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 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.
Meet the presenters

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Learning objectives

Learn
- Gain a clear understanding of technical accounting topics unique to higher education institutions.

Navigate
- Access valuable resources for new higher education accounting professionals.

Explore
- Explore common reporting matters specific to the higher education environment.
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
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 #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

<table>
<thead>
<tr>
<th>Exchange transaction (reciprocal)</th>
<th>Contribution (nonreciprocal)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Direct commensurate value</td>
<td>• General public benefits</td>
</tr>
<tr>
<td>• Third party payor-payment on behalf of identified customer</td>
<td>• Third party payor-payment on behalf of others</td>
</tr>
<tr>
<td>Apply ASC606 or other guidance</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Conditional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Includes:</td>
</tr>
<tr>
<td>Right of return or right of release</td>
</tr>
<tr>
<td>AND</td>
</tr>
<tr>
<td></td>
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<td></td>
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<td></td>
</tr>
</tbody>
</table>

ASU 2018-08 – NOT-FOR-PROFIT ENTITIES (TOPIC 958):
### Conditional

**Includes**

| Right of return or right of release | AND | Barrier |

- Recognize revenue when CONDITIONS MET

### Unconditional

- Recognize revenue when PLEDGE OR CASH RECEIVED (no change from the current guidance)

### Without donor restrictions

- Depending on policy, may record as contribution without donor restrictions if restriction met in the same year
- Otherwise, release from restrictions when restrictions are met

### With donor restrictions
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 – 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

<table>
<thead>
<tr>
<th>Permanent</th>
<th>Term endowment</th>
<th>Quasi-endowment</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Historic gift value may not be spent&lt;br&gt;• Income may or may not be restricted by donor for a specific purpose</td>
<td>• Upon passage of time principal may be spent</td>
<td>• Internally (“board”) designated&lt;br&gt;• Not donor restricted&lt;br&gt;• As known as “funds functioning as endowment”</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>DISCLOSURE REQUIREMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policies for spending when underwater</td>
</tr>
<tr>
<td>Aggregate fair value</td>
</tr>
<tr>
<td>Aggregate original endowment gift amount or level required by donor stipulations or law to be maintained</td>
</tr>
<tr>
<td>Aggregate amount of deficiencies</td>
</tr>
</tbody>
</table>
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
    • Gains and losses associated with the issuance, restructuring, and extinguishment of debt
**Example 1**

<table>
<thead>
<tr>
<th></th>
<th>Without Donor Restrictions</th>
<th>With Donor Restrictions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues and gains:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition and fees, net of scholarship allowances</td>
<td>$ XXX</td>
<td>–</td>
<td>$ XXX</td>
</tr>
<tr>
<td>Contributions</td>
<td>XXX</td>
<td>X,XXX</td>
<td>X,XXX</td>
</tr>
<tr>
<td>Contracts and other exchange transactions</td>
<td>XXX</td>
<td>–</td>
<td>XXX</td>
</tr>
<tr>
<td>Endowment spending used in operations</td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Investment return, net</td>
<td>XXX</td>
<td>–</td>
<td>XXX</td>
</tr>
<tr>
<td>Auxiliary services</td>
<td>XXX</td>
<td>–</td>
<td>XXX</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>XXX</td>
<td>(XXX)</td>
<td>-</td>
</tr>
<tr>
<td>Total revenues, gains, and other support</td>
<td>XXX</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instruction</td>
<td>XXX</td>
<td>–</td>
<td>XXX</td>
</tr>
<tr>
<td>Research</td>
<td>XXX</td>
<td>–</td>
<td>XXX</td>
</tr>
<tr>
<td>Public service</td>
<td>XXX</td>
<td>–</td>
<td>XXX</td>
</tr>
<tr>
<td>Academic support</td>
<td>XXX</td>
<td>–</td>
<td>XXX</td>
</tr>
<tr>
<td>Student services</td>
<td>XXX</td>
<td>–</td>
<td>XXX</td>
</tr>
<tr>
<td>Institutional support</td>
<td>XXX</td>
<td>–</td>
<td>XXX</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>XXX</td>
<td>–</td>
<td>XXX</td>
</tr>
<tr>
<td>Total expenses</td>
<td>XXX</td>
<td>–</td>
<td>XXX</td>
</tr>
<tr>
<td>Increase (decrease) in net assets from operating activities</td>
<td>XXX</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Example 2

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

<table>
<thead>
<tr>
<th>Category</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$15,812,056</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>1,469,436</td>
<td></td>
</tr>
<tr>
<td>Contributions receivable</td>
<td>13,769,905</td>
<td></td>
</tr>
<tr>
<td>Student loan receivables</td>
<td>5,912,828</td>
<td></td>
</tr>
<tr>
<td>Notes receivable</td>
<td>901,650</td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>553,530,710</td>
<td></td>
</tr>
<tr>
<td>Deposits held by trustee</td>
<td>1,753,590</td>
<td></td>
</tr>
<tr>
<td>Assets held in trust by others</td>
<td>1,767,205</td>
<td></td>
</tr>
</tbody>
</table>

**Financial assets at May 31**: $594,884,380

Less those unavailable for general expenditure within one year:

<table>
<thead>
<tr>
<th>Category</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash restricted for student loans</td>
<td>2,821,357</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable beyond one year</td>
<td>137,732</td>
<td></td>
</tr>
<tr>
<td>Contributions receivable for endowments</td>
<td>12,038,951</td>
<td></td>
</tr>
<tr>
<td>Contributions receivable greater than one year</td>
<td>914,589</td>
<td></td>
</tr>
<tr>
<td>Student loan receivables restricted for financial aid purposes</td>
<td>5,912,828</td>
<td></td>
</tr>
<tr>
<td>Note receivable beyond one year</td>
<td>750,000</td>
<td></td>
</tr>
<tr>
<td>Endowment assets restricted by donors, net of appropriation for next year</td>
<td>328,416,479</td>
<td></td>
</tr>
<tr>
<td>Endowment assets restricted by the Board of Regents, net of appropriation for next year</td>
<td>175,572,209</td>
<td></td>
</tr>
<tr>
<td>Cash and other investments held for gift annuitants</td>
<td>27,518,233</td>
<td></td>
</tr>
<tr>
<td>Bond proceeds and reserves restricted by use</td>
<td>1,753,590</td>
<td></td>
</tr>
<tr>
<td>Investments held for others connected to split-interest agreements</td>
<td>1,767,205</td>
<td></td>
</tr>
</tbody>
</table>

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

- “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 09-08 Expense Crosswalk: Public Institutions
- Advisory 08-01 Financial Responsibility: Title IV, Private Institutions
- Advisory 08-02 Financial Responsibility: Title IV, Public Institutions Exempt AT
- Advisory 07-01 Institutional Aid: Discounting: Private Institutions
- Advisory 05-05 Institutional Aid: Discounting: Public Institutions
- Advisory 03-03 Sarbanes-Oxley
- Advisory 11-01 Variable Uncommitted Cost Sharing
INDUSTRY RESOURCES

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”
FISCAL RESILIENCY

Chart your course to institutional sustainability

Collaborative Leadership for Higher Education Business Model Vitality

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:

bakerlilly
AGB
NACUBO
The Council of Independent Colleges

Strategic Conversations for Small College and University Governing Boards and Administrative Leaders

ACCESS THE REPORT HERE
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
**Higher Education**

**Helpful resources**

**Bookmark this page** for regulatory updates and insights on industry trends, challenges and opportunities.

**Subscribe** to receive higher education alerts and event invitations.

- **Inflation Reduction Act:** what higher education institutions need to know now
- **Gramm-Leach Bliley Act changes:** what higher education institutions need to know
- **Navigating operational risk with a business office assessment**
- **Diversity, equity and inclusion in higher education:** creating a positive and successful experience for all students
Questions?