Six Essential Insights You Should Get From Your Auditor

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Overview

Every accredited institution receives an audit from a qualified and independent certified public accounting firm. Beyond the official audit, the CFO, president, and board should also hear essential observations on the financial integrity and health of the organization.

Objectives

1. **Effective system of internal controls** – checks and balances
2. **Operating margin** – surplus or deficit, with trends
3. **Projected cash flow** – avoiding unseen emergencies
4. **Operating reserves** – adequate and available financial resources to operate in the future
5. **Risks of deferred maintenance** – staying current
6. **"Ongoing concerns"** – a reality check

Effective System of Internal Controls

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Internal Control Deficiencies

- Material weakness
  - A deficiency, or a combination of deficiencies, that creates a **reasonable possibility** that a material misstatement will not be prevented or detected on a timely basis
- Significant deficiency
  - A deficiency, or a combination of deficiencies, that is less severe than a material weakness, yet **important enough to merit attention** by those responsible for oversight of financial reporting

Common Internal Control Deficiencies

- Adjusting journal entries identified during the audit
- Lack of segregation of critical duties
- Prior-period adjustments
- Uniform Guidance findings
  - ❑ Return to Title IV (R2T4)
  - ❑ NDSL

Operating Margin

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Operating Margin

- Operating margin is the excess (deficit) of operating revenues, donor support, and investment income over (under) operating expenses, including depreciation and interest
- The statements of activity (income statements) should provide an operating measure
- The current year increase (decrease) should be considered in context with prior years

Operating Margin

Financial Summary
STATEMENT OF ACTIVITIES
Year Ended May 31,

	2020		2021		2022		2023		2024	
REVENUES AND SUPPORT	-1.7%		-6.9%		-2.0%		0.5%		8.6%	
Tuition and fees	$ 40,935,205	85.1%	$ 40,588,253	86.9%	$ 39,664,943	76.7%	$ 41,018,689	76.9%	$ 43,117,602	78.4%
Less student aid-institutional	(16,241,525)	-33.8%	(17,590,525)	-37.7%	(17,124,183)	-33.1%	(18,358,865)	-34.4%	(18,517,037)	-33.7%
Discount rate	-39.7%		-43.3%		-43.2%		-44.8%		-42.9%	
Net tuition and fees	24,693,680	51.3%	22,997,728	49.2%	22,540,760	43.6%	22,659,824	42.5%	24,600,565	44.7%
Growth rate	-1.1%		-6.9%		-2.0%		0.5%		8.6%	
Auxiliary activities	15,580,465	32.4%	13,930,965	29.8%	15,217,211	29.4%	16,064,602	30.1%	16,762,145	30.5%
	-9.6%		-10.6%		9.2%		5.6%		4.3%	
Investment Income	(58,202)	-0.1%	(11,243)	0.0%	411,206	0.8%	4,168	0.0%	223,891	0.4%
Other revenue	2,506,674	5.2%	(105,635)	-0.2%	362,617	0.7%	9,408,520	17.6%	1,642,738	3.0%
	42,722,617	88.8%	36,811,815	78.8%	38,531,794	74.5%	48,137,114	90.3%	43,229,339	78.6%
Private gifts and grants	1,585,310	3.3%	1,998,750	4.3%	1,601,636	3.1%	1,244,125	2.3%	1,214,294	2.2%
Net assets released from restriction - purpose	3,814,304	7.9%	7,894,518	16.9%	11,558,531	22.4%	3,932,901	7.4%	10,564,853	19.2%
	5,399,614	11.2%	9,893,268	21.2%	13,160,167	25.5%	5,177,026	9.7%	11,779,147	21.4%
Operating revenues, support and releases	48,122,231	100.0%	46,705,083	100.0%	51,691,961	100.0%	53,314,140	100.0%	55,008,486	100.0%
EXPENSES										
Program Services										
Instruction	14,888,854	32.4%	13,731,533	29.3%	15,928,750	31.0%	17,259,176	32.4%	17,449,714	32.7%
Academic support	6,774,408	14.8%	7,357,710	15.7%	5,437,616	10.6%	5,882,410	11.0%	5,787,111	10.9%
Student services	10,172,860	22.1%	11,138,838	23.7%	12,834,826	25.0%	11,283,899	21.2%	11,594,807	21.8%
Auxiliary activities	8,194,858	17.8%	8,477,276	18.1%	10,492,106	20.4%	11,147,030	20.9%	11,446,838	21.5%
Institutional support	4,945,785	10.8%	5,469,598	11.7%	5,866,201	11.4%	6,512,042	12.2%	5,840,212	11.0%
Fundraising	951,345	2.1%	765,491	1.6%	872,993	1.7%	1,198,296	2.2%	1,186,292	2.2%
Total expenses	45,928,110	100.0%	46,940,446	100.0%	51,432,492	100.0%	53,282,853	100.0%	53,304,974	100.0%
Growth rate	1.1%		2.2%		9.6%		3.6%		0.0%	
Change in unrestricted operating net assets	2,194,121	4.6%	(235,363)	-0.5%	259,469	0.5%	31,287	0.1%	1,703,512	3.1%
NON-OPERATING ACTIVITIES										
Release of net assets for plant expansion	-		-		-		-		-	
Loss on assets held for sale	-		-		-		-		-	
Investment income (loss)	(153,294)		404,299		(578,828)		(92,202)		24,470	
	(153,294)	-0.3%	404,299	0.9%	(578,828)	-1.1%	(92,202)	-0.2%	24,470	0.0%
Increase (decrease) in net assets w/o restrictions	2,040,827	4.2%	168,936	0.4%	(319,359)	-0.6%	(60,915)	-0.1%	1,727,982	3.1%

What is your current business model?

- Enrollment-driven or something else
- High discount rate or funded scholarships
- Endowment support
- Residential or remote learning

Projected Cash Flow

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Cash Flow Forecasting

STATEMENT OF CASH FLOWS
Year Ended May 31,

	2020	2021	2022	2023	2024
CASH FLOWS FROM OPERATING ACTIVITIES					
Change in net assets	$ 2,451,637	$ 3,133,749	$ (2,761,893)	$ 243,909	$ 1,387,293
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:					
Depreciation	2,549,066	2,775,051	3,108,587	3,362,536	3,572,238
Contributions for long-term purposes	(856,410)	(147,048)	(1,705,486)	(2,127,309)	(3,218,926)
Gifts in kind	(105,069)	-	-	-	-
Contribution of beneficial interest in trust	-				-
Change in value of trusts	97,252	(382,531)	8,119	47,163	(69,498)
(Gain) Loss on sale of assets	73,651	-	(4,116)	78,893	363,264
Realized/unrealized (gains) losses on investments	(1,652,080)	(6,910,524)	3,604,756	810,797	(4,055,929)
Student accounts receivable	(180)	(119,164)	(190,282)	275,888	258,832
Other assets	84,999	234,333	206,928	(9,407,136)	7,558,347
Accounts payable	(153,981)	(213,224)	(158,325)	1,376,735	(450,039)
Accrued expenses	(241,237)	1,297,847	(573,554)	408,637	(183,701)
Deposits	-	-	-	-	-
Deferred revenue	713,597	(1,053,369)	(236,638)	(73,837)	(78,987)
Other liabilities	(344,222)	525,719	1,431,690	(1,545,441)	(908,347)
Net cash provided by operating activities	2,617,023	(859,161)	2,729,786	(6,549,165)	4,174,547
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	(5,548,251)	(983,826)	(1,210,693)	(1,676,677)	(1,528,623)
Proceeds from sale of investments	8,517,861	3,741,339	1,941,776	4,892,298	4,185,765
Proceeds from sale of property and equipment	45,025	-	997,047	298,392	124,500
Purchases of property and equipment	(3,767,502)	(4,046,236)	(5,205,864)	(4,827,224)	(9,356,458)
Net cash used in investing activities	(752,867)	(1,288,723)	(3,477,734)	(1,313,211)	(6,574,816)
CASH FLOWS FROM FINANCING ACTIVITIES					
Payments on notes/bonds payable	(83,166)	(74,693)	(66,360)	(64,277)	-
Contributions restricted for long term investment	856,410	147,048	151,959	2,127,309	3,218,926
Other financing/lease activities	-	-	-	-	-
Net cash used in financing activities	773,244	72,355	85,599	2,063,032	3,218,926
Net increase (decrease) in cash	2,637,400	(2,075,529)	(662,349)	(5,799,344)	818,657
Cash at beginning of year	11,659,494	14,296,894	12,221,365	11,559,016	5,759,672
Cash at end of year	$ 14,296,894	$ 12,221,365	$ 11,559,016	$ 5,759,672	$ 6,578,329

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Operating Reserves

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What is your current status?

- Are reserves sufficient and flexible enough to support the institution’s mission?
- Are reserves growing in proportion to the growth of the institution?

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Operating Reserves

STATEMENT OF FINANCIAL POSITION
May 31,

	2020		2021		2022		2023		2024	
ASSETS										
Cash and cash equivalents	$ 14,296,894	12.0%	$ 12,221,365	9.9%	$ 11,559,016	9.7%	$ 5,759,672	4.8%	$ 6,578,329	5.4%
Student accounts receivable-net	865,555	0.7%	984,719	0.8%	1,175,001	1.0%	899,113	0.7%	640,281	0.5%
Investments	5,141,640	4.3%	2,783,836	2.3%	4,358,638	3.7%	1,599,179	1.3%	2,070,718	1.7%
Other assets	993,973	0.8%	851,652	0.7%	644,724	0.5%	10,051,860	8.3%	2,493,513	2.1%
Property and equipment-net	61,231,498	51.4%	63,313,475	51.5%	64,417,821	54.1%	66,975,735	55.4%	73,161,512	60.2%
Investments held for long term purposes	34,999,584	29.4%	40,698,377	33.1%	34,787,736	29.2%	33,520,777	27.7%	34,448,025	28.4%
Trusts held by others	1,692,690	1.4%	2,076,451	1.7%	2,068,332	1.7%	2,021,169	1.7%	2,090,667	1.7%
	$ 119,221,834	100.0%	$ 122,929,875	100.0%	$ 119,011,268	100.0%	$ 120,827,505	100.0%	$ 121,483,045	100.0%
LIABILITIES										
Accounts payable	$ 743,014	0.6%	$ 685,125	0.6%	$ 526,800	0.4%	$ 1,903,535	1.6%	$ 1,453,496	1.2%
Accrued expenses	2,577,428	2.2%	3,875,275	3.2%	3,301,721	2.8%	3,710,358	3.1%	3,526,657	2.9%
Other liabilities	181,345	0.2%	631,598	0.5%	509,761	0.4%	434,831	0.4%	466,216	0.4%
Deferred revenue	5,398,027	4.5%	4,356,801	3.5%	4,120,163	3.5%	4,046,326	3.3%	3,967,339	3.3%
Capital lease obligations	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Notes payable	255,741	0.2%	181,048	0.1%	114,688	0.1%	50,411	0.0%	-	0.0%
	9,155,555	7.7%	9,729,847	7.9%	8,573,133	7.2%	10,145,461	8.4%	9,413,708	7.7%
NET ASSETS										
Without donor restrictions	70,018,423	58.7%	70,187,359	57.1%	69,868,000	58.7%	69,807,085	57.8%	71,535,067	58.9%
With donor restrictions - purpose or time	14,466,647	12.1%	16,893,165	13.7%	14,721,694	12.4%	14,436,864	11.9%	14,393,929	11.8%
With donor restrictions - in perpetuity	25,581,209	21.5%	26,119,504	21.2%	25,848,441	21.7%	26,438,095	21.9%	26,140,341	21.5%
	110,066,279	92.3%	113,200,028	92.1%	110,438,135	92.8%	110,682,044	91.6%	112,069,337	92.3%
	$ 119,221,834	100.0%	$ 122,929,875	100.0%	$ 119,011,268	100.0%	$ 120,827,505	100.0%	$ 121,483,045	100.0%
	-		-		-		-		-	
FASB Liquidity	$ 12,305,576		$ 12,826,960		$ 13,846,925		$ 17,307,013		$ 11,352,175	
Available line of credit	-		-		-		6,000,000		14,000,000	
Quasi endowment	2,011,435		2,370,624		1,757,531		1,918,067		-	
Liquidity and Funds Available	$ 14,317,011		$ 15,197,584		$ 15,604,456		$ 25,225,080		$ 25,352,175	
General Expenditures	$ 42,878,276		$ 43,882,139		$ 48,365,852		$ 53,333,264		$ 53,304,974	
	33%		35%		32%		47%		48%	

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Operating Reserves

3. LIQUIDITY AND FUNDS AVAILABLE:

The following reflects the University's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of donor-imposed restrictions within one year of the statement of financial position date.

	May 31, 2024	May 31, 2023
Financial assets:		
Cash and cash equivalents	$ 6,578,329	$ 5,759,672
Student accounts receivable–net	640,281	899,113
Government funds receivable–net	309,131	8,730,711
Contributions receivable	1,108,966	-
Investments, net of investments in real estate	1,817,869	1,236,330
Investments held for long-term purposes	34,448,025	33,520,777
Beneficial interest in trusts held by others	2,090,667	2,021,169
Financial assets, at year-end	46,993,268	52,167,772
Less those unavailable for general expenditures within one year due to:		
Board-designated endowment	-	(1,918,067)
Donor-imposed restrictions:		
Beneficial interest in trusts held by others	(2,090,667)	(2,021,169)
Investments held for long-term purposes:		
Original gifts held in perpetuity	(24,049,674)	(24,416,926)
Accumulated earnings, net of appropriations within one year	(8,546,074)	(5,298,721)
Restricted by donor with purpose and time restrictions, net of expected amounts available within one year	(954,678)	(1,205,876)
Financial assets available to meet cash needs for general expenditures within one year	$ 11,352,175	$ 17,307,013

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Deferred Maintenance

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How old is your campus?

- Age of plant in years
  - Accumulated depreciation/depreciation expense
  - Target is 15 years or less
  - Age increases when plant additions are less than depreciation expense (see statement of cash flows)

	2020	2021	2022	2023	2024
Age	13	13	12	12	12

Are you a going concern?

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Reality Check

- An organization operating as a going concern is expected to operate for 12 months or more without threat of liquidation. The implication is that the organization is profitable.
- Formerly an auditing construct, in 2014 the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40).*

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Substantial Doubt

- Continuity – The ability of an organization to financially continue is presumed as the basis for financial reporting unless liquidation is imminent.
- Substantial doubt – Even if liquidation is not imminent, conditions may exist that in the aggregate raise substantial doubt regarding the organization's ability to continue as a *going concern.*
  - Substantial doubt is defined as the probability that the organization will not be able to meet its obligations as they become due within one year of the date that the financial statements are issued.

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Management Evaluation

- FASB ASC 205 requires that management evaluate this probability when preparing financial statements in accordance with accounting principles generally accepted in the United States
  - Qualitative factors that are known or reasonably knowable
  - Quantitative factors that are known or reasonably knowable

Management Assertion

- Management must determine if substantial doubt exists
  - If the determination is yes, substantial doubt exists, management must disclose this in the notes to the financial statements, as well as plans to mitigate
  - If management determines that plans to mitigate do not alleviate the substantial doubt, management must disclose the plans and state *"there is substantial doubt about the entity's ability to continue as a going concern"*

Audit Considerations

- Auditing standards (AU-C 570B) require auditors to:
  - Obtain sufficient audit evidence and conclude on the appropriateness of management's evaluation and assertion
  - Obtain an understanding of and assess management's plan for mitigation
  - Include a separate section in the audit opinion with a heading that references substantial doubt exists if management's plan does not alleviate the substantial doubt

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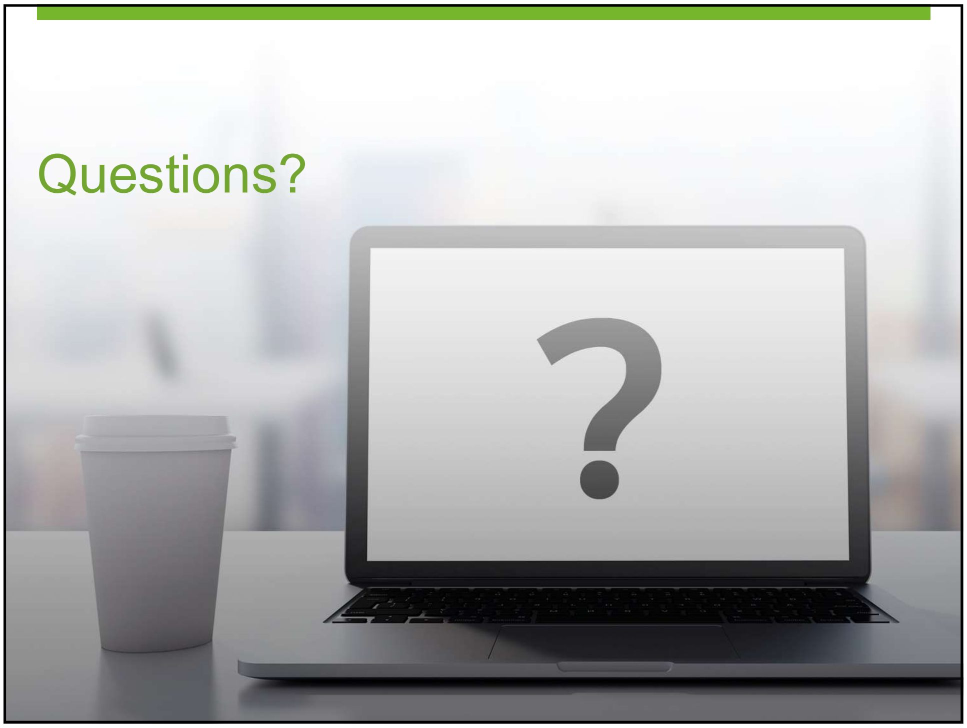

Thank you.

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