



# Higher education accounting and reporting 101: what you need to know

**May 18, 2023**





- This webinar is part of our monthly webinar series to stay engaged with our community and bring programming of interest to our members.
- This webinar is eligible for CPE. If you are interested in receiving CPE credit for this webinar, please e-mail me (Marty Mickey) at [mmickey@nl.edu](mailto:mmickey@nl.edu) now.
- During the webinar, there will be three check in questions for you to answer. **In order to receive CPE, you must answer all three of these questions.**
- The presentation is being recorded, and both the recording and a copy of the slides will be added to the CACUBO web site in the next couple of days.
- We will send out a survey afterwards to solicit thoughts and topics for future webinars.
- If you would be willing to present in a future webinar, please e-mail me at [mmickey@nl.edu](mailto:mmickey@nl.edu).

# Meet the presenters



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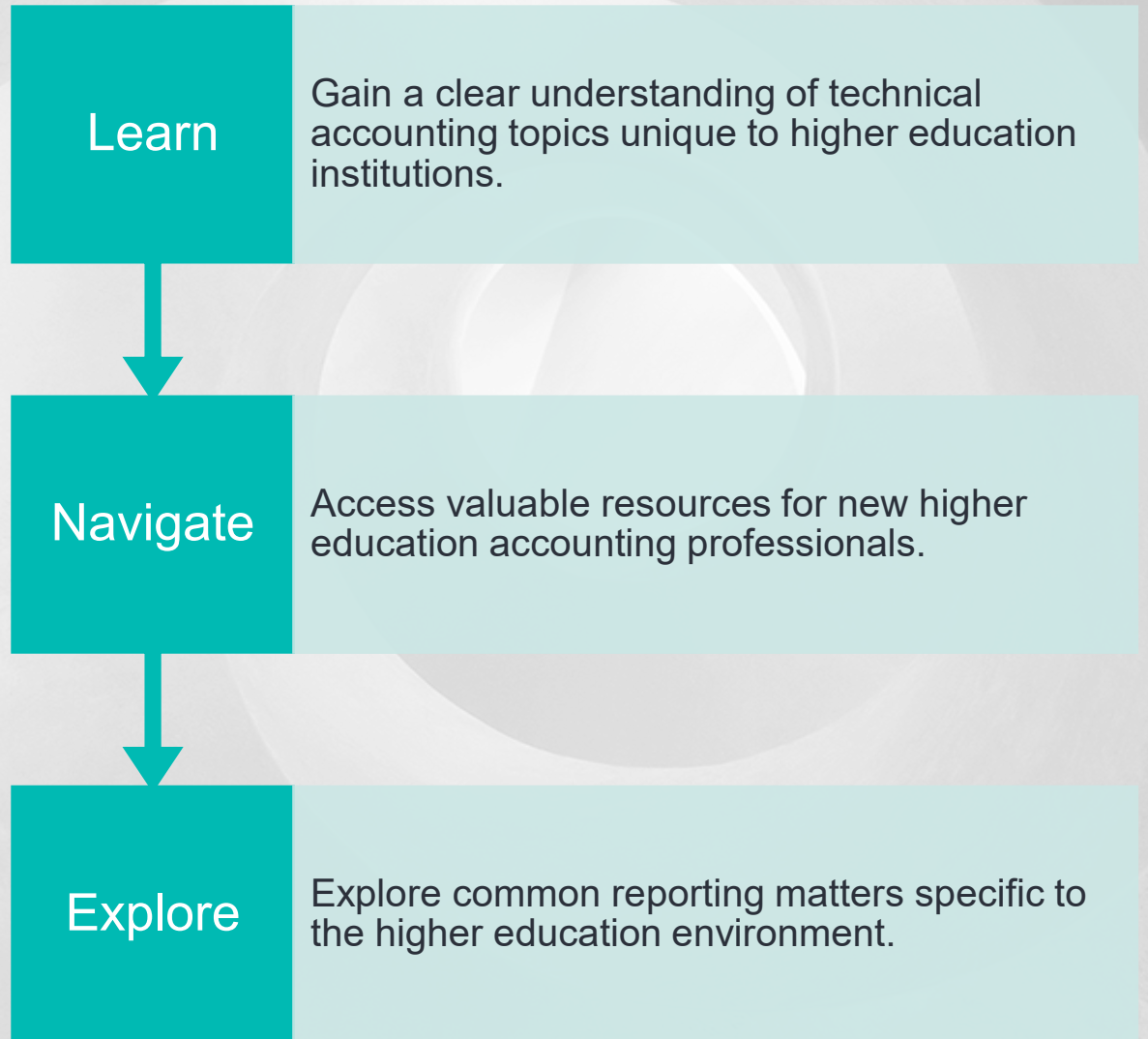
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# Learning objectives



# **Technical accounting topics**

# General ledger (part 1 of 3)

## Fund accounting

- Self-balancing set of accounts
- Separate accounts maintained on the general ledger for each fund group
- Accounts for the diversity of resources and uses of funds
- Tracks the flow of resources

## Net asset classifications

- Net assets without restrictions
- Net assets with restrictions
  - Temporary in nature – purpose and/or time
  - Permanent in nature



# General ledger (part 2 of 3)

## Six basic fund groups



### Current (unrestricted and restricted)

- Instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, scholarships, debt service, loan fund matching grants
- Auxiliary enterprises



### Loan

- Federal Perkins Loan Program
- Institutional loan programs



### Endowment

- Board designated
- Donor restricted

# General ledger (part 3 of 3)

## Basic fund groups (continued)



### Deferred gift

- Assets are available only upon the institution making stipulated payments to designated individuals



### Plant

- Unexpended
- Retirement of indebtedness
- Renewal and replacement
- Investment in plan



### Agency

- Student organizations
- Individual students
- Faculty members
- Certain government grants (Pell)

Polling question next





# Polling question #1

**How long have you been at  
your institution?**

- A) Less than 1 year
- B) 1-5 years
- C) 5-10 years
- D) More than 10 years

# Contributions

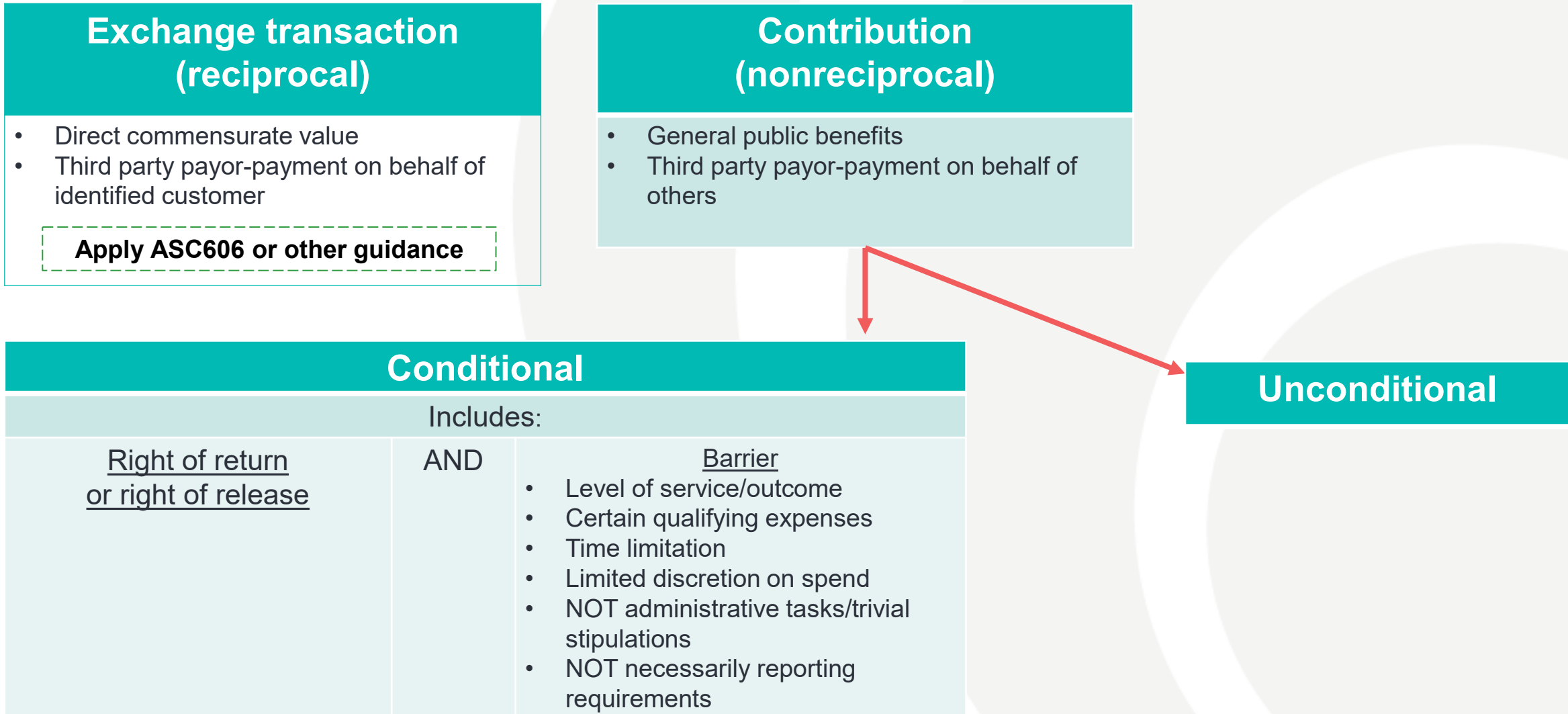
## Nonfinancial contributed assets

- Property – land and buildings
- Art collections
- Contributed services
- Contributed use of facilities

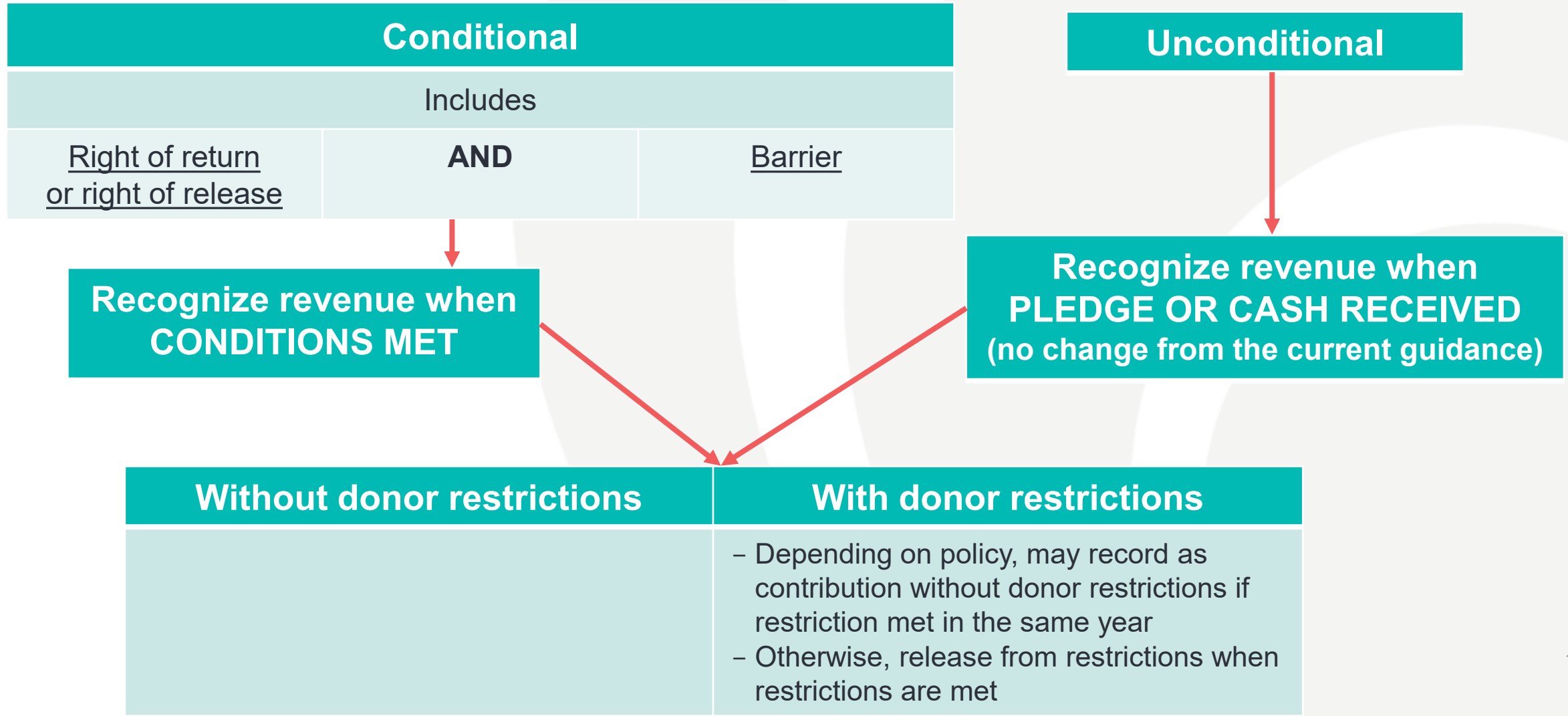
## Reporting considerations

- Fair value at the date of the gift
- ASU 2020-07 – additional disclosure requirements, including valuation techniques
- Nonfinancial contributions separately reported on the statement of activities

# Clarifying the scope and accounting guidance for contributions received and made



# Clarifying the scope and accounting guidance for contributions received and made *(continued)*



## Clarifying the scope and accounting guidance for contributions received and made *(continued)*

### Simultaneous release option

- Recognize a restricted contribution directly in net assets without donor restrictions **if the restriction is met in the same period that the revenue is recognized**
- Must be applied consistently to all restricted contributions and investment returns
- Policy must be disclosed and consistently applied
- Two “buckets” for restricted: conditional and unconditional

## Example disclosure

- Simultaneously release option **has been elected**

Unconditional contributions, including promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until they become

unconditional, that is, when the conditions on which they depend are met. Contributions received with donor imposed restrictions that are met in the same year as received are reported as revenues within the net assets with donor restrictions class and a release to net assets without donor restrictions is made to reflect the expiration of such restrictions.

# Conditional contributions

**Conditional contributions** – On May 31, 2022 and 2021, the College received conditional promises to give approximately \$274,000 and \$585,000. These conditional promises are not recognized as assets, and, if they are received, will generally be restricted for specific purposes stipulated by the donors primarily for endowment, general operational support or plant facilities.

On May 31, 2022, the College had approximately \$2,140,000 of conditional contributions outstanding on various grants, whereby, the conditions will be met upon incurring certain qualifying expenditures.



# What is an endowment fund?

- Invested to produce present and future income
- Interest and dividend income are recorded as income to net assets with or without donor restrictions depending on donor stipulations
  - See UPMIFA/FSP 117-1 discussion
- Capital gains (losses) follow income
- Usually have a “spending rate”
  - For example: 5% of the twelve-quarter moving average of market value of investments
  - Allocate based on donor restrictions (with and without donor restrictions)



# Types of endowment funds

## Permanent

- Historic gift value may not be spent
- Income may or may not be restricted by donor for a specific purpose

## Term endowment

- Upon passage of time principal may be spent

## Quasi-endowment

- Internally (“board”) designated
- Not donor restricted
- As known as “funds functioning as endowment”

# Donor restriction impact on endowment funds

## Net assets with donor restriction – permanent in nature

- Must be maintained in perpetuity
- Donor-imposed restrictions neither expire with the passage of time nor can be removed by the institution meeting certain requirements

## Net assets with donor restrictions – temporary in nature

- Donor-imposed restrictions which limit the use by the institution:
  - To later periods of time or after specified times; or
  - To specified purposes (i.e., endowment earnings restricted for scholarships)
  - Certain endowment funds have no purpose restriction on the earnings
  - Some endowments require income to be held in perpetuity
- Time restrictions – Uniform Prudent Management of Institutional Funds Act (UPMIFA)
  - Applies to all donor restricted endowment funds



# Underwater endowment funds

- If the market value is less than the historic gift value, then the amount of “underwater” funds **must be disclosed in the financial statements**
  - Must be calculated on fund-by-fund basis, not in the aggregate
- Include amount by which endowment funds are underwater within net assets with donor restrictions



## ASU 2016-14 (Topic 958) underwater endowment funds

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Policies for spending when underwater

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Aggregate fair value

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Aggregate original endowment gift amount or level required by donor stipulations or law to be maintained

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Aggregate amount of deficiencies



# Construction projects

- Capital campaign
  - Understand the donor's restrictions
- Multi-purpose
  - Specific projects
  - Debt services
  - Operations
- Fundraising and advertising expenses
  - Expensed as incurred
- Advancement vs. GAAP reporting





## Construction projects *(continued)*

- Construction costs
  - Tracking individual projects
    - Individual assets
- Year end reminders
  - Capitalized interest
  - Accrue construction related payables, including retainages



# Construction projects *(continued)*

- Net assets restricted for plant projects
  - Contributions are released when the project is placed in service
  - If project has phases, management needs to document approach for releasing related contributions
  - Pledges are typically restricted until paid, but there is an exception for construction projects. Pledges are released when the project is placed in services
- Deficit balances in plant net assets



# Polling question #2

**How important do you think  
accounting and reporting is for  
your institution's success?**

- a. Not important at all
- b. Somewhat important
- c. Very important
- d. Critical





# **Reporting matters**

# Reporting matters

## Statement of financial position

Classified

Detail of  
net assets

Consolidate  
immaterial  
balances

# Reporting matters

## Statement of activities

- Operating/non-operating presentation
  - **Operating**
    - Funds functioning as endowment (FFE) investment returns greater than (or less than) the institution's spending policy
    - Contributions restricted for capital purposes used in the year received
    - Net assets released from restrictions for capital additions
    - Change in value of charitable gift annuities
    - Change in value of derivatives that are not part of the investment portfolio (e.g., interest rate hedges or swap contracts related to institutional debt)
    - Gains and losses associated with the issuance, restructuring and extinguishment of debt

# Reporting matters

## Statement of activities *(continued)*

- Operating/non-operating presentation
  - **Non-operating** (required by Financial Accounting Standards Board (FASB))
    - Defined benefit plans:
      - (A) The components of net periodic pension and post retirement costs other than service costs (ASC 958-715)
      - (B) Non-period related gains and losses related to pension and post-retirement plans (ASC 958-715)
    - Unusual in nature or infrequently occurring items (ASC Topic 220-20)
    - Results of discontinued operations and impairment of long-lived assets that are part of a discontinued operation



# Reporting matters

## Statement of activities *(continued)*

- Operating/non-operating presentation
  - **Non-operating** (commonly reported)
    - Funds functioning as endowment (FFE) investment returns greater than (or less than) the institution's spending policy
    - Contributions restricted for capital purposes used in the year received
    - Net assets released from restrictions for capital additions
    - Change in value of charitable gift annuities
    - Change in value of derivatives that are not part of the investment portfolio, e.g., interest rate hedges or swap contracts related to institutional debt
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# Example 1

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Operating:</b>			
Revenues and gains:			
Tuition and fees, net of scholarship allowances	\$ XXX	\$ -	\$ XXX
Contributions	XXX	X,XXX	X,XXX
Contracts and other exchange transactions	XXX	-	XXX
Endowment spending used in operations	XXX	XXX	XXX
Investment return, net	XXX	-	XXX
Auxiliary services	XXX	-	XXX
Net assets released from restrictions	<u>XXX</u>	(XXX)	-
Total revenues, gains, and other support	<u>XXX</u>		
Expenses:			
Instruction	XXX	-	XXX
Research	XXX	-	XXX
Public service	XXX	-	XXX
Academic support	XXX	-	XXX
Student services	XXX	-	XXX
Institutional support	XXX	-	XXX
Auxiliary enterprises	<u>XXX</u>	-	XXX
Total expenses	<u>XXX</u>	-	XXX
Increase (decrease) in net assets from operating activities	<u>XXX</u>		

## Example 2

<b><i>Nonoperating:</i></b>			
Contributions	–	XXX	XXX
Investment return on endowment, reinvested	XXX	XXX	XXX
Other investment returns-net	–	XXX	XXX
Fire loss	(XXX)	–	(XXX)
Adjustment to annuity obligations	–	XXX	XXX
Changes in value of perpetual trusts held by others	–	XXX	XXX
Net assets released from restrictions for capital	XXX	(XXX)	–
Increase (decrease) in net assets from nonoperating activities	XXX	XXX	XXX
Increase (decrease) in net assets	XXX	XXX	XXX
Net assets at beginning of year	XXX	XXX	XXX
Net assets at the end of year	<u>\$ XXX</u>	<u>\$ XXX</u>	<u>\$ XXX</u>

# Disclosures

- Enhanced disclosures for board-designated net assets
  - Adequate information concerning the entity's "policy" regarding determining which amounts are board-designated
- Liquidity and availability of resources
  - Numerous options in practice about how the quantitative portion of this new disclosure is presented
  - Line of credit availability?
  - Disclose number of days/months of coverage?





# Disclosures *(continued)*

Net assets without donor restrictions were allocated as follows:

	<u>2019</u>	<u>2018</u>
Plant	\$ 165,391,946	\$ 159,776,484
Operations	(11,623,320)	(13,319,935)
Endowment funds	183,982,642	199,066,038
Deferred gifts	3,466,930	3,889,621
Student loan programs - matching federal government	<u>791,903</u>	<u>801,849</u>
	<u>\$ 342,010,101</u>	<u>\$ 350,214,057</u>

Net assets with donor restrictions consist of the following:

	<u>2022</u>	<u>2021</u>
Time and purpose restricted		
Scholarships, instruction and other departmental support	\$ 3,130,762	\$ 3,477,999
Endowment funds	33,317,967	45,298,195
Annuity, life income and similar funds	7,641,903	9,441,294
Acquisition of buildings and equipment	<u>4,919,314</u>	<u>6,940,724</u>
Subtotal time and purpose restricted	49,009,946	65,158,212
Held in perpetuity		
Student loan funds	2,167,877	2,133,101
Endowment funds	130,828,204	125,833,840
Annuity, life income and similar funds	<u>4,887,542</u>	<u>5,261,960</u>
Subtotal held in perpetuity	<u>137,883,623</u>	<u>133,228,901</u>
	<u>\$ 186,893,569</u>	<u>\$ 198,387,113</u>

Financial assets

Cash and cash equivalents	\$ 15,812,056
Accounts receivable	1,446,436
Contributions receivable	13,759,905
Student loan receivables	5,912,828
Notes receivable	901,650
Investments	553,530,710
Deposits held by trustee	1,753,590
Assets held in trust by others	<u>1,767,205</u>
Financial assets at May 31	<u>594,884,380</u>

Less those unavailable for general expenditure within one year:

Cash restricted for student loans	2,821,357
Accounts receivable beyond one year	137,732
Contributions receivable for endowments	12,038,951
Contributions receivable greater than one year	914,589
Student loan receivables restricted for financial aid purposes	5,912,828
Note receivable beyond one year	750,000
Endowment assets restricted by donors, net of appropriation for next year	328,416,479
Endowment assets restricted by the Board of Regents, net of appropriation for next year	175,572,209
Cash and other investments held for gift annuitants	27,518,233
Bond proceeds and reserves restricted by use	1,753,590
Investments held for others connected to split-interest agreements	<u>1,767,205</u>

Financial assets not available for expenditure within one year 557,603,173

Financial assets available to meet cash needs for general purposes within one year \$ 37,281,207



## Disclosures *(continued)*

- Net assets
  - Enhance disclosure of net assets without donor restrictions
    - Plant
    - Operations
- Underwater endowment funds
  - Need for consideration and disclosure of policy for spending on funds that are underwater

## Disclosures *(continued)*

- Operating measure
  - Describe how the institution defines the operating measure
- Expense reporting
  - Several ways to present expenses to meet the requirements of having one table that displays both functional and natural classifications
  - Consider disaggregating by the common higher education functions on the face of the statements and then more summarized functions in a footnote that also includes natural categories
  - Be sure that an ample description is included for the basis of allocated costs to the various functions



# **Industry resources**

# National Association of College and University Business Officers (NACUBO)

- FARM – Financial Accounting and Reporting Manual
- “State of higher education” presentation
- NACUBO-Teachers Insurance and Annuity Association of America (TIAA) study of endowments
- Tuition discounting study
- Student financial services benchmarking study



## Advisory Reports

[Advisory 21-01 Defining an Operating Measure for Independent Colleges and Universities](#)

[Advisory 20-01 Fiduciary Activities and Defined Contribution Plans](#)

[Advisory 19-05 Composite Financial Index Ratios Post FASB ASU 2016-14](#)

[Advisory 19-04 Financial Responsibility Standards \(Publicly Available\)](#)

[Advisory 19-03 Revenue Recognition \(Topic 606\) Disclosures](#)

[Advisory 19-02 Revenue Recognition \(Topic 606\) Education and Residential Contracts](#)

[Advisory 19-01 FASB ASC 606, Revenue From Contracts with Customers: Tuition Revenue](#)

[Advisory 18-02 Implementing FASB ASU 2016-14, Not-for-Profit Entities](#)

[Advisory 11-02 Credit Quality Disclosures](#)

[Advisory 11-02 Defining an Operating Measure for Independent Colleges and Universities](#)

[Advisory 00-08 Expense Cross-walk: Public Institutions](#)

[Advisory 98-01 Financial Responsibility: Title IV, Private Institutions](#)

[Advisory 98-02 Financial Responsibility: Title IV, Public Institutions Exempt AT](#)

[Advisory 97-01 Institutional Aid: Discounting: Private Institutions](#)

[Advisory 00-05 Institutional Aid: Discounting: Public Institutions](#)

[Advisory 03-03 Sarbanes-Oxley](#)

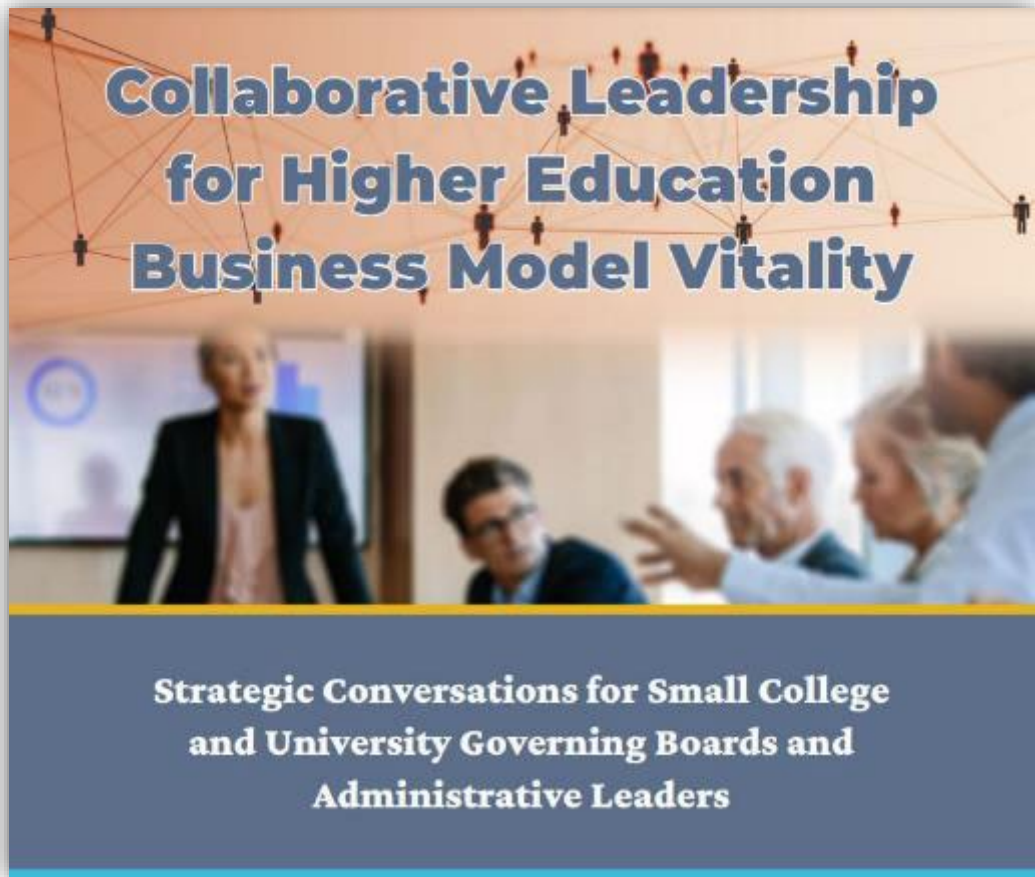
[Advisory 11-01 Variable Uncommitted Cost Sharing](#)



## Other resources

- American Institute of Certified Public Accountants (AICPA) – not-for-profit membership
- EDUCAUSE
- Association of Governing Boards of Universities and Colleges (AGB)
- Moody's, S&P
- Inside Higher Ed
- National Association of State Boards of Accountancy (NASBA)
- Department of Education
  - “Dear Colleague Letters”

# Chart your course to institutional sustainability



[ACCESS THE REPORT HERE](#)

## With this report, you can:

- Define expectations
- Clarify business goals and objectives
- Prioritize steps necessary to position your institution to weather today's economic headwinds
- Promote institutional transparency
- Instill stakeholder confidence

*This report is a joint project of:*



[Polling question next](#)



# **Polling question #3**

***Let's connect!***

**Would you like to discuss your institution's accounting and reporting practices and/or questions with Baker Tilly?**

- A. Yes, please contact me!
- B. No, thank you.



**Save the date**  
**June 7-8**



## **Not-for-profit governance and fiscal workshop 2023**

### **Topics will include:**

- Client panel discussion on unique problem solving and new approaches for issues facing not-for-profits
- Panel discussion on intentionally building your board with diversity
- ASC 842 Lease Accounting
- Inflation Reduction Act of 2022 (IRA) energy credits
- Unrelated Business Income Tax (UBIT)
- Fraud and internal controls
- And more!

**Register now**



# Helpful resources

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WEBINAR



**Inflation Reduction Act: what higher education institutions need to know now**

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ARTICLE



**Diversity, equity and inclusion in higher education: creating a positive and successful experience for all students**

ARTICLE



**Gramm-Leach Bliley Act changes: what higher education institutions need to know**

ARTICLE



**Navigating operational risk with a business office assessment**





**Questions?**

# Thank you!

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