



Finance and Accounting for Higher Education Administrators:

The information you need to be successful in non-financial roles.

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Introduction

Financial acumen is a competency that, when embraced by university staff, can create big impact.

// Many business faculty and staff step into administrative roles such as department chairs, associate deans, program directors, and deans because of their interest in contributing to the advancement of the mission and vision of their departments, college, and ultimately university. Very few decide to go into administration because they want to participate in the budget process or work with the financial aspects of operating a department, college, and university.

But achieving goals without financial resources is difficult at best and impossible at worst. While finance or accounting may not be your passion, it is important for all college and university leaders to understand budgets and financial reporting. Being financially and budget savvy can help leaders advance their mission and vision, remaining competitive in an increasingly challenging higher education environment. //

—**Jacqueline Reck, PhD, CPA**

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Accounting Basics

Accounting is the language of business, planning, reporting, and operations.

Of the 12 branches of accounting, the four most important for university staff and administrators are:

Financial accounting	How to record and classify financial information
Government accounting	Special accounting rules for government budgets
Not-for-profit accounting	Special accounting rules for not-for-profit organizations
Managerial accounting	Accounting for internal planning and decision-making by management

Colleges and universities are facing many challenges including declining enrollments and shrinking budgetary support from non-tuition sources. These challenges increase the importance of budget and financial reporting decision-making.

The budget and finance officer cannot make these trade-off calls between cost and academic benefits of implementing, expanding, or cutting a program or service. Leaders need to make these decisions.

To ensure that school administrators are informed when making decisions, training in budget and financial reporting is a necessity. No one expects all leaders to be budget and finance “gurus,” but a little knowledge can go a long way!



Universities use an accrual basis of accounting.

In a university setting, revenue and expenses are recognized and recorded when they occur, compared to a cash basis of accounting, which recognizes revenue and expenses when they are received or paid out.

Financial Statements Used in Corporate Accounting

Balance Sheet

measures of financial health

Statement of Income

measures of financial
performance

Statement of Cash Flows

sources and uses of cash

Footnotes, MD&A

additional detail

Financial Statements Used in Colleges and Universities (Public or Private)

Statement of Financial or Net Position

Statement of Activities

Statement of Cash Flows

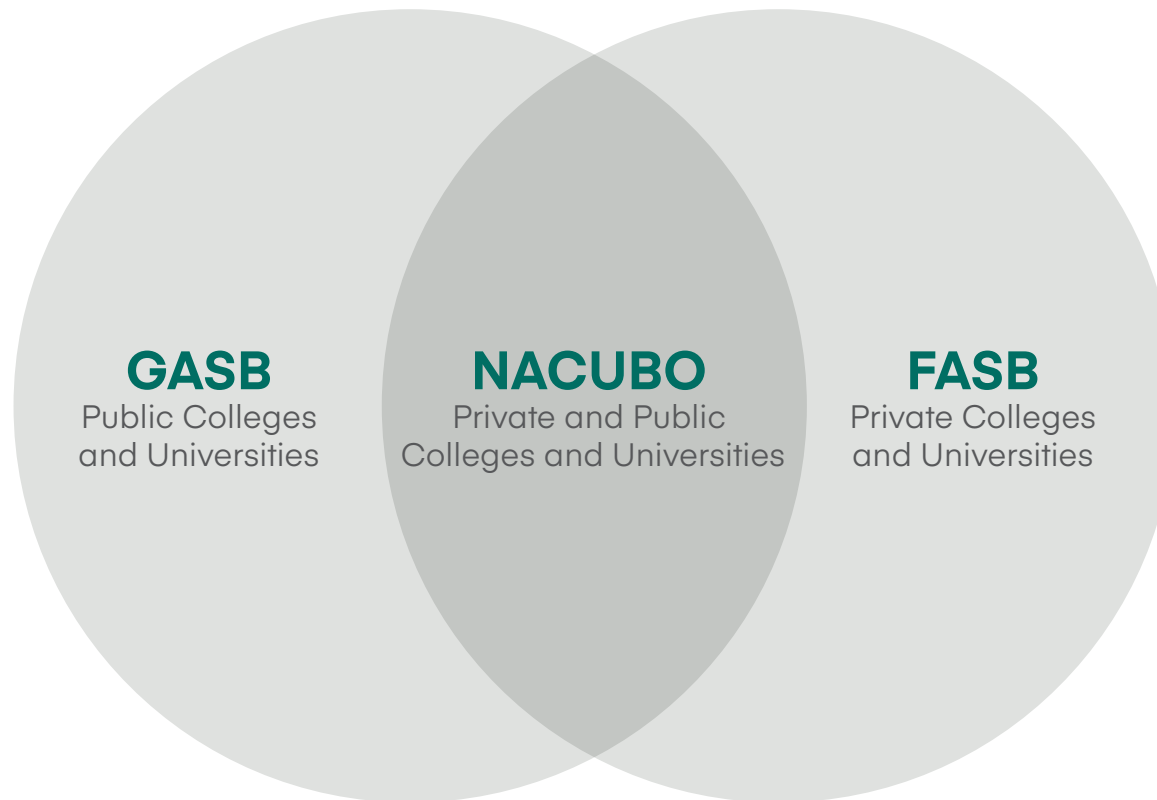
Footnotes
(MD&A is required for public colleges
and universities, **functional and
administrative expenses disclosure** is
required for private colleges)

Reporting requirements of public and private colleges and universities differ.

GASB is the Governmental Accounting Standards Board, which governs accounting and reporting standards for public colleges and universities.

FASB is the Financial Accounting Standards Board, which governs accounting and reporting standards for private colleges and universities.

NACUBO is the National Association of College and University Business Officers, and provides guidance to both private and public colleges and universities.



Financial Statements

Financial statements enable you to tell a story about an organization and how it is performing.

Stakeholders of colleges and universities are those who have an interest in its operations and performance. Financial statements help those stakeholders understand its business activities.



Stakeholders include:

Donors

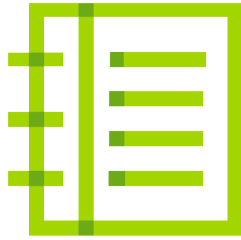
Governments

Creditors

Customers



College and university financial statements primarily show details of an organization's financial health, financial performance, and liquidity.



Types of Financial Statements

Statement of Financial Position (or net Position)

→ Demonstrates Financial Health

Statement of Activities

→ Demonstrates Financial Performance

Statement of Cash Flows

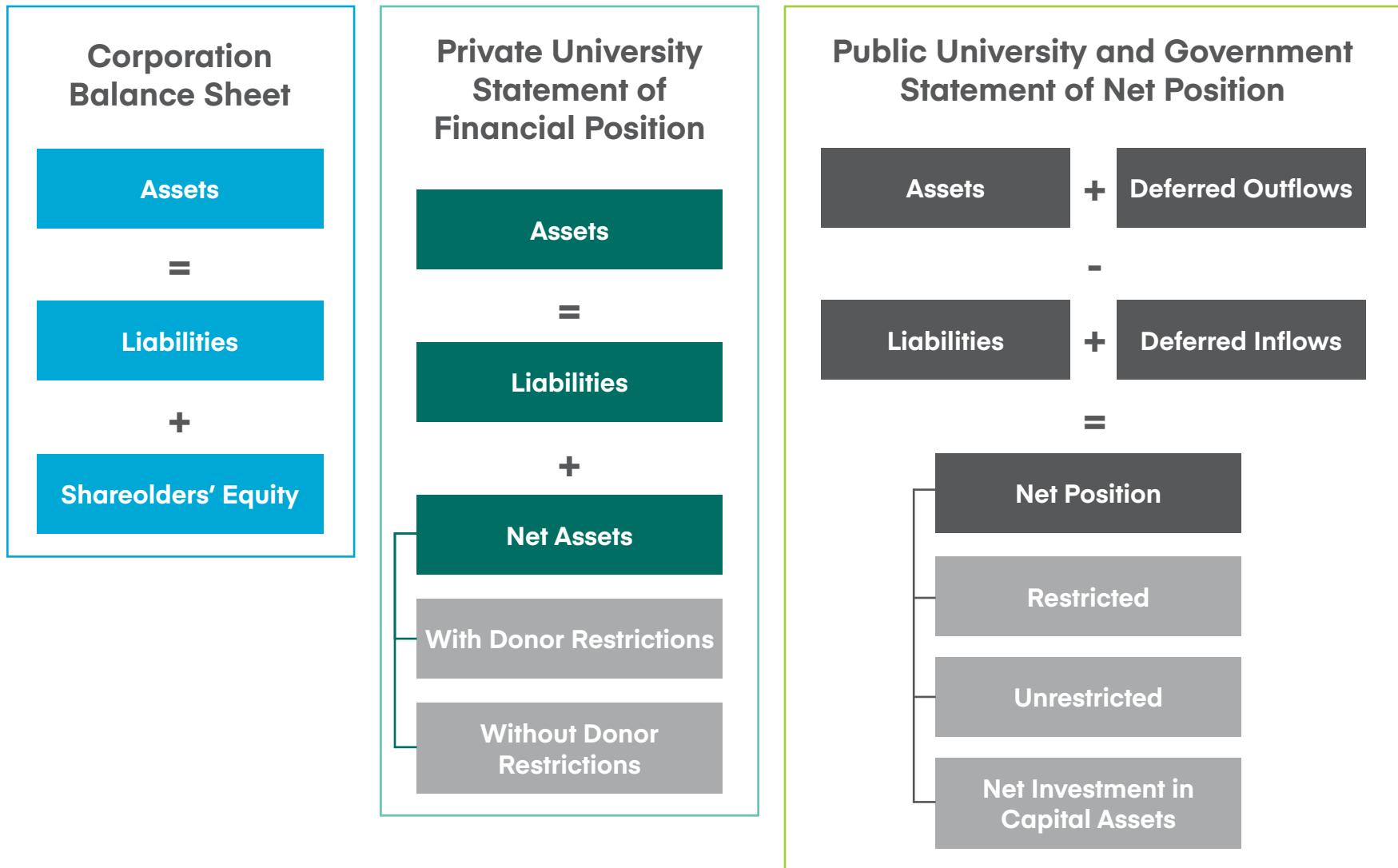
→ Demonstrates Sources and Uses of Cash

Functional and Administrative Expenses

→ Details Expenses (not required by GASB)

Financial Health Statements by Organization Type

Financial statements are named and presented differently based on organization type. For example, private universities use the term 'net assets' compared to 'net position' in public universities and governments.



Performance Indicators

Colleges and universities use a set of ratios to describe their financial performance, including efficiency, investment performance, and liquidity.

These ratios help decision-makers make comparisons year over year and identify areas of successes and challenge.

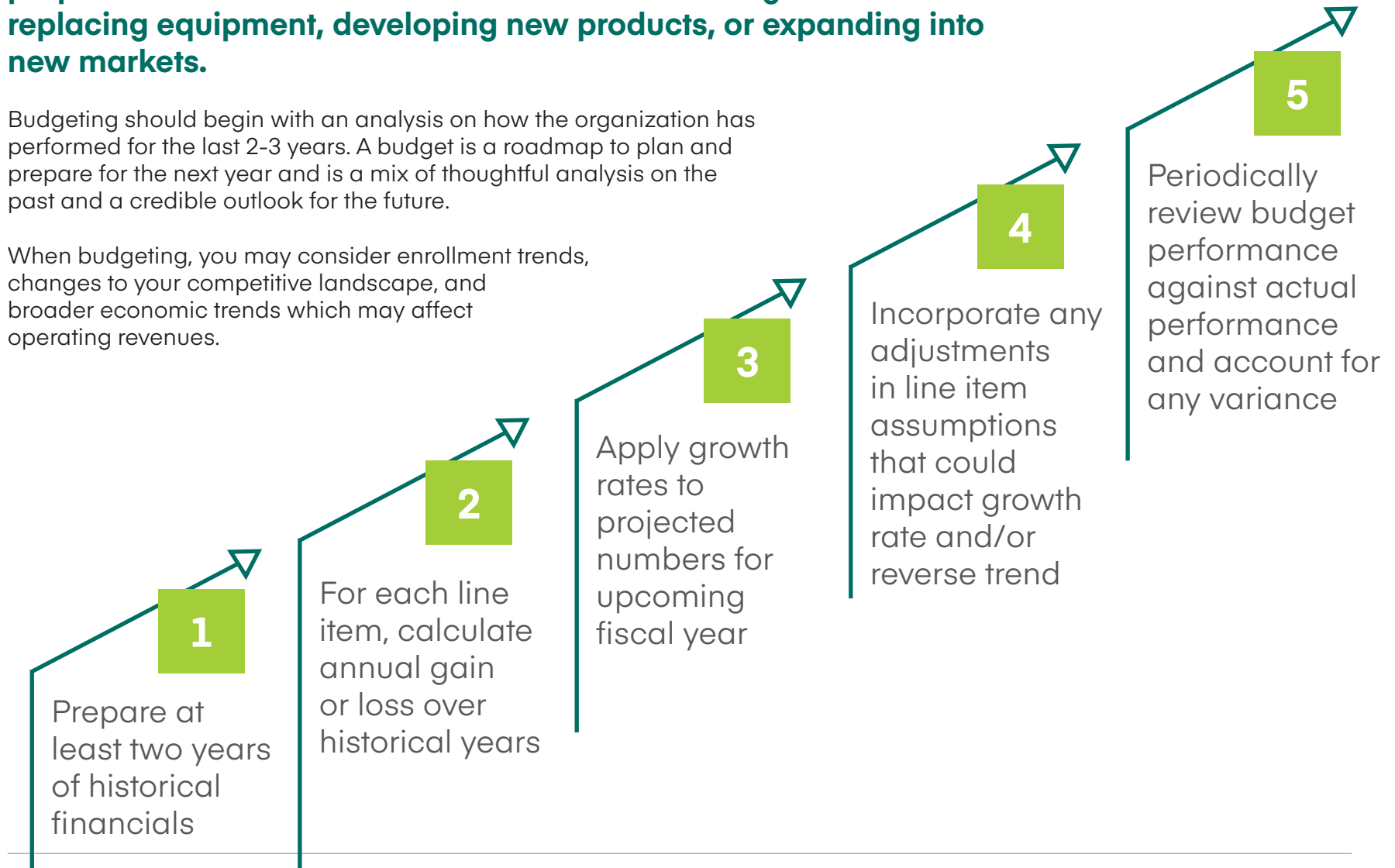
Ratio Type	Calculation	Insight
Liquidity	Current assets/current liabilities	Organization's ability to meet its near-term obligations
Program effectiveness	Program expenses/total expenses	How much is spent to fund organization's goals
Efficiency	Program expenses/number of clients served	Ability to decrease cost to achieved output over time
Fundraising ratio	Total contribution - fundraising costs/ total contributions	Percent of contributions remaining after adjusting for cost of raising contributions
Fundraising efficiency	Fundraising expenses/public support	Cost of raising contributions relative to contributions received

Budgeting

Capital budgeting is the process of determining and selecting profitable projects or investments that will add value to the organization like replacing equipment, developing new products, or expanding into new markets.

Budgeting should begin with an analysis on how the organization has performed for the last 2-3 years. A budget is a roadmap to plan and prepare for the next year and is a mix of thoughtful analysis on the past and a credible outlook for the future.

When budgeting, you may consider enrollment trends, changes to your competitive landscape, and broader economic trends which may affect operating revenues.





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