

Finance and Accounting Essentials for Non- Accountants

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Learning Objectives

- Understand the basic principles of accounting and their application in higher education contexts.
- Understand how financial information is used in decision-making for institutional operations.
- Understand how financial information and ratios are to assess the financial health of an institution.
- Describe the importance of internal controls in safeguarding assets and ensuring compliance with regulatory requirements in higher education environments.



WHY ACCOUNTING?

Importance of Accounting

Goal Attainment



Budgetary Constraints

Storytelling



Stewardship

Accounting is the **language** that crosses industries and businesses - it is a **universal way** for organizations **to communicate** their financial health, make informed decisions, and plan for achieving future goals.



What are stakeholders?

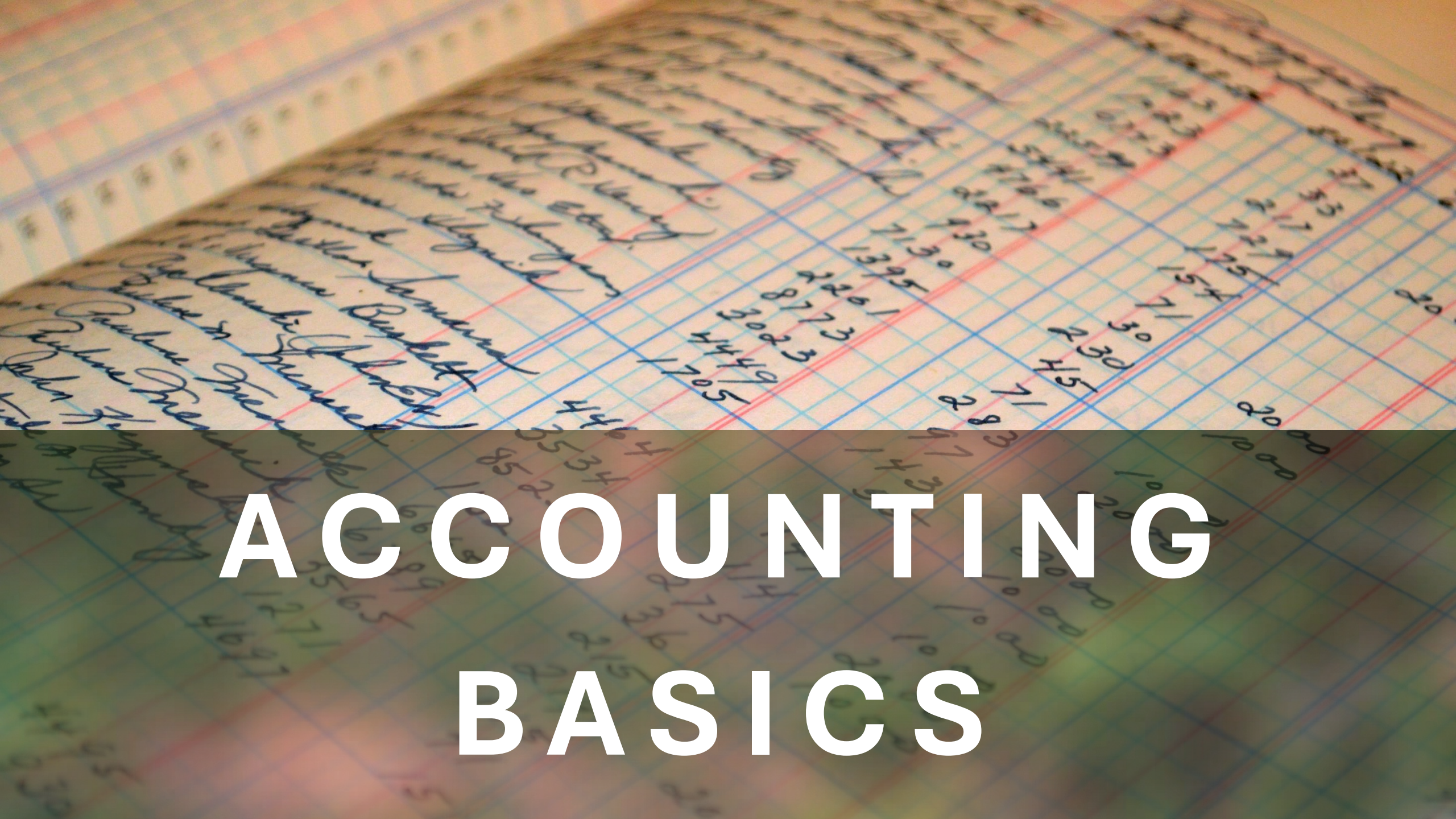
- Anyone who has an interest in the institution's operations and performance.
- Financial statements help them understand your institution's operations.

“Who Cares” Stakeholder Mapping

menti.com

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ACCOUNTING BASICS

Chart of Accounts

- Foundational financial data structure
- Controls how financial transactions are collected and stored
- Fields and codes used to classify & record financial data
- Tracks budget and actual financial activity



Why is the Chart of Accounts Important?

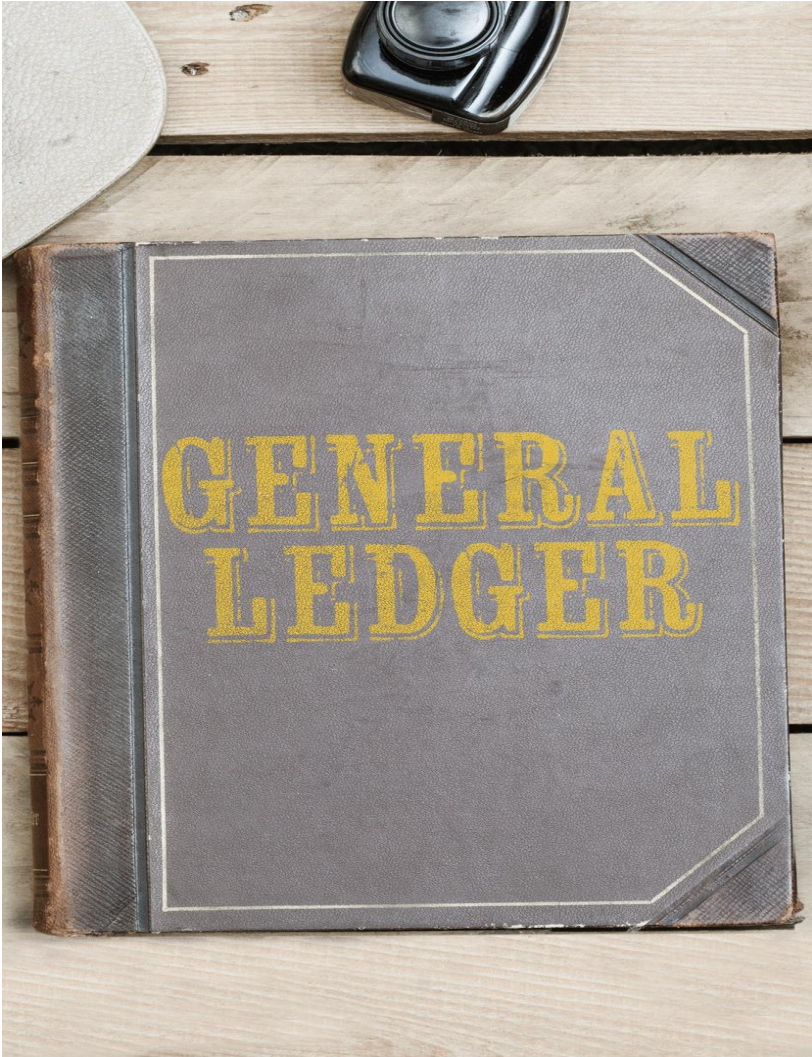


- Enables accurate, compliant financial reporting
- Standardizes data across units for consistent reporting
- Ensures compliance with grants, donors, and regulations
- Supports budgeting, resource allocation & planning
- Integrates with ERP systems for efficiency & accuracy

General Ledger (GL)

The General Ledger is the official accounting record of the institution.

- Used to record each transaction
- Foundation for financial reporting
- Reflects financial position at a point in time
- Ensures accuracy & completeness through controls



Fund Accounting

Organizes funds by source and restrictions.



- Increases accountability to stakeholders
- Tracks how money can and should be used
- Separately records activities in the GL
- Enables accurate financial reporting

What is a fund?



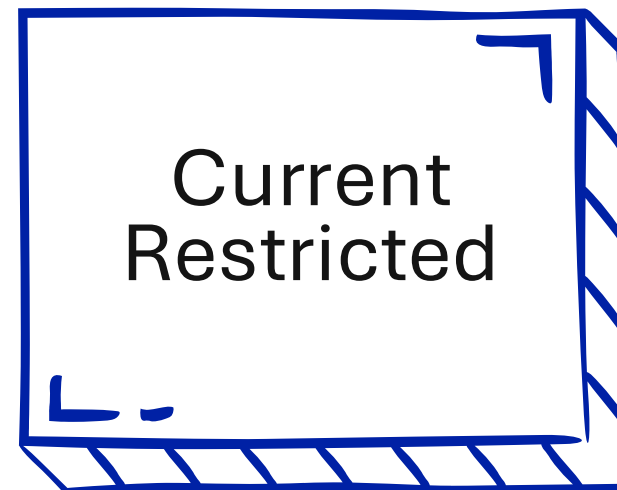
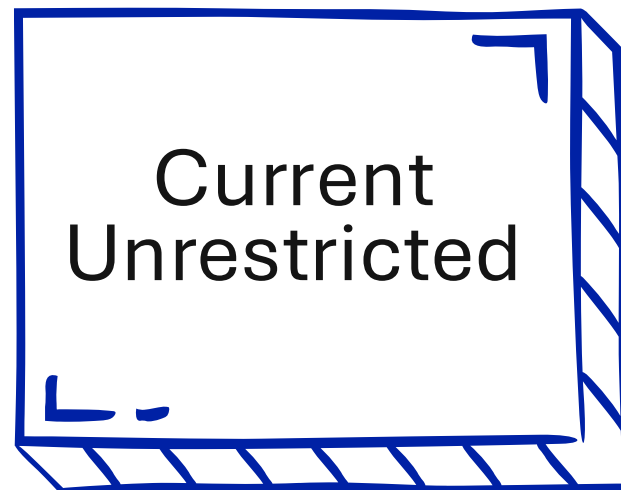
A self-balancing set of accounts.

- Records assets, liabilities, and net position
- Tracks revenue, expenses, and transfers
- Helps keep different activities financially separate
- **Fund groups** define the purpose of each fund

Fund Groups



Can be spent in the
current operating
cycle



Current Funds



Current Unrestricted



- Student fees
- State support
- Interest on investments
- Sales of goods & services

No outside entity has specified how the monies are to be spent

vs

An outside entity has specified how the monies are to be spent

Current Funds



Current Restricted



- Gifts
- State appropriations for a specific purpose
- Grants & contracts

Conditions

Affects the passage of ownership.

Example: “Challenge Gifts”

“I will contribute \$xx if the institution raises \$xx by a certain date”

vs. Restrictions

Ownership has passed but the donor placed limits on how/when the assets can be used.

Examples:

- Scholarships
- Build a building
- Support a specific department

Noncurrent Funds

```
graph TD; A[Noncurrent Funds] --> B[Endowment]; A --> C[Loans]; A --> D[Plant];
```

Endowment

Loans

Plant

Noncurrent Funds – Endowment & Loan

Endowment

- Donated funds invested for the long term
- Principal (“corpus”) is usually kept intact – not spendable
- Earnings support operations (scholarships, programs)
- Provide sustainable, ongoing funding

Loan

- Set aside to lend to students or others
- As loans are repaid, funds are reused (revolving)
- Interest earnings can support operations, but focus on access and affordability (not profit)

Noncurrent Funds - Plant

Used for physical assets (buildings, equipment, infrastructure)

There are 4 sub-categories of Plant Funds

1. Unexpended

- Funds set aside for future construction or major purchases
- Not yet spent – still in the planning or accumulation stage
- Often tied to capital projects

2. Investment in Plant

- Represents the value of buildings, land, and equipment in use
- Includes accumulated depreciation

3. Debt-Related Plant Funds

- Funds related to borrowing for capital projects
- Used to repay principal and interest on debt

4. Reserves for Plant

- Funds set aside for maintenance, repairs, and replacements
- Supports long-term upkeep of facilities

Fund Groups

Agency Funds

- Funds the institution holds on behalf of others
- Does not belong to the organization
- Recorded as a liability – not revenue

Examples

- Student organization funds
- Payroll withholdings (taxes, benefits)

Function Codes

Function Classification (the “why”)

- Groups expenses by purpose or activity
- Explains why the expense was incurred
- Examples:
 - Instruction
 - Research
 - Administration

Natural Classification (the “what”)

- Groups expenses by type of cost
- Explains what was purchased
- Examples:
 - Salaries
 - Supplies
 - Equipment

The background of the image is a blurred office desk. In the upper left, a black calculator is visible. In the center, four stacks of gold coins are arranged in a row. To the right, a pair of glasses lies on a white surface. Below these items, a financial report is spread out, featuring a bar chart with a red trend line, a pie chart with various colored segments, and a table with columns for months from January to September. The text 'FINANCIAL REPORTING' is overlaid in large, white, bold, sans-serif capital letters across the middle of the image.

FINANCIAL REPORTING

What are the standards?

There are different requirements for public and private universities.



What set of standards does your institution follow?

Why are there different standards?



Purpose

Private

Intended to educate investors and creditors on the entity's status

Public

Support transparency of public and taxpayer money provided by government funding

Regulations

Private

More flexibility but still need to comply with laws and regulations.

Public

Subject to government regulations and oversight related to purchasing, bidding, and accounting.

Funding

Private

Receive money from tuition, endowment funds, and donations.

Public

Receive their primary funding from the government, including taxpayers.

Let's Define

ASSETS

Think of assets as what the
institution OWNS

LIABILITIES

Think of liabilities as what
the institution OWES

What are some examples of each?

Types of Financial Statements

STATEMENT OF FINANCIAL POSITION (NET POSITION)

Different for FASB & GASB

Shows the financial health
of the institution

STATEMENT OF ACTIVITIES

Same for FASB & GASB

Demonstrates the
financial performance of
the institution

STATEMENT OF CASH FLOWS

Same for FASB & GASB

Shows the sources and
uses of cash for the
institution

*Footnotes:

- FASB: Functional and Administrative Expenses
- GASB: Management's Discussion & Analysis

Basics of Financial Statements

GASB

1. Management's Discussion & Analysis
2. Statement of Net Position
3. Statement of Revenues, Expenses & Changes in Net Position
4. Statement of Cash Flows
5. Notes to the Financial Statements
6. Other Required Supplementary Information

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Management's Discussion & Analysis

GASB

What is it?

1. Precedes the basic financial statements
2. Subject to a lower level of audit
3. HOWEVER, it should be:
 - a. Objective and based on currently known facts
 - b. Easily readable analysis of financial activities

What is required?

1. Include only the most relevant information
2. Brief discussion of the basic financial statements
3. Any data should reinforce the analysis and results

Statement of Net Position AKA the “Balance Sheet”

GASB

- Assets and liabilities
 - Current and long-term
- Can be one of two formats:
 - Net Assets Format: $\text{Assets} - \text{Liabilities} = \text{Net Assets}$
 - Balance Sheet Format: $\text{Assets} = \text{Liabilities} + \text{Net Assets}$
- Net assets displayed in three broad categories
 - Invested in capital assets (“net of” related debt)
 - Restricted (showing major categories of restrictions)
 - Unrestricted

Statement of Revenues, Expenses, and Changes in Net Position AKA the “Income Statement”

GASB

- Reports revenues and expenses
- Shows overall financial performance for the period
- Revenues reported by major source (tuition, grants, auxiliary, state)
- Distinguishes between:
 - Operating - core activities (instruction, services)
 - Nonoperating – funding sources (state appropriations, investment income)
- Expenses can be presented by natural or functional classification
 - It is common (but not required) to present both – one on the face and one in the notes

Statement of Cash Flows

GASB

- **Classifications of activities:**

- Operating – day-to-day cash activity
- Noncapital Financing – noncapital funding (i.e. state appropriations)
- Capital and Related Financing – debt, capital purchases, construction
- Investing – investment income & purchases

- **Reported by:**

- Inflows = major source
- Outflows = type of payment

- Required reconciliation from accrual basis to cash basis (cash flow statement)

Notes to the Financial Statements

GASB

- Critical to understanding the financial statements
 - Provide information not shown on the face of the statements
 - Essential for transparency, context, and full interpretation
- What They Include:
 - Accounting policies & definitions
 - Capital assets & long-term liabilities by major class
 - Debt disclosures
 - Endowment restrictions, spending policies and balances

Basics of Financial Statements

FASB

1. Statement of Financial Position
2. Statement of Activities
3. Cash Flow Statement
4. Notes to the Financial Statements
5. Other Required Supplementary Information

Statement of Financial Position AKA the “Balance Sheet”

FASB

- Assets and liabilities
 - Total amount of assets, liabilities and net assets
- Based on the existence or not of donor-imposed restrictions:
 - Total amount of each class of net assets (unrestricted, temporarily restricted, permanently restricted)
- Information about the types of restrictions on net assets
- Liquidity information

Statement of Activities AKA the “Income Statement”

FASB

- Reports the change in total net assets
 - Includes change by net asset class (with donor restrictions/without donor restrictions)
- Revenues, Expenses, Gains and Losses
 - Activity classified by net asset category & reported in the appropriate class
- Revenue is reported as increase in net assets without donor restrictions unless restricted by donor stipulations or law
- Expenses reported as decreases in net assets without donor restrictions
 - Must be reported by function

Statement of Cash Flows - FASB

FASB

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

Notes to FASB Financial Statements

FASB

- Examples:
 - Nature of restriction or limitations on net asset balances
 - Any net assets that were released from restrictions
 - Collections policies
 - Appreciation of endowment investments
 - Unconditional & conditional promises to give

Activity: Let's Review

Find your (or another) institution's financial statements.

1. What is one fact you learned from the MD&A or financial statements that you didn't know before?

Comparability Challenges: FASB & GASB

- **Different reporting models**

- GASB (public) vs FASB (private) follow different standards and structures
- Makes side-by-side comparison different

- **Financial statement presentation differs**

- GASB uses net position categories, FASB uses net assets (with/without donor restrictions)
- Similar concepts – different terminology and format

- **Expense classification requirements**

- FASB requires functional + natural expense reporting
- GASB does not require the same level of functional reporting in all cases

- **Treatment of capital assets and debt**

- Differences in presentation and detail for plant, depreciation, and debt
- Can affect how “financial health” appears

Financial Statement Audits

- Independent review of financial statements performed by external auditors
- Provide assurance on accuracy & compliance
 - Determine whether the statements are fairly presented and follow standards (GASB/FASB)
 - Enhance credibility and trust
 - Confirms adherence to laws, regulations & policies
- Evaluate internal controls
 - Assess processes that ensure reliable financial reporting
 - Identify potential risks or weaknesses

Outcome: Audit Opinion

- Unqualified (“clean”) opinion = no material issues
- Other opinions indicate varying levels of concern

Auditor Opinion of the Financial Statements

- **Unqualified (Clean) Opinion:** No Issues
- **Qualified Opinion:** There are specific exceptions or limitations
- **Disclaimer of Opinion:** When auditors cannot obtain enough evidence to form an opinion on the financial statements
- **Adverse Opinion:** Financial statements are materially misstated or misleading and don't fairly present the institution's financial position

A red pen is positioned diagonally across the frame, pointing towards the bottom right. The background is a close-up of a financial document, likely a balance sheet or income statement, featuring columns of numbers and dates. The text 'KEY FINANCIAL METRICS' is overlaid in large, white, bold, sans-serif capital letters, centered horizontally and partially obscured by the pen. The document's text is in a smaller, black, sans-serif font, with some numbers appearing in red ink. The overall image conveys a sense of financial analysis and reporting.

How are they calculated and used?

- **Derived from audited financial statements**
 - Based on reliable, standardized data
 - Capture performance across all funds
- **Provide a consistent way to evaluate financial health**
 - Use industry-standard ratios for comparison
 - Enable benchmarking across institutions
- **Key Questions Financial Ratios Answer**
 - Are resources sufficient and adaptable to support the mission?
 - Are debt levels and investments managed strategically?
 - Is the institution living within its means?
 - Are assets being used effectively to support long-term goals?

Return on Net Assets Ratio

What It Measures

- Shows how effectively the institution generates results from its net assets
- Indicates overall financial performance and sustainability

Formula

- $\text{Change in Net Assets} \div \text{Beginning Total Net Assets}$

How to Interpret

- Positive ratio → Institution is building financial strength
- Negative ratio → Institution may be spending more than it generates
- Higher ratio → Stronger financial performance

Current Ratio

What It Measures

- Ability to meet short-term obligations with short-term assets

Formula

- $\text{Current Assets} \div \text{Current Liabilities}$

How to Interpret

- $> 1.0 \rightarrow$ can cover short-term obligations
- $< 1.0 \rightarrow$ potential liquidity risk
- $1.5\text{--}2.0 \rightarrow$ often considered strong in higher education

University of Florida Example

Current Ratio Calculation

Current Ratio = Current Assets ÷ Current Liabilities

$$= \$3,204\text{M} \div \$610.9\text{M} = 5.24$$

-  Above benchmark — shows **fiscal strength**
-  *May also suggest underutilized assets or excess liquidity*

**INTERNAL
CONTROLS**

What are the components of fraud?

1

INTENTIONAL

Done deliberately
or on purpose; not
an accident

2

DECEPTION

Concealing or
omitting
information; lying

3

PERSONAL GAIN

Monetary benefit,
praise, avoiding
punishment

Could it happen to your institution?

EDUCATION

Ex-Yale Medical School employee admits stealing \$40 million in electronics

The former Yale administrator pleaded guilty to fraud and tax offenses after the theft of computer and electronics from the school.

A professor used \$185K in research grants on strip clubs, iTunes and more, officials say

Ex-Drexel University professor Chikaodinaka D. Nwankpa is accused of spending research grant funds on strip clubs, authorities say.

The Washington Post
Democracy Dies in Darkness

Ex-Purdue prof, wife get probation for research funds fraud

A former Purdue University professor and his wife have been sentenced to probation and ordered to pay a combined \$1.6 million in restitution after pleading guilty to using more than \$1 million in federal research funds for their own personal expenses. A federal judge in Hammond sentenced Qingyou...

AP

Accounting manager who handled USF health care funds embezzled millions

Most of the stolen \$12.8 million flowed to an adult website, investigators say. Ralph Puglisi pleaded guilty in federal court.

Tampa Bay Times

Former UCO employee allegedly caught selling university property online

EDMOND, Okla. – University of Central Oklahoma police set up a sting to catch a former university employee suspected of selling university property on Facebook Marketplace. The woman accused is former administrative assistant Renda Walter from the University of Central Oklahoma and, according to police, she could be slapped with embezzlement charges. The university's website [...]



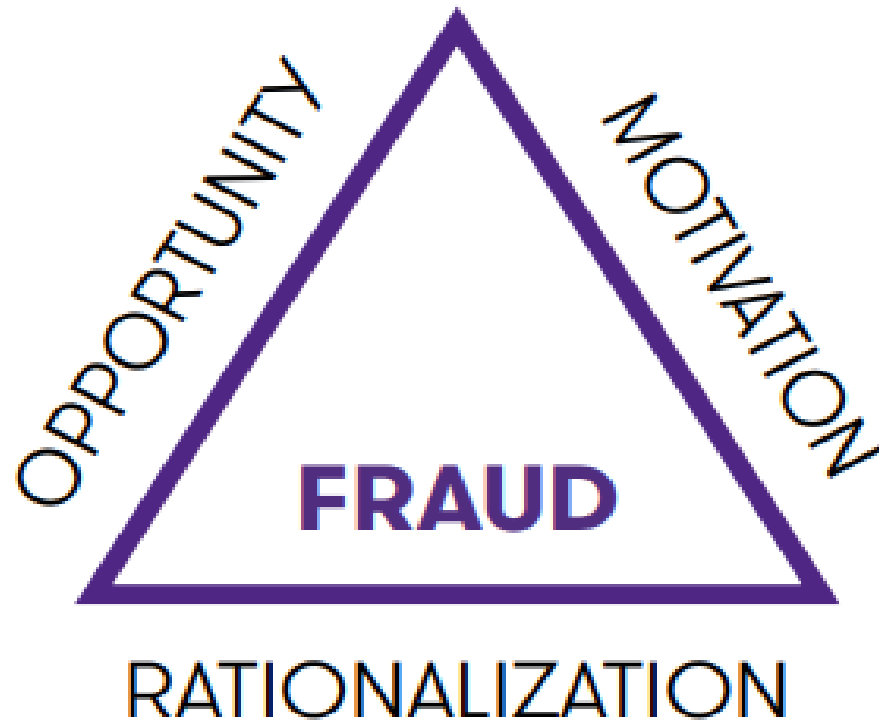
Former Delaware State University employee sentenced for involvement in tuition bribery scheme

A former Delaware State University employee was sentenced to prison for taking bribes to give students a break on their tuition for four years.

delaware online

When does fraud occur?

These 3 elements are required for an individual to commit fraud



Motivation

- Financial or emotional force pushing towards fraud

Opportunity

- Perceived ability to execute plan without getting caught

Rationalization

- Personal justification of dishonest actions



The best way to
deter fraud is to
increase the perceived
risk of detection.

The Internal Control Framework

Organizations create internal control systems to help achieve objectives.

Internal Controls are:

1. An ongoing process with multiple procedures based on policies
2. Effected by people from the board of directors to management, and all employees
3. Designed to provide reasonable assurance that the institution's objectives are considered in daily operations, regular reporting, and compliance

Three Lines of Defense



First Line - Front Line Staff and Supervisors

Responsible for processing transactions and ensuring adherence to policies and procedures - this line is the foundation for success!



Second Line - Business Officers and Leaders

Oversee the first line to review and ensure compliance with policies, procedures and regulatory requirements.



Third Line - Core Offices and Internal Audit

Functions that provide independent assurance by reviewing or auditing transactions

EFFECTIVE INTERNAL CONTROLS AND THE PREVENTION OF FRAUD, WASTE AND ABUSE DEPEND ON THE PARTICIPATION OF ALL EMPLOYEES AT EVERY LEVEL.

Components of Internal Control

①

Control Environment

- Tone at the top
- Integrity, ethics, accountability
- Clear roles & responsibilities

②

Risk Assessment

- Identifies & analyzes potential risks
- Considers fraud risk and changes
- Aligns risks with objectives

③

Control Activities

- Policies & procedures to mitigate risks

Components of Internal Control - Continued

4

Information & Communication

- Relevant, timeline information flows
- Supports decision-making & reporting
- Clear communication across the organization

5

Monitoring

- Ongoing & periodic evaluation of controls
- Includes internal audit & management review

It is important to step outside your daily work and think about what you are doing and why you are doing it on a regular basis.

**Internal Controls
are basically good
common sense.**

What risks are there?
How does your work process
minimize risks?
Are there areas for
improvement?

TRUST, BUT VERIFY

The entire framework begins with the staff and management team and then moves to central administration.

The control structure only works if the team members unilaterally are on board and vigilant and conscientious....

Shortcuts in Operations = Gaps in Coverage

TRUST IS NOT AN
INTERNAL CONTROL





Thank you!
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