

**V.S. Ambarchian, PhD, associate professor
of the Accounting and Auditing Department
Kyiv National University of Technologies and Design**

**FINANCIAL STATEMENTS AS INDICATOR
OF THE AUTONOMY LEVEL OF HIGHER EDUCATIONAL
INSTITUTION AND TRANSPARENCY
OF ECONOMY AS A WHOLE**

The article refers to research of recommendations of financial reports preparation and presentation by higher educational institutions of different countries. In order to study the structure of financial reports, the sets of financial statements of National University of Kyiv-Mohyla Academy, Oxford University and Yale University are compared. The distinctions between financial reports of three determined universities are substantiated by 7 features: the level of information disclosure, sources of funding, structure of financial, managerial and budgetary reports, qualitative and quantitative characteristics of Notes and general level of financial independence. The author compared the structure and content of university financial statements as well as determined correlation between informational filling of public entities financial reports and the level of democracy. The sources of funding for three universities are compared. The paper determines the reasons of limited financial sources of revenue for Ukrainian universities.

Keywords: *university financial statements; transparency; public information; financial reports; university revenues.*

Settlement of the problem. The reason for changing Ukrainian political regime in 2014 was the absence of democratic reforms and direction of political vector of development to eastern authoritarian countries. Proclamation of pro-European principles had caused the necessity to reformat the system of public financing and reduce expenses for public institutions maintenance. Education field had also fallen under the scope of reforms that lead to reduction of budgetary funding of universities up to closures. Reformation of higher education refers to autonomy of university functioning, independence from centralized financing, market conditions for educational services provision and real competition. Within these terms universities forced to seek for alternative sources of funding and improve educational services. In such case experience of foreign universities regarding autonomous management, exceedingly presented in financial statements, becomes extremely valuable for domestic educational institutions. Therefore, ability to understand and analyze financial statement

data becomes the cornerstone for successful implementation of self-management principles of university activity and the source of additional cash-inflows.

Analysis of the latest research and publications. The issues of improvement of university management efficiency and determination of additional sources of their funding were disclosed in the papers of foreign and domestic scientists: F.Henard, A.Mitterle [1], R. van Deuren [2], H.Coates, D.Edwards [3], Abd Rahman, A.A. Farley [4], O.Romanovskiy [5]. Despite significant scientific achievements in this field, the issues of analysis of the standards of universities financial reporting and relation between the openness of public institutions financial data and the transparency of economy haven't been discussed yet, that determines the topicality of research.

Purpose of research. The purpose of research refers to comparison of the sources of funding of different universities, as well as to searching of additional cash inflows for Ukrainian universities in terms of budget financing reduction. The aim of research is to settle correlation between transparency and accountability of financial reports and the level of public institution openness.

Statement of research. Dramatic Revolutionary events in Ukraine changed the direction of political development to democratic state building principles. Experience of the primary democratic civilizations enables to determine three pillars of public administration – decentralization, deregulation and access to public information.

Ukrainian universities as the units of public sector also become objects of reformations of the state system management.

The strategy of the Ministry of Education and Science of Ukraine refers to realization of the principles of deregulation, decentralization and public information access in the field of higher education (figure 1).

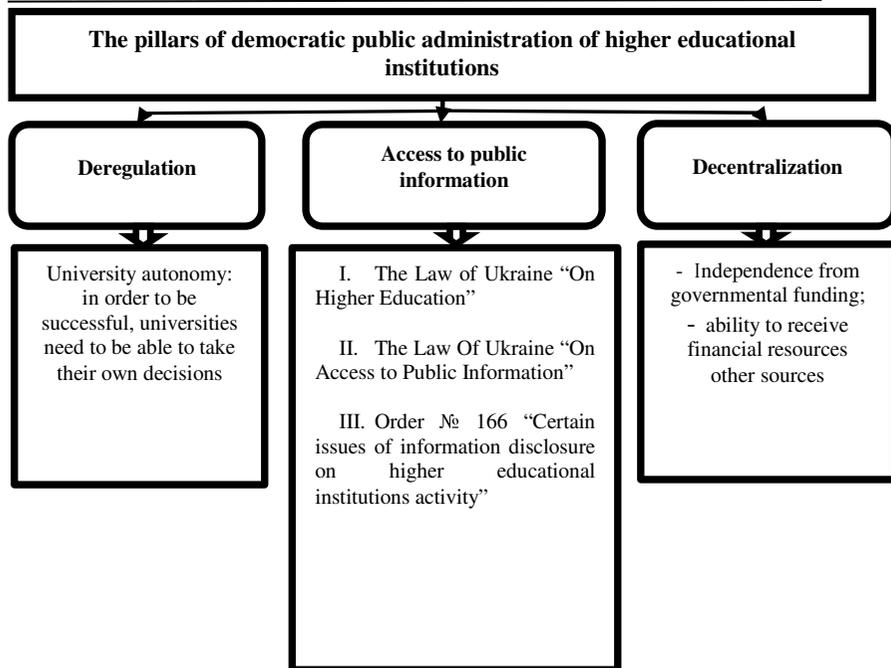


Figure 1. Principles of democratic transformations

Deregulation and decentralization result in university autonomy and independence from budgetary disposers and governmental officials of higher levels. Universities become self-managing business entities with reduced budgetary funding. Accordingly, without budget incomings universities will face the problem of financial resources obtaining from sources other than state budget.

The third principle, the access to public information is proclaimed in the following legal documents:

- the Law of Ukraine “On higher education”: “Decisions and activity in the field of higher education are opened. Information on procedures and results of taken decisions business performance in the field of higher education are of obligatory disclosure on official websites and in mass media, on information stands and in any other way” [6, p. 79];
- the Law of Ukraine “On Access to public information”: “The right to access to public information shall be guaranteed by information providers being under the obligation to provide and disclose information” [7, p. 1];

- Order № 166 “Certain issues of information disclosure on higher educational institutions activity”: detailed list of data, obligated to be presented on university official websites [8].

All the determined above processes result in transformation of the structure of financial reports, which now must disclose transparent, relevant, comparable, understandable and verifiable information. Financial reports reflect all the changes in the sources of finance and new types of business operations in modified or principally new reporting statements.

To determine the directions of improvement of financial reports structure to reflect political and economic reforms, the author referred to experience of dominant universities of two most developed countries in the field of higher education – the USA and the Great Britain.

As the objects of research the author chose three universities – Ukrainian National university of Kyiv-Mohyla Academy, the USA Yale University and British Oxford University.

Before studying the structure and informational content of financial reports of the mentioned above universities it’s important to learn the standards of financial reports preparation and presentation for each university.

From the 1st January, 2016, Ukrainian universities are obligated to prepare financial reports according to the National Public sector accounting standard 101 “Presentation of financial reports”. Reporting file consists of 5 forms: Balance Sheet, Profit and Loss statement, Statement of Changes in Equity, Cash Flow statement, and Notes to financial statement [9].

The US universities prepare financial reports according to the Statement № 35 of the Governmental Accounting Standards Board “Basic Financial Statements – and Management’s Discussion and Analysis – for Public colleges and universities”. Universities are classified as special-purpose governments. Reporting file consists of three parts: management’s discussion and Analysis, Basic financial statements and Required supplementary information other than management discussion and analysis.

The structure of the basic financial reports depends on the type of activity and the source of funding: universities engaged in governmental activity, universities engaged in both governmental and business-type activity and universities engaged in business activity [10].

Preparation of financial reports by British universities is regulated by the “Statement of Recommended Practice: Accounting for Further and Higher Education”, which determines the structure of institutions’ financial statements: Statement of principal accounting policies and estimation techniques, Statement of Comprehensive Income, Statement of Changes in

Reserves of the institution, Balance Sheet presenting the financial position, Statement of Cash Flows, and Notes to the Accounts [11].

Analysis of the principles of financial reports presentation for universities enables to make an assertion, that the structure and informational content of public institution financial report is the best indicator of the level of democracy in the country. So far as:

1) large bulk of data, disclosed in financial reports, expresses the openness to the public and the free access to the public information;

2) wide range of own sources of income and the excess of own receipts over budgetary incoming determines independence and autonomy of university.

To prove the suggested above assertion the author conducted comparison of the structure and informational content of three mentioned above universities (table 1).

Table 1
Comparison of the structure and content of universities financial reports

| № | Feature | National university of Kyiv-Mohyla Academy [12] | Oxford University [13] | Yale University [14] |
|---|---------------------------------|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| 1 | Level of information disclosure | Financial reports, budgetary reports, public report | Managerial report, Consolidated financial reports, Notes to financial reports | Consolidated financial reports Managerial reports |
| 2 | Sources of financing | Government fund (General fund) – 63,96 %. Own funding (Special fund) – 36,04 % | Grants from government – 15,51 %. Own funding – 84,49 % | Grants from government – 6,9 %. Own funding – 93,1 % |

| | | | | |
|---|----------------------------|---|---|--|
| 3 | Financial reports | Balance Sheet Profit and Loss Statement Cash flow statement | Balance Sheet Consolidated income and expenditure account Consolidated Cash flow Statement | Consolidated Statement of Financial Position Consolidated Statement of Activities Consolidated Statement of Cash Flows Notes to Consolidated Financial statements |
| 4 | Budgetary reports | 6 budgetary reports | Not prepared | Not prepared |
| 5 | Notes to financial reports | Not prepared | 35 Notes | 14 Notes |
| 6 | Managerial reports | Public report | Financial and operating activity analysis, governance statement, Statement of internal control and risk management, Independent auditor's report, Strategic risk management | Message from the Vice President for finance and Business operations, financial results analysis, Report of independent auditors |

Continued Table 1

| 1 | 2 | 3 | 4 | 5 |
|---|-----------------------|--|--|----------------------------------|
| 7 | Level of Independence | Institution is totally accountable to dispozers of higher level; revenues and expenses of general and special funds are planned and approved by the Treasury officials | University is totally independent institutions engaged in business-type activity | University is totally autonomous |

For better understanding the differences in the sources of funding and types of business operations performed by universities, the author compared the sources of their funding and the share of each source in total revenues (table 2).

*Table 2**Universities sources of funding*

| № | Source of revenue | National university of Kyiv-Mohyla Academy, % (total – 4,8 | Oxford University, % (total – 1782,8 million dollars) | Yale University, % (total – 7408,75 million dollars) |
|---|-------------------|--|---|--|
| | | | | |

| | | million dollars) | | | | | |
|------|--|------------------|-------|--------|-------|---------|-----------|
| | | \$ | % | \$ | % | \$ | % |
| 1. | Governmental activity: | | | | | | |
| 1.1. | Funding Grants (governmental fund) | 3,07 | 63,96 | 276,5 | 15,51 | 511,2 | 6,9 |
| 2. | Business activity: | 1,73 | 36,04 | 1506,3 | 84,49 | 6897,55 | 93,1 |
| 2.1. | Academic fees | 1,2 | 25,03 | 358,16 | 20,09 | 287,46 | 3,88 |
| 2.2. | Research grants and contracts | – | – | 726,14 | 40,73 | 671,23 | 9,06 |
| 2.3. | Publications income | – | – | 75,24 | 4,22 | 31,86 | 0,43 |
| 2.4. | Residence, catering, conferences and other income | – | – | 72,74 | 4,08 | – | – |
| 2.5. | Endowment and investment income | – | – | 46 | 2,58 | 5170,57 | 69,7 9 |
| 2.6. | Other income (donations, royalty income, income from operation lease etc.) | 0,53 | 11,01 | 228,02 | 12,79 | 736,43 | 9,94 |

Sources of data: [12–14]

Conclusions. Compared in the table 1 structure of financial reports of three objects of analysis explains differences in information bulk, disclosed by Ukrainian and foreign universities. The core indicator of public institutions closeness is the absence of notes and managerial reports. Numerous budgetary reports show off accountability and dependence from budgetary dispositions.

Almost total dependence of domestic university on budgetary funding is substantiated by the data in the table 2: for 63,96 % the Academy is financed from governmental fund and only for 20,09 % from special fund (tuition fee). To compare, only 1/6 of Oxford cash inflows refer to state order, the rest sum – business activity results (40 % goes to research grants and contracts). Revenues of Yale university seem to be unbelievably enormous for Ukrainian university managers and personnel so far as 93,1 % of all revenues come from business activity, among which investment operations take 75 % or 5170,87 million dollars.

Obviously, Ukrainian universities won't reach the level of autonomy of foreign colleagues. Nevertheless information seizing on the mechanism of self-management, disclosed in financial reports, enables to do autonomy business activity, based on foreign universities positive experience. Talking about public information openness in democratic country, the characterized above legal documents enforce domestic universities to disclose more financial data to make their activity transparent, accountable and verifiable for the tax payers and potential investors, while the structure of university financial reports must be modified and disclosed as for self-managed business entities.

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АМБАРЧЯН Вікторія Самвелівна – кандидат економічних наук, доцент кафедри обліку і аудиту Київського національного університету технологій та дизайну.

Наукові інтереси:

- міжнародні стандарти обліку фінансових інструментів;
- облік банківської діяльності.

E-mail: ambarchyanv@ukr.net.

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