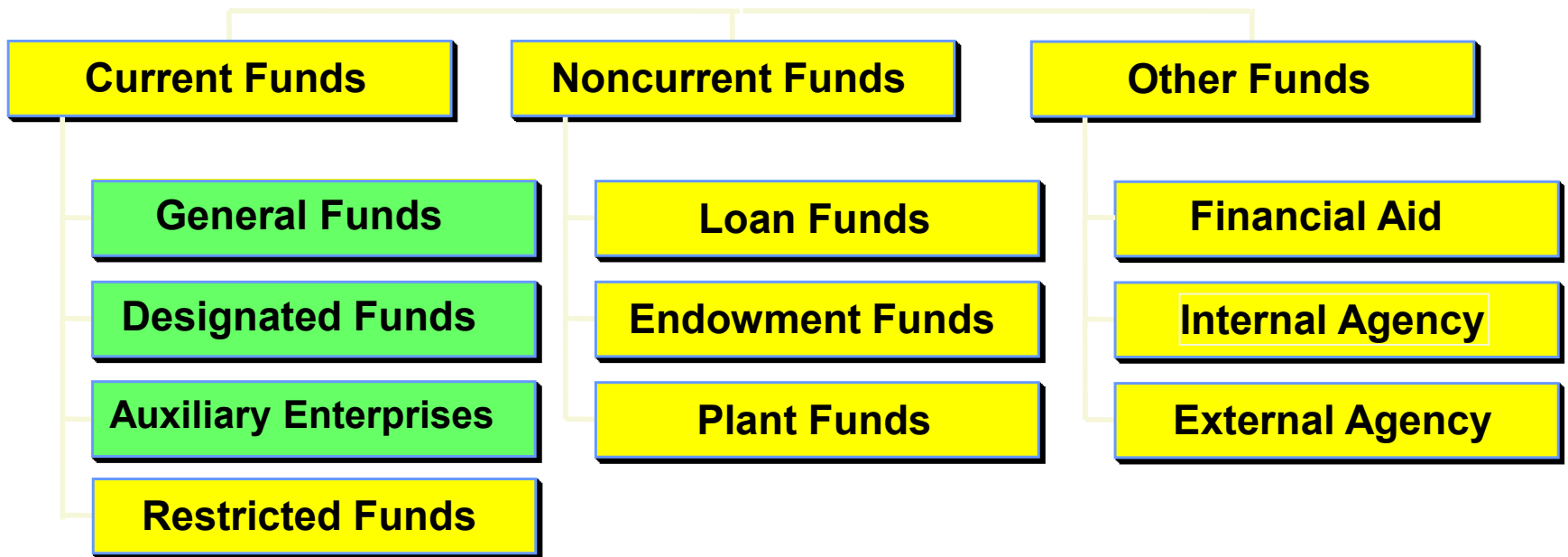


\*Indicates fund classifications

# Unrestricted Current Funds

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# Fund Groups



# What is an Auxiliary?

An enterprise that furnishes goods or services to students, faculty, or staff and charged a fee directly related to, although not necessarily equal to, the cost of the goods or services. Basically, an entity managed as a self-supporting activity.

# What is a Recharge Center Fund?

An operation that furnishes goods or services to other internal university departments and charges a fee directly related to, and equal to, the cost of the goods or services. Basically, an activity managed as a self-supporting operation that is not intended to make a profit.

# Examples of Auxiliary & Recharge Activities

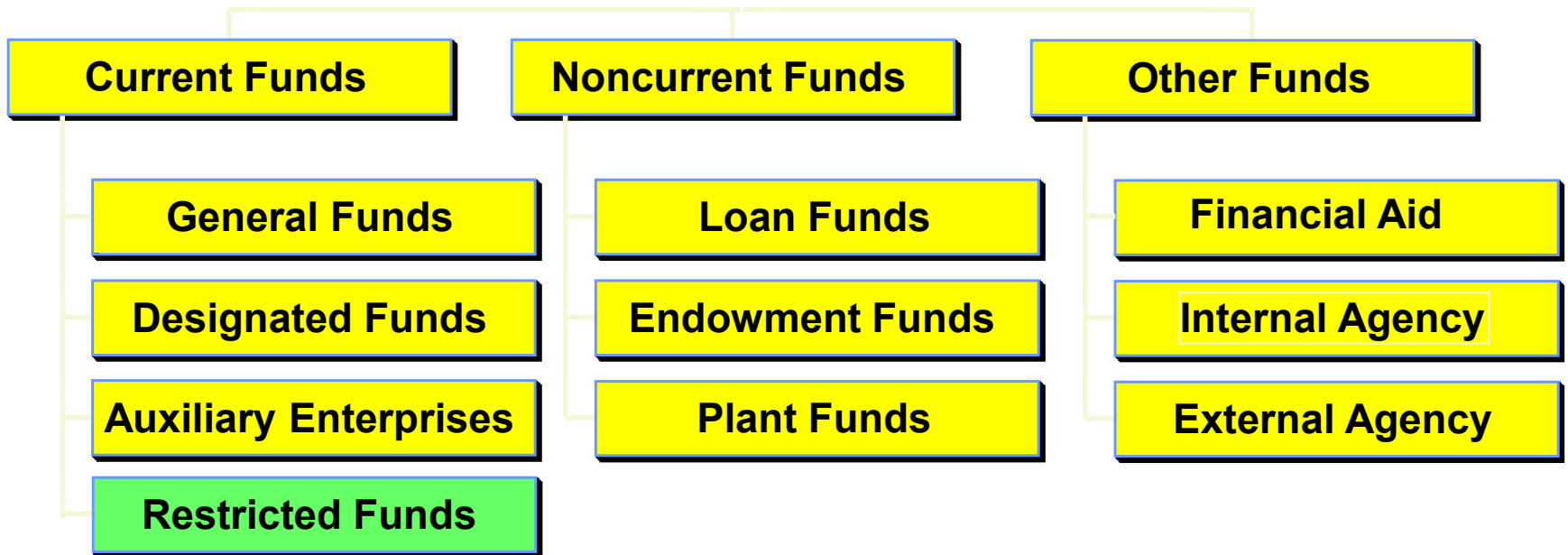
- Athletics
- Residence halls
- Student unions
- Parking and transportation
- Bookstores
- Copy center

# Restricted Current Funds

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# Fund Groups



# Restricted Current Funds

Those funds expendable for operating purposes but **restricted by donors or other outside agencies** as to the specific purpose for which they may be expended

# WHAT IS “RESTRICTED”

## Public Colleges & Universities

LIMITED BY	RESTRICTED
Donor	YES
External entity	YES
Federal, state	YES
Institution	NO, but may designate or allocate

# WHAT IS “RESTRICTED”

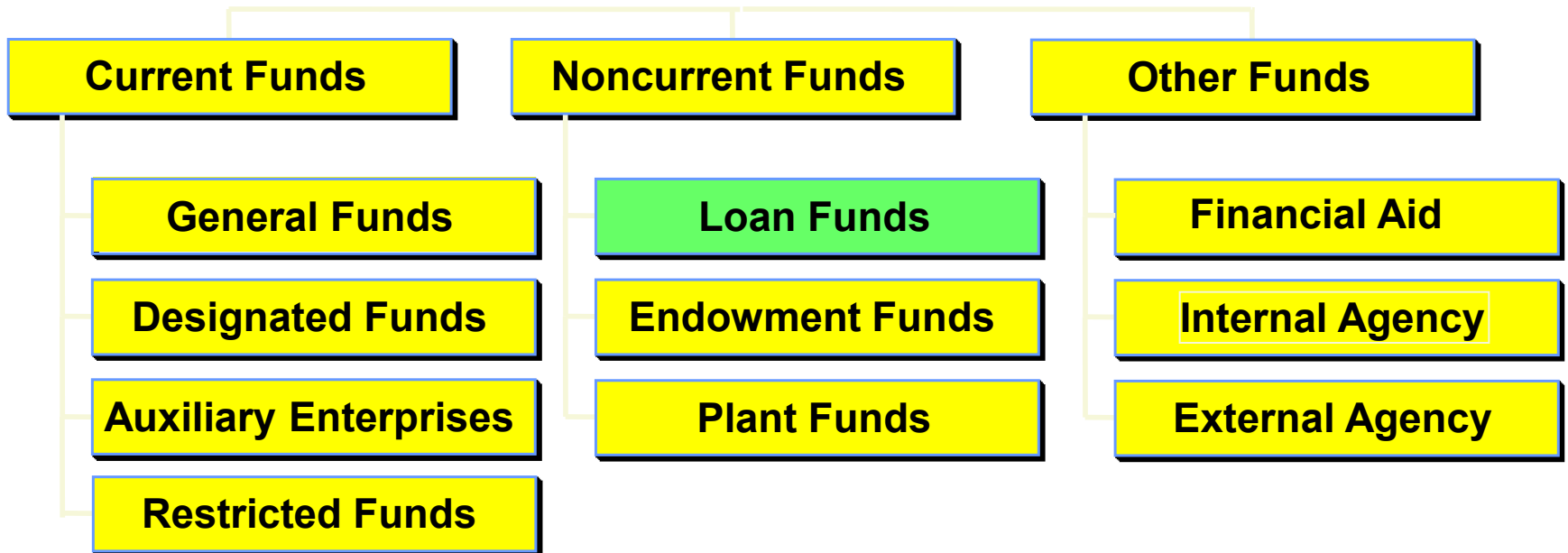
## Private Colleges & Universities

Limited by <b>DONOR</b> only	Restricted
In perpetuity	Yes - permanently restricted
Until passage of time or occurrence of event	Yes - temporarily restricted
No donor limitation	No - unrestricted

# Loan Funds

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# Fund Groups



# Loan Funds

The loan funds group consists of loans to students, faculty, or staff, and of resources available for such purposes

# Loan Funds

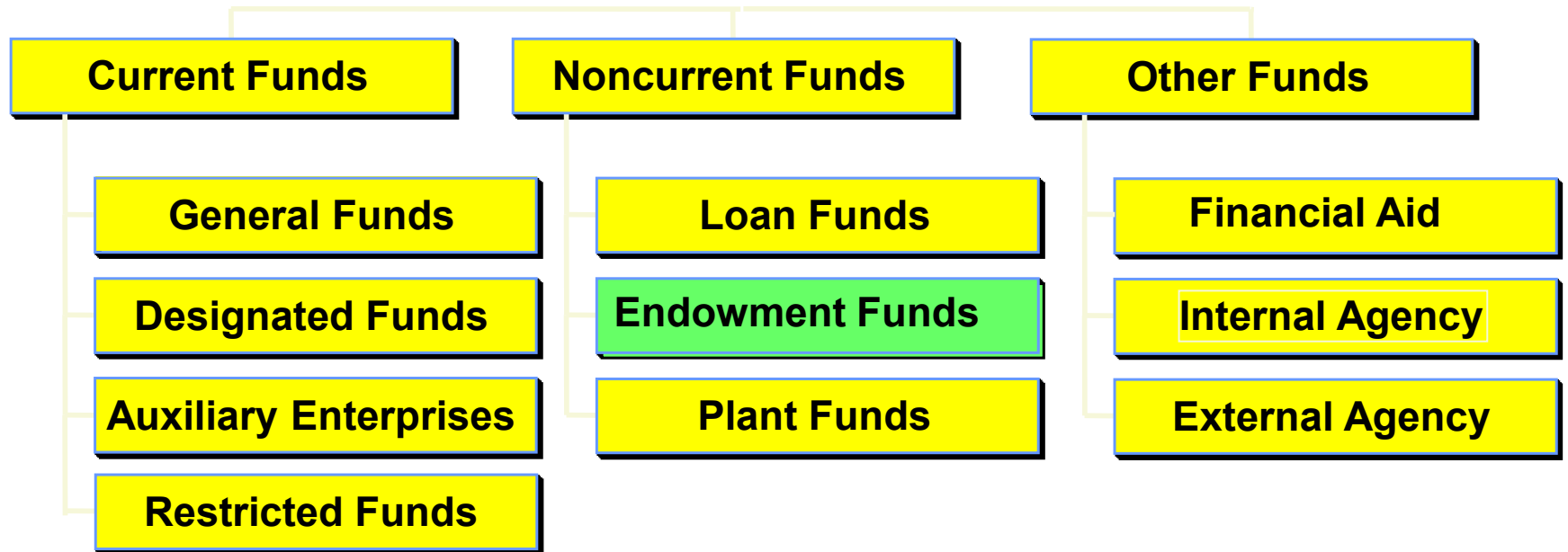
- Gift Agreements specify revolving
- Many are temporary and require repayment of principal and interest
- Some specify forgiveness of repayment under certain conditions
- Specific restrictions can exist
  - Geographic
  - Financial status



# Endowment and Similar Funds

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# Fund Groups



# Endowment & Similar Funds

- Endowment Funds
- Term Endowment Funds
- Quasi-endowment Funds
- Annuity & Life Income Funds

# WHAT CAN BE SPENT?

	<b>Created by</b>	<b>Principal Spent</b>	<b>Income Spent</b>
<b>Endowment</b>	Donor	No	Yes
<b>Term Endowment</b>	Donor	Yes-after period of time or event	Yes
<b>Quasi- endowment</b>	Board	Yes	Yes

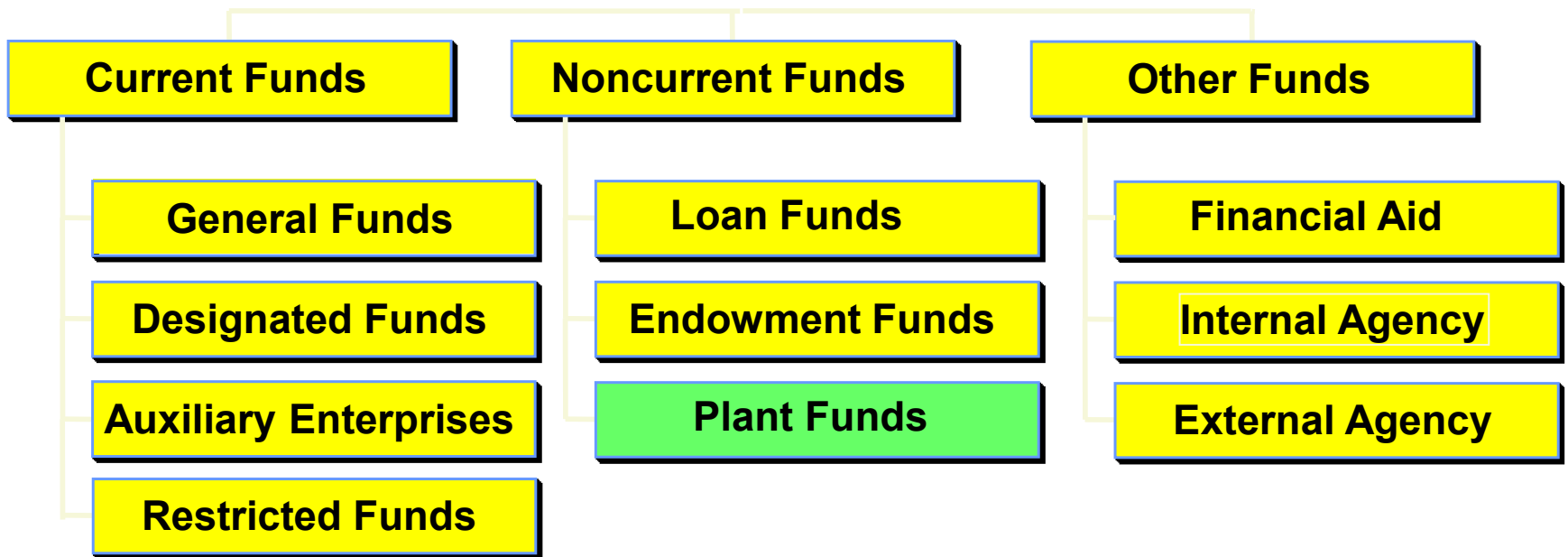
# Endowments and Similar Funds

- Governed by Uniform Prudent Management of Institutional Funds Act (UPMIFA)
- Spending Policy
- Investment Policy

# Plant Funds

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# Fund Groups



# Plant Funds

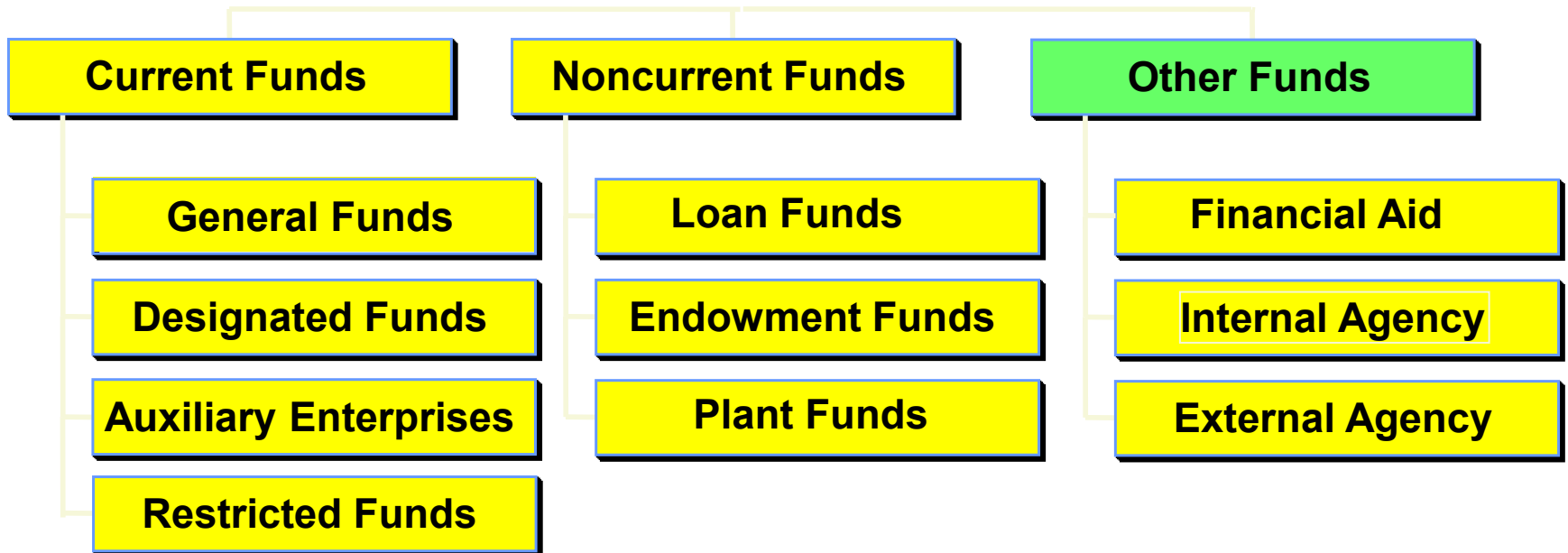
- Unexpended
- Retirement of Indebtedness
- Renewal & Replacement
- Investment in Plant



# Other Funds

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# Fund Groups



# Other Funds

- External Agency
- Internal Agency
- 3<sup>rd</sup> party financial aid (private only)

# FINANCIAL REPORTING

# Purpose

To provide financial information  
useful for making rational decisions  
to allocate resources

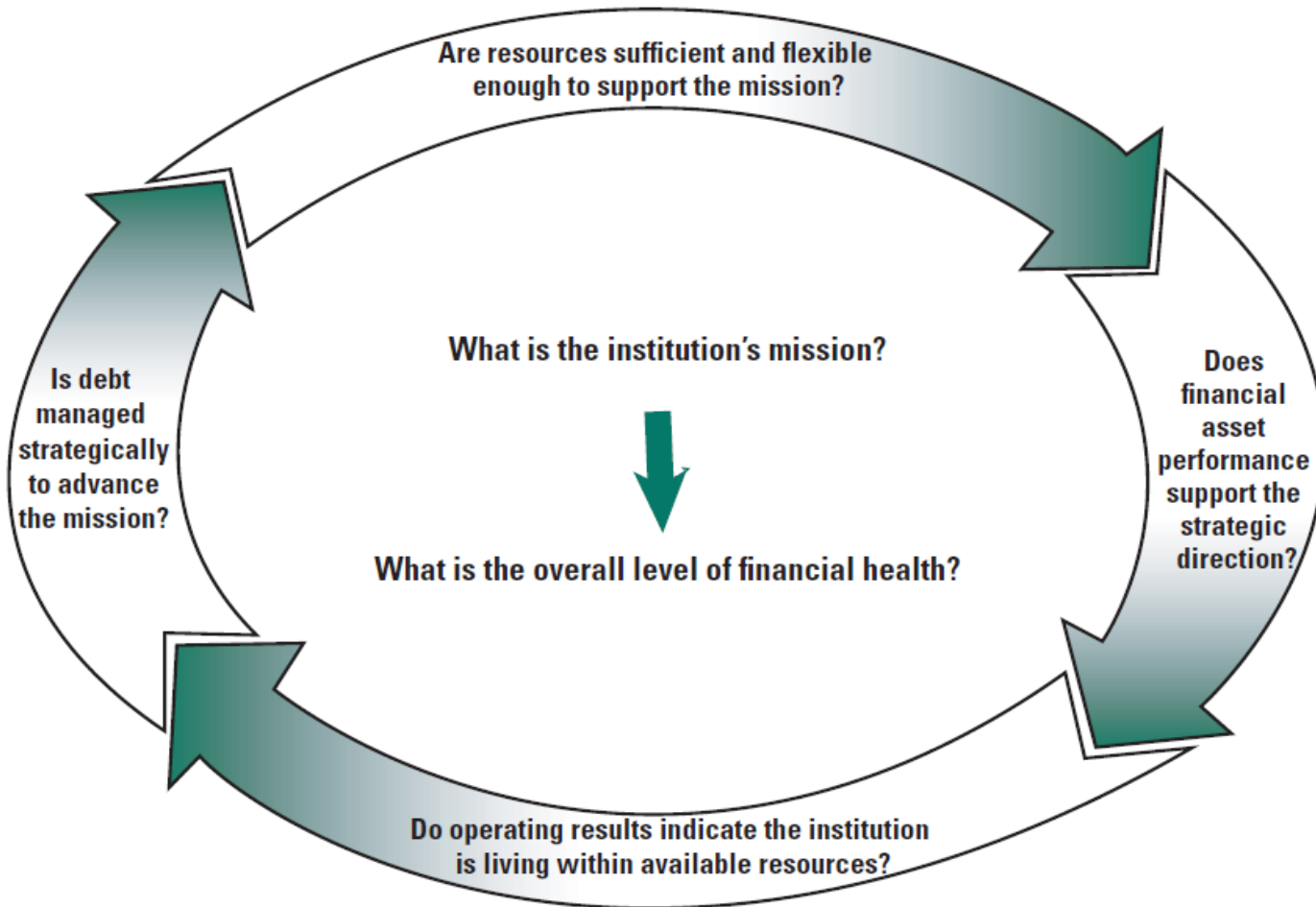
# Who are the users of financial statements?

- Federal/State Government
- Private Sponsors
- Granting Agencies
- Media
- Analysts
- Rating Agencies
- Colleges and Universities
- Students/Parents
- Others?

# What are the objectives?

- Assess financial condition and results of operation
- Assist in determining compliance with laws and regulations
- Assist in evaluating efficiency and effectiveness

# Financial Analysis





# GASB/FASB Comparability Challenges

- Display differences exist with the reporting models established by GASB and FASB
- The inconsistencies impact financial statement comparability between public and private institutions

# Prominent FASB/GASB Differences

- Display
  - FASB – must allocate depreciation, three net asset groups not consistent with GASB, unclassified balance sheet, MD&A and operating measure are not required
  - GASB – no requirements to allocate depreciation, three net asset groups not consistent with FASB, classified balance sheet, mandatory operating measure, mandatory MD&A

# Consequences of GASB/FASB Differences

- Misinterpretation by statement users
- Comparisons between public and private statements difficult if not impossible
- Financial analysis significantly different
  - Ratios, Vertical Analysis, Horizontal Analysis, etc.
- Debt rating agencies' analysis and conclusions

# BASICS OF ALL COLLEGES & UNIVERSITIES FINANCIAL STATEMENTS

# MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

- Financial statements should be presented using the economic resources measurement and the accrual basis of accounting

# ACCRUAL BASIS

- Revenues should be recognized in the accounting period in which they are earned and become measurable; expenses should be recognized in the period incurred, if measurable

Vs.

- Cash basis – revenues and expenses are recognized when cash is exchanged

# FINANCIAL STATEMENTS FOR PUBLIC COLLEGES & UNIVERSITIES (GASB)

# BUSINESS TYPE ACTIVITIES FINANCIALS

- Present only those financial statements and MD&A required for enterprise funds (GASB 34 & 35)
  - Management Discussion & Analysis
  - Statement of Net Assets
  - Statement of Revenues, Expenses, & Changes in Net Assets
  - Cash Flow Statement
  - Notes to the Financial Statements
  - Other Required Supplementary Information (budget)



# MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

# MD&A

- The basic financial statements should be preceded by MD&A
- MD&A is required supplementary information and therefore is subject to a lower level of audit than the financial statements and the notes
- MD&A should provide an objective and easily readable analysis of the financial activities based on currently known facts

# MD&A REQUIREMENTS

- General rather than specific
- Report only the most relevant information
- Avoid “boilerplate” discussion
- A brief discussion of the basic financial statements
- How the financial statements relate to each other
- Significant differences in the data
- Data provided should reinforce analysis & results of operations

# Statement of Net Assets (Balance Sheet)

# STATEMENT OF NET ASSETS

- Assets & liabilities should distinguish between current & long-term assets & liabilities
- May use either a net assets format-assets less liabilities equal net assets-or a balance sheet format-assets equal liabilities plus net assets

# STATEMENT OF NET ASSETS

- Net assets should be displayed in three broad components:
  - Invested in capital assets, net of related debt
  - Restricted (distinguishing between major categories of restrictions)
  - Unrestricted

# STATEMENT OF NET ASSETS

- When permanent endowments or permanent fund principal amounts are included, “restricted net assets” should be displayed in two additional components—expendable and nonexpendable
- Nonexpendable (permanently restricted) net assets are those that are required to be retained in perpetuity

# STATEMENT OF REVENUES, EXPENSES, & CHANGES IN NET ASSETS (SRECNA)



# SRECNA

- Operating statement for proprietary funds/enterprise funds/business type activity
- Revenues reported by major source
- Distinguish between operating and nonoperating revenues and expenses

# SRECNA

- Should present a separate subtotal for operating revenues, operating expenses, and operating income
- Nonoperating revenues and expenses should be reported after operating income

# EXPENSES

- May be displayed using either natural or functional classification
- Many schools voluntarily provide both, one on face of statements & the other in the notes
  - *This is not required*
- Must distinguish between operating & nonoperating

# CASH FLOW STATEMENT

# CLASSIFICATIONS

- Operating Activities
- Noncapital Financing Activities
- Capital & Related Financing Activities
- Investing Activities

# OPERATING ACTIVITIES

- Direct reporting method prescribed
- Accrual data must be converted into cash basis. A reconciliation [indirect method] of this conversion must be presented at the bottom of the statement
- Inflows reported by major type
- Outflows reported by payment type

# NOTES TO THE FINANCIAL STATEMENTS

# NOTES TO THE FINANCIAL STATEMENTS

- Integral part of the basic financial statements
- Communicates information that is essential for a fair presentation of the financial statements not displayed on the face of the financial statements (GASB 34, p.39, ¶113)



# SUMMARY OF SIGNIFICANT NOTES

- Definition of cash equivalents, operating & nonoperating revenues
- Capital assets and long-term liabilities reported by major class
- Capital acquisitions/dispositions & beginning/end of the year balances with separate accumulated depreciation
- Bonds, notes, loans, lease, payable & compensated absences, claims & judgements
- Endowment details including appreciation, spending rate, & return policy

# FINANCIAL STATEMENTS FOR PRIVATE COLLEGES & UNIVERSITIES (FASB)

# Financial Statements for Private Colleges & Universities (FASB)

- SFAS (Statement of Financial Accounting Standards)
  - 116 and 117 (Contributions)
  - 124 (Investments)
  - 136 (Funds held for others)
  - 164 (Mergers & acquisitions)

# Types of Statements

## Statement

## Purpose

Financial Position

Current Status  
(Balance Sheet)

Activities

Detailed Sources &  
Uses, Transactions

Cash Flow

Cash Receipts &  
Cash Payments

# Statement of Financial Position (Balance Sheet)

# Minimum Requirements Include

- Total amount of assets, liabilities, & net assets
- Total amount of each class of net assets (unrestricted, temporarily restricted, permanently restricted) based on existence or absence of donor-imposed restrictions

# Minimum Requirements Include

- Information regarding types of restrictions on net assets (usually in notes)
- Information regarding liquidity (e.g. by providing classified balance sheet)

# Statement of Activities



# Minimum Requirements include

- Amount of change in total net assets
- Amount of change in each of the 3 classes of net assets
- All revenues, expenses, gains, & losses for the period - classified by & reported in the class of net assets they affect
- Revenues reported as increases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law

# Minimum Requirements include

- Expenses reported as decreases in unrestricted net assets
- Reporting expenses by function either in the statement or in the notes
- The amount of expired donor-imposed restrictions that increase one class of net assets & simultaneously decrease another class of net assets

# Statement of Cash Flows

# Minimum Requirements Include:

- Total changes in cash & cash equivalents
- Total amount of net cash provided by or used for investing, financing, & operating activities
- Interest paid on indebtedness
- Significant non-cash financing & investing activities
- Reconciliation of change in total net assets to net cash provided by or used for operating activities

# Notes to the Financial Statement

# Footnotes required by SFAS 116 & SFAS 117 or suggested as being informative:

- Summary of significant accounting policies
- Nature of restriction/limitations on net asset balances
- Net assets released from restrictions
- Expenses by classification

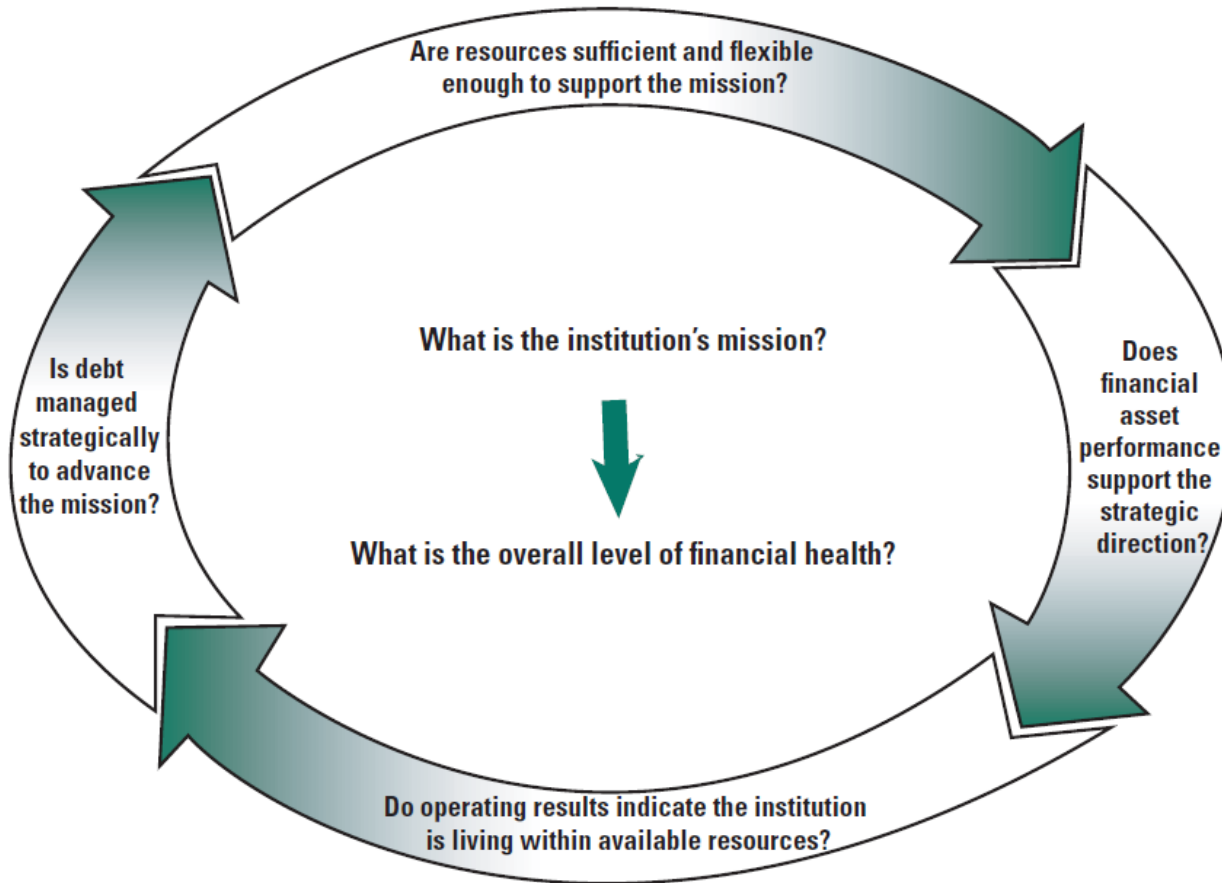
# Footnotes required by SFAS 116 & SFAS 117 or suggested as being informative:

- Unconditional & conditional promises to give
- Collections policies
- Appreciation of endowment investments
- Contributed services details

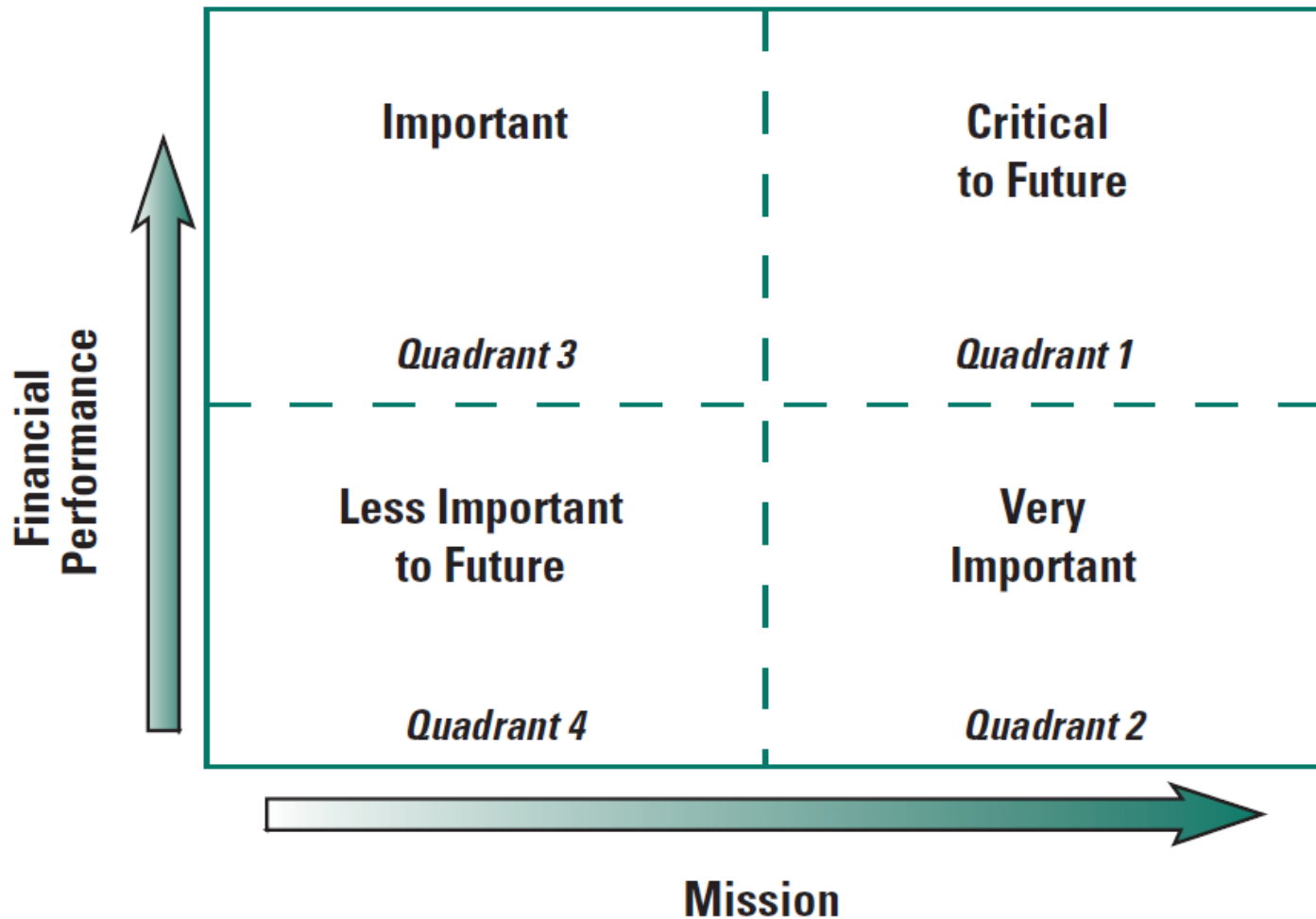
# **GROUP DISCUSSION – TELLING THE STORY**



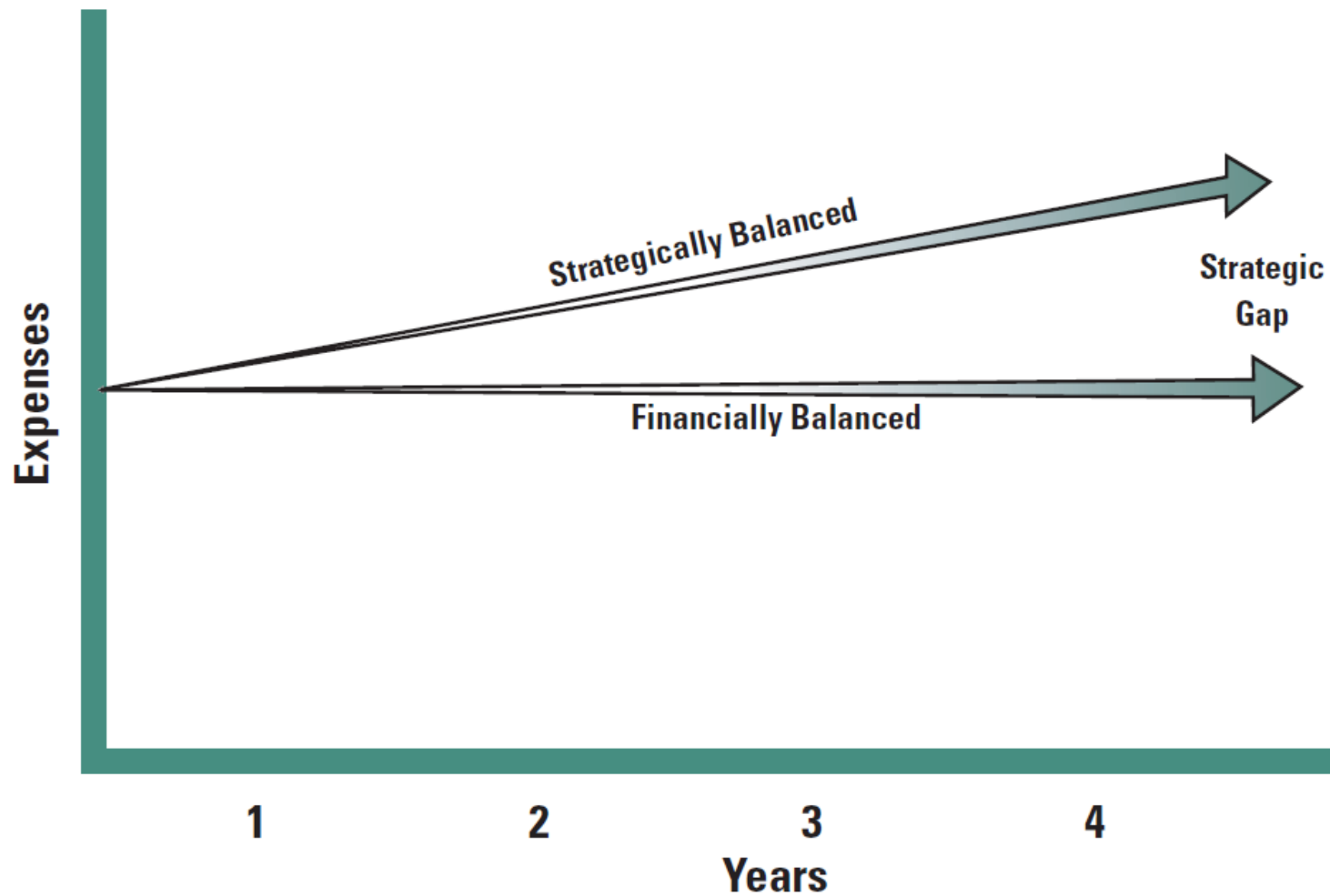
# Financial Analysis



## *Relationship of Resource Allocation to Mission*



## Identifying Strategic Gaps



# Ratio Analysis

## RATIOS

- Used to evaluate the financial position of an institution
- Important to track them over time & compare year to year
- Can be used to compare one institution to another

### VIABILITY RATIO

*Net assets available to cover debt*

Unrestricted Net Assets less  
Property, Plant & Equipment  
Long-Term Liabilities

### RETURN ON NET ASSETS RATIO

*Measures financial well-being  
over time*

Change in Net Assets  
Total Net Assets

# Questions for Statement of Net Assets?

Use a financial statement provided or pull up your institution's statement on-line:

What is the cash balance?

How much are they owed?

How much do they owe?

What amount of net assets are available for an immediate need?

# Questions for SRECNA?

Use a financial statement provided or pull up your institution's statement on-line:

What revenues were collected in the most recent year? How much from contributions?

What were the expenses for general operations?

How much for instruction/academics?

What is listed under non-operating activities?

# Questions for Cash Flow?

Use a financial statement provided or pull up your institution's statement on-line:

What was the cash on hand at the end of the year?

Did it increase or decrease over the year?

Did investing activities change the cash available?

# Questions for Notes to the Financial Statement?

Use a financial statement provided or pull up your institution's statement on-line:

How much did the institution have  
in capital assets?

Did the institution have debt?



# Questions for MD&A?

Use a financial statement provided or pull up your institution's statement on-line:

Did the MD&A provide year to year comparison?

Did it provide any ratio analysis?

Hope this put the FUN  
into FUNd Accounting!

