Reconciling Tool Output with Audited Financial Statements

Risk Architecture Part 4 · a companion to Part 3

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Read this whenever an audit, a bond statement, a Form 990 or any institution-supplied financial document is in front of you alongside a Risk Assessment Tool export.

Part 3 tells you how to read the export. This tells you what to do when the export and the audit disagree — which they will, routinely, for reasons that are structural and expected.

The single most common failure in this work is treating a disagreement between IPEDS-derived figures and an audit as evidence that the tool is wrong. Nearly always it is evidence that the two documents are answering different questions, on different bases, for different years. This document names the reasons so you can tell an expected divergence from a real finding.

1. The two sources answer different questions

Hold this distinction before anything else.

The audit is the authoritative account of one institution. It is current, precise, prepared under professional standards and signed. For any question about what this institution's finances actually were in the year it covers, the audit wins.

IPEDS is the only basis on which institutions are comparable. Every institution reports to the same survey, on the same definitions, in the same year. That comparability is the entire source of the tool's value — a percentile, a peer median, a segment position — and it is bought at the cost of precision about any single institution.

You cannot have both properties in one number. An audit figure is more accurate and not comparable. An IPEDS figure is less precise and comparable. **The correct response to a divergence is to reconcile it and report both, not to pick a winner and discard the other.**

The rule that follows from this

Never recompute a tool score using audit figures. A score is a position within a distribution computed on a common basis for every institution in the cohort. Substituting one institution's audit figure into that calculation does not make it more accurate; it makes it incomparable, because every other institution in the peer group is still on IPEDS. If the audit shows the IPEDS figure is stale or wrong, say so in words and carry the tool score as reported, with the caveat attached.

2. Why they disagree: the structural reasons

Work through these before concluding anything. In practice they account for the large majority of divergences.

#	Reason	What it looks like	Expected?
1	Reporting year	The audit is one to two years ahead of the tool	Always
2	GASB vs FASB	The statements are not the same statements	Always
3	Appropriations non-operating	A public shows a large operating loss in its audit	Always, for publics
4	GASB 68 / 75	Negative unrestricted net position for a healthy public	Almost always

#	Reason	What it looks like	Expected?
5	Foundations and component units	Endowment figures differ, sometimes by an order of magnitude	Common
6	FTE vs headcount	Enrollment differs by roughly a fifth	Always
7	Parent / child reporting	The audit covers a system; the export covers a campus	Common in systems
8	IPEDS constructs	A ratio has no line-item equivalent in the audit	Always
9	Restatement	Prior-year comparatives disagree with a prior IPEDS year	Occasional
10	Pension-free restatement (v49.8 onward)	The tool's public balance-sheet figure is better than the audit's, sometimes much better	Always, for publics with pension or OPEB liabilities
11	Private margins are IPEDS constructs (v49.12 onward)	The tool's private margin differs from the audit's operating measure	Always, for privates

1. The reporting year

The tool's most recent finance year is FY2024 — fiscal years ending in calendar 2024, which for most institutions means 30 June 2024. IPEDS finance data is collected and released well after the fiscal year closes, so an audit you can download today is very often a year or two ahead of anything the tool has seen.

This is the most common single cause of divergence and the easiest to miss, because both documents will use the word "2024" to mean different periods. Establish the audit's fiscal year end and the tool's finance year before comparing any figure. A deterioration visible in the audit and absent from the tool is usually not a tool failure; it is news the tool does not have yet, and it is exactly the kind of finding an audit reconciliation exists to produce.

2. GASB and FASB are different accounting worlds

Public institutions report under GASB. Private non-profits report under FASB. They do not produce the same statements, and several concepts do not translate.

	Public (GASB)	Private (FASB)
Net asset categories	Net investment in capital assets; restricted; unrestricted	With donor restrictions; without donor restrictions
Operating statement	Statement of Revenues, Expenses and Changes in Net Position	Statement of Activities
State appropriations	**Non-operating** revenue	Not applicable
Typical bottom line before non-operating items	An operating loss, by design	An operating surplus or deficit that means what it says

Do not carry a rule of thumb from one sector into the other. "Unrestricted net assets" means materially different things in a GASB and a FASB statement, which is why, since v49.8, the tool restates public balance-sheet figures without pension and OPEB before scoring them on the scales privates use (reason 10).

3. State appropriations sit below the operating line

This produces more false alarms than any other single item.

Under GASB, state operating appropriations are reported as **non-operating** revenue. The consequence is that a large majority of public universities report a substantial **operating loss** every year, in perfectly ordinary condition, and the loss disappears once appropriations are added back.

If you read a public university's audit, see an operating loss of tens or hundreds of millions, and conclude that the tool's margin score is implausibly benign, you have found this. It is not a finding. Look for the appropriations line among non-operating revenues and read the change in net position, not the operating result.

4. GASB 68 and GASB 75 drive public net position negative

GASB 68 brought the institution's share of state pension liabilities onto the balance sheet from FY2015. GASB 75 did the same for other post-employment benefits from FY2018. Between them they pushed **unrestricted net position negative across the public sector**, including at institutions in robust condition.

A negative unrestricted net position in a public university's audit is therefore not, on its own, a finding of distress. Since v49.8 (4 October 2026) the tool removes these liabilities before it scores — see reason 10 — and scores the restated figure on the same **absolute bands** as privates. Before v49.8 it scored publics relative to peers instead, because an absolute band on the reported figures degenerated into a sign test that failed almost everyone.

Two consequences for your reading:

- Do not describe a public institution as having "negative reserves" or "no cushion" on the strength of the audit's unrestricted net position line.
- Do not conclude that the tool is understating risk because its figure is better than the audit's. On a v49.8 or later run the tool's figure excludes pension and OPEB by design. Reason 10 shows how to reconcile the two.

The proportionate share of a state plan also moves with **state-level actuarial assumptions**, so a year-on-year swing can reflect a change in the state's discount rate rather than anything the institution did.

5. Foundations, component units and where the endowment lives

Many public universities hold their endowment in a legally separate foundation. Depending on the structure, that foundation may appear as a discretely presented component unit in the audit, be blended into it, or not appear at all — and what IPEDS captures may not match.

The practical result is that **endowment figures can differ substantially, sometimes by an order of magnitude**, between an audit and an IPEDS-derived number. Private institutions have a milder version of the same problem where related foundations, hospitals or auxiliaries are involved.

Before reporting any endowment divergence as a finding, establish what is inside each figure. If you cannot establish it from the documents in front of you, say that the two figures are not on the same basis and stop there.

6. FTE against headcount

The tool works in **full-time equivalent** enrollment. Institutional press releases, fact books and most audit narrative sections use **headcount**. Across the current baseline the median ratio of FTE to headcount is about **0.81**, so a per-student figure computed on headcount will be roughly a fifth lower than the same figure computed on FTE.

Any per-student comparison — endowment per student, net tuition per student, unrestricted net assets per student — must be recomputed on the same basis or it will disagree for arithmetic reasons alone.

7. Parent and child reporting

In systems, the audit and the export frequently cover different entities. A system-level audit covers all campuses; a tool export covers one campus. Some campuses report their own revenues and expenses to IPEDS while their balance sheet is reported by the parent — every University of California campus does this, as do the Pittsburgh regionals and Rutgers Newark and Camden.

Where an export marks an institution **NOT RANKED** with a coverage reason naming system-level reporting, the audit you are holding is almost certainly the parent's. Its balance sheet describes the system, not the campus, and no campus-level balance-sheet conclusion can be drawn from it.

There is a second case, and it is the more dangerous one because the export does not look empty. Since 3 September 2026 a campus of a consolidated filer may carry FILING_STATUS financials_attributed, which means three balance-sheet ratios — viability, capitalization and return on net assets — were copied onto its row from the system office. Those figures are real, they are printed, and they will not tie to anything at that campus. They tie to the system audit, and they are identical across every campus of the system: all sixteen KCTCS colleges report a viability ratio of 6.240 to fifteen significant figures. Do not reconcile them to a campus statement, and do not treat agreement with the system audit as confirmation of the campus.

The converse trap is worse still. An office row holds the consolidated balance sheet but only the office's own slice of the income statement, so any ratio dividing one by the other is meaningless there — KCTCS's office row yields a debt-to-revenue ratio of about 1.31 where the audit gives roughly 0.16. This is why primary reserve, debt-to-revenue and both margins are deliberately NOT attributed and are absent for these campuses. If an audit reconciliation appears to show the tool wildly overstating leverage at a system member, check the filing status before writing anything: the likeliest explanation is that a revenue-denominated ratio has been read off an office row somewhere upstream.

What you can reconcile at such a campus: enrollment, Pell, retention, completion, transfer and expenditure shares are all its own. Say plainly that institution-level financial condition is not measurable where the system files once. That is a finding about the reporting structure, not a limitation of the analysis.

8. IPEDS constructs with no line-item equivalent

Several tool inputs are IPEDS constructs rather than audit line items. "Total operating revenue" as IPEDS defines it is not the operating revenue subtotal on the face of the statement. Net tuition revenue is tuition and fees net of institutional grant aid, which the audit may present differently or net differently.

When a ratio cannot be tied to the audit, say that it is defined on the IPEDS basis and is not reproducible from the statement. That is an accurate statement about definitions, not a concession about accuracy.

9. Restatement

Audits carry prior-year comparatives, and those comparatives are restated when accounting changes or errors require it. IPEDS historical years are not restated in the same way. A trend computed from audits and a trend computed from IPEDS can therefore differ in the earlier years even where the current year agrees.

10. The tool's public balance-sheet figures are restated pension-free (v49.8 onward)

From v49.8 (4 October 2026), every public balance-sheet figure the tool scores — primary reserve, viability, unrestricted net assets per FTE, the capitalization ratio and the restriction profile — is computed with the GASB 68 net pension liability and the GASB 75 net OPEB liability removed, together with their related deferred outflows and inflows. The audited statement of net position includes them. A current tool figure for a public will therefore not tie to the audit, by design. The difference is not an error on either side.

Which line tells you. Each public balance-sheet block in the export names its basis. "… with GASB 68 pension and GASB 75 OPEB liabilities removed" (exgasb) is the restated figure. A FASB filer needs no adjustment, so its figure should tie. "as-reported" or a LEGACY line means the adjustment was unavailable and the figure is on the audit's basis, distortion included. "attributed" means a system figure copied onto a campus, which is not restated (reason 7).

The direction of the difference. Usually the tool's figure is better than the audit's: unrestricted net position less negative, reserves larger. About 7% of publics carry a net pension or OPEB asset — an overfunded state plan — and for them removal lowers the figure, so the tool's figure is worse than the audit's. The whole Wisconsin system crosses into a net pension asset in FY2020, and Louisiana and Washington into net OPEB assets in FY2022.

How to reconcile. Start from the audit's unrestricted and restricted-expendable net position. Add back the net pension liability and the net OPEB liability. Remove the deferred outflows of resources related to pensions and OPEB, and add back the related deferred inflows. The amounts are in the pension and OPEB notes and the required supplementary information. The result is the restated expendable position; divide it as the measure does — by total expenses for primary reserve, by long-term debt for viability. The tool takes the same step on IPEDS fields: ExpendableExGASB = F1A15 + F1A17 + F1M02 + F1M03 − F1M04 + F1M06 + F1M07 − F1M08, where F1M02 is the net pension liability (FY2015 onward), F1M06 the net OPEB liability (FY2019 onward), and the F1M03/F1M04 and F1M07/F1M08 pairs the related deferred items. The signs were solved against 1,628 institution-years, all of which reconcile.

FY2018. No restated FY2018 figure exists for publics. GASB 75 took effect that year, but IPEDS did not collect the fields needed to remove OPEB until FY2019, so the tool treats FY2018 as a gap. An FY2018 audit has no tool counterpart; compare FY2017 or FY2019 instead.

What to write. Give both figures and name the basis of each: the audit's as reported, the tool's with pension and OPEB removed. Do not describe the gap between them as a discrepancy, and do not describe movement between a pre-4-October run and a current one as change at the institution.

11. Private operating margins are IPEDS constructs (v49.12 onward)

The tool's two private margins are built from the IPEDS finance survey for FASB filers, not from the statement of activities, and neither is a line on it. Structural Operating Margin is total revenue less investment return and gifts to the permanent endowment, minus total expenses, over the same revenue: (F2D16 − F2D10 − F2D084 − F2D094 − F2E131) / (F2D16 − F2D10 − F2D084 − F2D094). Adjusted Operating Margin adds back the endowment spending distribution, which IPEDS has reported only since FY2021: (F2D16 − F2D10 + |F2H03C| − F2D084 − F2D094 − F2E131) / (the same without F2E131).

How they relate to the audit. FASB leaves each institution to define its own operating measure, and many place an endowment spending distribution inside operations and market gains outside. The adjusted margin is the tool's nearest analogue to that operating result; the structural margin is stricter and removes the payout as well. IPEDS also reports these revenues for all net asset classes combined, where many audits present the operating result for net assets without donor restrictions, so expect differences from gifts and releases.

What the audit adds. Neither margin removes gifts to operations. The audit shows them, and for a gift-dependent college it is the better guide to the result before gifts. Gonzaga is the worked case: IPEDS reproduces its audited FY2024 core margin (−16.6% against the audit's −16%) and its operating gifts ($20.1M against the audit's $18.6M; the difference is private grants and contracts). Where the latest audit is newer than the tool's FY2024 data, report the audit's operating result before gifts alongside the score.

Runs before v49.12. The private adjusted margin was then the total margin, investment return included, and sits far above an audited operating result at any endowed college — Lawrence FY2024 read +28.8% against a structural margin of −20.8%. Do not reconcile an audit to a pre-v49.12 adjusted margin.

12. The first-year discount is an IPEDS construct (v49.24 onward)

The tool's first-year discount is IPEDS institutional grant aid to first-time, full-time undergraduates (the share receiving it times the average grant) divided by price. For privates the price is sticker tuition and fees; for publics it is blended by the in-state share of first-time students. It is not the discount rate an institution publishes, and it will not tie exactly.

Why it differs. An institution's own rate may cover all undergraduates rather than the entering class, may divide by tuition alone rather than tuition and fees, may count only unfunded aid or include endowed scholarships differently, and is often on a fiscal year rather than a fall cohort. The finance survey's discounts and allowances line differs again: it covers every student and every term.

How close it comes. Against Brandeis's own first-year figures (falls 2014–2022) it was within 1 point in 5 of 9 years and 2.7 points low at worst, and it followed the year-to-year movement. Expect differences of that size and treat the direction of change as the comparable finding.

What the audit or the institution adds. IPEDS stops at the fall 2023 class. An institution's own figures for fall 2024 onward are new information the tool cannot yet see, not a correction. Report them beside the tool's figure, attributed and dated.

3. Adjudication: which source answers which question

Question	Source that answers it	Why
What is this institution's current financial condition?	The audit	More current, more precise, professionally attested
How does it compare with its peers?	The tool	Only the tool holds every peer on a common basis
Has it deteriorated since the tool's data?	The audit	This is the reconciliation's main product
Is a given ratio correct?	Neither, alone	Establish the definition each is using first
What is the endowment worth?	The audit, with the entity named	Component-unit structure decides what is included
Is the institution at risk?	Both, stated separately	The tool gives position; the audit gives currency

The reconciliation's actual product

An audit reconciliation is not a check on the tool. It produces three things, and they should be the structure of what you write:

1. **Where the audit confirms the tool.** The measures where the more recent and more precise source agrees. This is the majority and it is worth saying, because it is what licenses the rest. 2. **Where the audit updates the tool.** Movement since the tool's finance year. Name the direction, the magnitude and the year, and be explicit that the tool has not seen it. 3. **Where the two cannot be reconciled.** After the nine structural reasons above are excluded, whatever remains is a genuine anomaly. Name it, say what would resolve it, and do not resolve it by assertion.

4. When a divergence is a real finding

Work the exclusions in order. A divergence is a finding only once all of these are ruled out:

- The two documents cover the same fiscal year.
- The figures are on the same accounting basis, and the sector's reporting standard is accounted for.
- Any per-student figure is computed on the same enrollment basis.
- The audit's reporting entity matches the export's institution.

- The endowment or investment figure covers the same set of entities.
- The definitions match, or the difference in definition is understood and quantified.

What is left is worth reporting, and there are two shapes it usually takes.

Deterioration since the tool's finance year. The most valuable output of the whole exercise. The tool describes a position that is one to two years old; the audit says where the institution has gone since. State it as new information, not as a correction.

A data quality problem in the institution's IPEDS submission. Institutions do occasionally file figures that are wrong, mis-scaled or mis-classified, and a divergence that survives every exclusion above is a reasonable basis for suspecting one. Say that the IPEDS figure and the audited figure cannot be reconciled, give both, and note that the tool score rests on the IPEDS figure. Do not silently substitute the audited number.

5. How to say it

Do not write	Write instead
"The tool is wrong — the audit shows a surplus"	"The tool's FY2024 IPEDS figures show X; the FY2025 audit shows Y, a change the tool has not yet seen"
"The institution has negative reserves" (public)	"Unrestricted net position is negative on the audited basis, as it is across much of the public sector after GASB 68 and 75; with pension and OPEB removed, as the tool scores it, the figure is X"
"The audit contradicts the risk score"	"The audit is one year more current; on the measures common to both, it confirms / updates the tool's reading as follows"
"Operating loss of $180m indicates severe distress" (public)	"The audit reports an operating loss before non-operating revenue, which is standard under GASB where state appropriations sit below the operating line; the change in net position was Z"
"Endowment is $400m, not the $1.2bn the tool implies"	"The audited university endowment is $400m; the foundation holds a further $Xm. Establish which entity each figure covers before comparing"
"Recalculating with audit figures gives a score of 41%"	"Recomputing on audit figures is not meaningful, because the peer group remains on IPEDS. The divergence is noted qualitatively"
"The tool overstates its reserves — the audit shows negative net position" (public)	"The tool's figure excludes pension and OPEB liabilities by design; adding them back, with the related deferred items, reconciles it to the audited $Y"
"The tool shows a −8% margin, so the audit's operating surplus is wrong" (private)	"The tool's structural margin removes investment return and endowment gifts; the audit's operating measure includes the endowment payout. On the tool's adjusted basis, which includes the payout, the margin is X"

6. Checklist before writing an audit reconciliation

- Have you stated the audit's fiscal year end and the tool's finance year, side by side, at the top?
- Is the institution NOT RANKED in the export, and if so does the audit cover the parent?
- Have you identified the reporting standard — GASB or FASB — and read the statements accordingly?
- For a public: have you looked below the operating line before commenting on the operating result?
- For a public: have you avoided treating negative unrestricted net position as a finding?
- Are per-student figures on a single enrollment basis, and have you said which?
- Have you established what the endowment figure in each source covers?
- Have you separated *confirmation*, *update* and *unreconciled* into three distinct statements?
- Is every figure you quote attributed to its source and its year?
- Have you left the tool's scores as reported, rather than recomputing them?
- For a public on a v49.8 or later run: have you said that the tool's balance-sheet figure excludes pension and OPEB, and reconciled it to the audit by adding those liabilities and their deferred items back?
- For a private: have you named which tool margin you compared with the audit's operating measure, and checked the audit for gifts to operations?
- Quoting a discount: have you called the tool's figure the IPEDS first-year discount, said whether it is on sticker or blended price, and given the institution's own rate, if any, as a separate figure with its own definition and year?

Where a figure cannot be reconciled, say what is missing. A reconciliation that names its open questions is more useful than one that closes them by assumption.