

2014

Division of Finance and Administration
Hampshire College

FINANCIAL GLOSSARY

GLOSSARY

ACCOUNT. A unique number used to identify and classify all of the revenues and expenses associated with a particular use or purpose. Account numbers at Hampshire are thirteen digits long.

ACCOUNTS RECEIVABLE. Open accounts from external customers (students, etc.) that owe Hampshire monies.

ACCOUNTS PAYABLE. Open vendor accounts to which Hampshire owes money.

ACCRUAL BASIS ACCOUNTING. A method of recording revenues and expenses based on when revenues are earned and expenses are incurred, irrespective of when the cash is received or paid.

ACQUISITION COST. The cost to acquire a physical or intangible asset. Costs would include shipping, installation, architect and engineering fees, attorney, consulting and financing fees.

AMORTIZATION. A distribution of the acquisition cost of an intangible asset over its useful life. Intangible assets have no physical substance and include things like patents and intellectual property.

ASSETS. Everything the organization owns or will own when the debt for the asset is paid for. Assets have an economic benefit to Hampshire. Assets include land, buildings, equipment, supplies, etc.

ATTRITION. See Melt.

AUDIT. A review of financial transactions (often by sampling) and reports to examine their accuracy and ensure they conform to generally accepted accounting practices (GAAP).

AUDITED FINANCIAL STATEMENTS. An annual report that includes the Statement of Activities (Income Statement), Statement of Financial Position, (balance sheet), Statement of Cash Flows, notes explaining the information in these reports, key metrics, and a statement from the College's auditors summarizing its method and findings. The report content and formats is standardized so that information can be readily interpreted and compared across institutions.

AUXILIARY ENTERPRISES. College operations that exist to furnish goods, or services to students, faculty, staff, or the general public. An auxiliary enterprise charges fees directly related to, although not necessarily equal to, the cost of the goods or services. The distinguishing characteristic of an auxiliary enterprise is that it is managed as an essentially self-supporting activity. Examples are residence halls, food service, college bookstore, outside non-College events (weddings, camps, etc.).

BALANCE SHEET. The balance sheet, or statement of financial position as it is called for non-profit institutions, is a condensed report of the assets, liabilities, and net assets (i.e. worth of the institution derived from total assets minus the liabilities) of an organization at a point in time, generally at the end of the accounting cycle or fiscal year. This information provides a succinct overview of the financial strength of an organization in terms of its liquidity, flexibility and short and long-term obligations or debt. The balance sheet is typically accompanied by notes that explain the organization's liquidity, debt, pledges, and restrictions on gifted funds in detail.

BOND. A bond allows an organization to borrow money from one or many investors for a specific period of time and at a particular interest rate, or rates. Bonds are often used to purchase capital assets (land, buildings, building improvements, equipment, furnishings, etc.). Bonds are often accompanied by various financial tests called covenants that provide the bondholder with confidence that the bond will be repaid by the borrower. A bond also may be supported by collateral, typically in the form of capital assets that must be sold or transferred to the investor if the borrower defaults.

BOOK VALUE. The acquisition cost of an asset. An asset may be acquired as a gift or purchase. The term is also used to describe the “gift” value of an endowed fund (i.e. the corpus of an endowed fund that cannot be spent).

BUDGET. An estimate of income and expenditures for a set period of time, reflecting a reading of future financial conditions and goals. One of the most important administrative tools, a budget also serves as a plan of action for achieving quantified objectives.

COA. See cost of Attendance.

CPI. The CPI (Consumer Price Index) is an index that reflects the cost of goods and services in urban areas, therefore, is representative of approximately 87 percent of the population. The costs are published monthly and can be compared from year to year based on the average price over the entire year as compared with the average price over the previous year. For budgeting purposes, Hampshire uses the CPI in December of the current year compared with the price in December of the previous year. The CPI is provided by the Bureau of Labor Statistics the United States Department of Labor.

CALLABLE BOND, NOTE, OR LOAN. A loan that must be repaid at the request of the issuer before its maturation date, generally because the recipient has violated the terms of the loan agreement.

CAPITAL ASSETS. Capital (or fixed) assets (usually buildings, equipment, etc.) have a useful life of more than one year (i.e. the asset will last multiple years). Their cost generally equals or exceeds a threshold value established by the institution for classifying assets as capital assets (Hampshire’s threshold is \$5,000). Capital assets are not expensed in one year, rather they are recorded in an asset account, rather than an operating (expense) account. They appear on the balance sheet in the category: property, plant, and equipment. Examples are buildings, major pieces of equipment, and land. As an asset is used over multiple years, the cost of the asset is depreciated (expensed) over the asset’s estimated useful life.

CASH EQUIVALENTS. Cash Equivalents are short-term investments that are highly liquid, meaning they can be easily converted into cash. They are of high credit quality and generally low returns. Examples include U.S. Treasury bills, certificates of deposit, and money market investments.

CASH FLOW REPORT. This is an internal report produced monthly by the Business Office to indicate the College’s cash position, that is, revenues received, expenses paid, and the net cash position at month-end. This essential tool indicates the amount of cash available to pay bills.

CENSUS DATE. The date in an academic term for which an institution is required to certify a student’s enrollment. Hampshire’s census dates are October 15th for the fall term (which coincides with the date needed for IPED’s reporting) and March 15th for the spring term.

CONSUMER PRICE INDEX. See CPI.

CORPUS. See Book Value as it relates to an endowment.

COST OF ATTENDANCE. The total amount of money required to put an individual through school at a four-year university or college. The cost of attendance factors in tuition, mandatory fees, room, and board, travel, books, and other miscellaneous fees associated with attending a higher education facility. This estimation may also be used by financial aid officers and loan companies to evaluate how much money they should loan a prospective student based on how much money they will actually need to attend.

CURRENT ASSETS AND LIABILITIES. Current assets will be turned into cash with a year. Current liabilities must be paid within a year.

DPI. Disposable Personal Income, DPI, is the annual net income of the average US family after taxes (it is also reported by state). Changes in the DPI from year to year reflect the average family’s ability to

absorb changes in the prices of goods and services, for example, tuition, room, and board. The statistic is reported by the Bureau of Economic Analysis.

DEBT SERVICE. The annual interest and principal paid on a loan, generally from the operating budget.

DEFERRED MAINTENANCE. This is maintenance work that cannot be immediately addressed due to insufficient resources. A comprehensive inventory of this work is maintained by Facilities and Grounds.

DEPRECIATION. The rational allocation of the cost of property, plant, and equipment (or assets) over its useful life. The balance sheet reports the value of property, plant and equipment less depreciation as a net asset. A piece of equipment, for example, may have a purchase price (book value) of \$10,000 and a useful life of 10 years. Its value, therefore, depreciates at a rate of \$1,000 per year.

DISCOUNT RATE. The percent of tuition, room, and board funded by financial aid, or equivalently, the amount of financial aid provided divided by gross tuition, room, and board. When using the National Association of College and University Business Officers (NACUBO) discount rate, the financial aid is divided by the tuition and mandatory fees.

DISPOSABLE PERSONAL INCOME. See DPI.

EFC (EXPECTED FAMILY CONTRIBUTION). See Family Contribution.

ENDOWMENT. The College's invested funds, excluding working cash and cash invested in separate money market funds and certificates of deposit. The Endowment is composed of quasi and "true" or "restricted" endowment. An endowment is composed of two types of funds: (1) managed and (2) unmanaged. The former are managed by a professional investment manager and the Investment Committee of the Board. The latter include privately held equities and venture funds that are not under management by the College. Together they form the Total Endowment.

EQUITY. Equity is the asset value after all liabilities are paid. It also refers to stocks as one of the three classes of investments; the other two are bonds and cash/cash equivalents.

EXPECTED FAMILY CONTRIBUTION. See Family Contribution.

EXPENDABLE NET ASSETS. These assets can be used for operations or other purposes. They are calculated as the sum of Unrestricted Net Assets and Temporarily Restricted Net Assets minus the value of plant and equipment less depreciation. This category of assets is an important variable in financial ratio analysis.

EXPENSES. Costs associated with the College's expenses that are paid to outside parties. Expenses associated with the main activity of the College are referred to as operating expenses. Expenses associated with the peripheral activity of the College are non-operating, or other expenses.

FASB. The Financial Accounting Standards Board. This organization creates most of the generally accepted accounting policies and methods (GAAP) that govern accounting policies and methods used in private sector accounting and reporting. Their widespread use creates consistency and comparability.

FASFA. Free Application for Federal Student Aid. A form required by the government for application to any federal education aid program. The Free Application for Federal Student Aid is used to determine the expected family contribution based on family financial information. An expected family contribution is calculated for every student, even if the family is not going to contribute that amount. A FASFA is also used to determine the specific Federal Student Aid programs that can contribute to a student's total financial aid package and in what proportions. Hampshire uses the information provided by the **CSS Profile** and the FASFA to determine other grants and scholarships as well.

FTE. This is an acronym for full time equivalent, or equivalency. It is used to normalize financial variables from year to year and across different reports. Its calculation is a function of the variable being

counted. Student FTE, for example, is counted by summing on the fraction of tuition paid, irrespective of aid. Faculty FTE are counted by summing their fractional time spent on instructional activities.

FALL CENSUS. See Census Date.

FAMILY CONTRIBUTION. An estimate of the parents' and/or students ability to contribute to the cost of the student's education and/or the student's eligibility for federal student aid. The family contribution is subtracted from the cost of attendance to determine the student's financial need. If the cost of attendance is greater than the family contribution, then the student has financial need.

FINANCIAL ACCOUNTING STANDARDS BOARD. See FASB.

FORECAST. A planning tool that assists management in its attempts to cope with uncertainty of the future, relying mainly on data from the past and present and analysis of trends. A forecast should not be confused with a budget.

FIXED ASSETS. See Capital Assets.

FULL TIME EQUIVALENT, OR FULL TIME EQUIVALENCY. See FTE.

FUNDS FUNCTIONING AS ENDOWMENT. See Quasi Endowment.

FUTURE VALUE. The value of some asset at a future date. The future value is often calculated as:
 $\text{Present value} \times (1 + \text{interest rate})^{\text{number of years}}$

GENERAL LEDGER. The general ledger is a record of all financial transactions and is the fundamental source of data for financial statements. At Hampshire, the general ledger and operating budget are reconciled at year end to demonstrate that the operating revenues and expenses provided accurately reflect the College's financial transactions.

GROSS TUITION. Tuition revenue before financial aid is deducted.

HEPI. The Higher Education Pricing Index (HEPI) is widely used for determining the change in the cost of goods in higher education from year to year. This index prices a market basket of goods and services specifically selected to reflect the costs of higher education, including faculty salaries, administrative salaries, clerical salaries, service salaries, fringe benefits, miscellaneous services, supplies and materials, and utilities. As with the CPI, the costs can be compared from year to year to calculate the percent change, reported as the HEPI. The HEPI is provided by the Commonfund.

HIGHER EDUCATION PRICING INDEX. See HEPI.

INTANGIBLE ASSETS. Intangible assets have no physical substance, but have a value. They include things like patents and intellectual property.

INTERNAL RESERVE BALANCE. The College's uncommitted and available cash saved as a hedge against fluctuations in various revenue streams.

LIABILITIES. The debt owed by Hampshire. This includes, accounts payable (bills owed), debt (mortgages, notes and/or bonds payable, leases, etc.). It can also be referred to as everything the organization has paid, will pay (based on written commitments), or will otherwise give up of economic benefit.

LIQUIDITY. Assets which can be converted to cash or cash equivalents within one month or one year. Assets so classified are a matter of interpretation. FASB has decided that to report relevant information about liquidity and the interrelationship of assets and liabilities, not-for-profit organizations should have latitude to select classification methods, levels of aggregation, and disclosure techniques that are most meaningful and practical for their circumstances.

LONG-TERM DEBT. Mortgage and bond obligations that will be repaid over a period of more than one year.

MARKET VALUE. The current value of an asset (in contrast to the original or book value).

MELT – GENERAL DEFINITION. Also called attrition. The number or percent of students who choose to leave or not attend the college between two dates. The opposite of Melt is Retention (also called Persistence by financial aid professionals).

MELT – HAMPSHIRE ADMISSIONS DEFINITION. The percent of potential students Hampshire loses after they deposit. For example, 300 students deposit; however, only 270 enroll. This would result in 10% melt.

NACUBO. This is the National Association of College and University Business Officers. The professional association of chief financial officers and other financial executives in higher education.

NACUBO DISCOUNT RATE. See Discount Rate.

NATURAL CLASSIFICATION. Sorting and reporting expenses by the nature of the expenses such as salaries, wages, rent, utilities, supplies, depreciation, advertising, etc.

NET ASSETS (EQUITY). The difference between all institutional assets and liabilities as reported at year-end in the institution's audited financial statements. "Net" means assets net (or minus) of liabilities. Net Assets is the sum of Unrestricted Net Assets, Temporarily Restricted Net Assets, and Permanently Restricted Net Assets (*see the definitions in this glossary*).

NET INCOME. The profit or loss from operating activities. Projected Net Income is shown in the College's monthly Net Income Statement (Budget Report). Net income is reported as Change in Net Assets from Operating Activities in the annual audited Statement of Activities. Positive Net Income is a key indicator of responsible management.

NET TUITION. Total tuition revenue less financial aid.

NET TUITION ROOM AND BOARD. Total tuition, mandatory and other fees, room, and board revenues less financial aid.

NON-OPERATING EXPENSES. See Expenses.

OPERATING ACTIVITIES. These activities are the day-to-day operations of educating students, providing high-quality student life, maintaining relationships with donors and friends, attracting students, providing security, maintaining the campus, and managing the College's business.

OPERATING BUDGET. The budget supporting the College's operating activities.

OPERATING EXPENSES. See Expenses.

OPERATING MARGIN. In higher education, the operating margin is the year-end net income from the operating budget as a percent of total revenue. One-time expenses and profit centers not directly related to operations can be excluded.

OTHER EXPENSES. See Expenses.

PERMANENT ENDOWMENT. See Restricted Endowment.

PERMANENTLY RESTRICTED NET ASSETS. These assets, generally gifts, can never be spent, as specified by the donor. They are generally invested as true endowment principal. Accumulated income associated with that principal also may be permanently restricted, in which case it is simply reinvested. Most donors allow income to be spend for specific purposes.

PERSISTENCE. See Student Retention.

PRESENT VALUE. The current value of an asset that will be received in the future. The present value can be calculated as: $\text{future value} / (1 + \text{interest rate})^{\text{number of years}}$.

PRINCIPAL – RELATING TO DEBT. The amount borrowed, or part of the amount borrowed which remains unpaid (excluding interest). Generally, when a payment is made, a portion goes towards the original amount borrowed, with the remaining portion towards interest.

PRINCIPAL – RELATING TO ENDOWMENT. The “gift”, or book value of an endowed fund (i.e. the corpus of an endowed fund that cannot be spent).

PROPERTY, PLANT AND EQUIPMENT. Aggregate cost or acquisition value, net of depreciation, of property, buildings, and equipment.

QUASI-ENDOWMENT OR FUNDS FUNCTIONING AS ENDOWMENT. Funds which the Board of Trustees has invested in the endowment. Principal and accumulated gains may be spent.

RESTRICTED FUNDS. This term is generally used by non-profit organizations to describe funds that must be spent according to the wishes of a donor (see also Temporarily Restricted Funds).

RETENTION. See Student Retention

RETENTION RATE. See Student Retention Rate

RESTRICTED ENDOWMENT. A fund, or funds, that are established by a donor, with the restriction that only the income from the gift being spent and the principal, or corpus, being preserved.

RETURN ON ENDOWMENT. The change in the average market value of the endowment (net of fees and underwater payments). Hampshire uses the most recently completed 12-quarter period and the previous 12-quarter period to measure the change in the return between years.

SOA. See Statement of Activities.

SOCF. See Statement of Cash Flows.

SOFP. See Statement of Financial Position.

SHORT-TERM DEBT. Mortgage and bond obligations that will be repaid within one year.

SOFT FUNDS. This term is often used by non-profit organizations to describe funding that has a limited term, or is one-time funding with a definitive sunset date.

STATEMENT OF ACTIVITIES (INCOME STATEMENT). The SoA is one of three audited statements in the College’s annual financial report. It reports three elements as of June 30: (1) the College’s operating activity results, including revenues, expenses, and net profit or loss; (2) investment activity results, including returns on investments and investment income from returns used for operating activities, and (3) Net Assets at the beginning of the year and end of the year. The change reflects the results of operating and investing activities.

STATEMENT OF CASH FLOWS. The SoCF is one of three audited statements in the College’s annual financial report. It is a snapshot at the end of the fiscal year of all cash and cash equivalents as of June 30. Its elements demonstrate changes in the College’s cash position as a result of: (1) operating activities, (2) investing activities, and (3) financing activities. Positive Cash and Cash Equivalents at end of year is an indicator of responsible management, though it is a snapshot on a particular date and any number of activities can influence this outcome.

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET). Many consider the SoFP or balance sheet the most important of the College’s audited financial statements. It provides a comprehensive summary as of June 30 of: (1) all assets, (2) all liabilities, and (3) all net assets. The key indicator of College financial health is Total Net Assets and especially changes in that variable from year to year and over the long-term. A downturn in Total Net Assets or Total Net Assets per Student should be considered a noteworthy result.

STUDENT RETENTION. The number of students who re-enroll, or remain, at an institution in a given year, or from year-to-year.

STUDENT RETENTION RATE. The percentage of students who return to an institution from one semester to another, or from one year to another. This is measured as the percentage of students that return to an institution (from semester-to-semester, or year-to-year) as a proportion of the students who were enrolled in the previous semester, or year, that could return (i.e. previous enrollment less those who graduated).

SUBLEDGER. See Subsidiary Ledger

SUBSIDIARY LEDGER. A subset of the general ledger used in accounting, also called a subledger. The subsidiary ledger shows details for part of the accounting records, such as property and equipment (fixed assets), gifts, payroll, endowment, etc. The total of the subsidiary ledger must match a line item, or items, within the general ledger. A subsidiary ledger must be reconciled to the general ledger, to ensure accounting accuracy.

TEMPORARILY RESTRICTED NET ASSETS. Temporarily Restricted Net Assets includes: (1) gains on permanent endowment, (2) gifts and endowment restricted for a particular purpose by donor, and (3) receivable contributions for (2). Formal definitions often explain “temporarily restricted” to mean restricted until the College meets some criterion set by the donor or grantor. It implies that time is important when, in fact, it is the restriction that is salient. When temporarily restricted assets are spent, they become operating expenditures and are sometimes reported in the operating budget. We prefer to separately report the use of these funds to avoid confounding the interpretation of the operating budget and its revenues and expenses.

TRUE ENDOWMENT. See Restricted Endowment.

UPMIFA. The Uniform Prudent Management of Institutional Funds Act. This act provides rules regarding how much of an endowment and institution can spend (a prudent amount defined by the act), for what purpose, and how an endowment should be invested.

UNDERWATER ENDOWMENT. An endowment fund where the market value of the endowment is less than the book value (original value of the gift received from the donor).

UNIFORM PRUDENT MANAGEMENT OF INSTITUTIONAL FUNDS ACT. See UPMIFA.

UNRESTRICTED CASH AND INVESTMENTS. Cash or cash equivalents that can be spent according to the College’s needs. Their use is not restricted by grantee or donor.

UNRESTRICTED NET ASSETS. Net assets that may be used according to the College’s needs. They are not permanently or temporarily restricted by grantee or donor.

VENDOR. A supplier of goods and services. Vendors are paid through accounts payable.