2015 Higher Education Update

Spring Edition

Introduction

Welcome to the Spring edition of the CapinCrouse 2015 Higher Education Update. We are mindful that the landscape of higher education is changing rapidly. To better provide the timely information you need, we're moving from the annual printed publication we've used in the past to electronic updates throughout the year.

This is part of our commitment to empowering nonprofits, including our higher education clients, with key financial information and insight to help you manage the ever-increasing demands and challenges you face and effectively accomplish your mission.

Top Five Higher Education Issues

The top issues currently being discussed by our clients and within higher education are:

1. The Financial Accounting Standards Board (FASB) proposal to improve not-for-profit financial reporting
2. NACUBO's free report detailing student financial services policies and procedures
3. Consolidation of the industry
4. Accreditation issues for Christian colleges
5. Deferred maintenance

We examine each issue below.

FASB Issues Proposal to Improve Not-For-Profit Financial Reporting

The FASB recently issued the Exposure Draft of its Accounting Standards Update (ASU), which proposes changes to increase the relevance, understanding, and meaningfulness of financial reporting by not-for-profit entities. The proposed ASU, "Presentation of Financial Statements of Not-for-Profit Entities," suggests improvements to standards that were issued more than 20 years ago.

The objectives of the update include:

- Refreshing the financial reporting model
- Addressing disclosure volume/ineffectiveness (disclosure overload)
- Making simplifications where possible
- Focusing on net asset classifications, liquidity, financial performance, and cash flows

We've summarized the proposed changes below. For more on the update, including background on the standards-setting project and details on what the proposed changes are intended to accomplish, please see the Not-for-Profit Financial Reporting 3.0: New FASB Exposure Draft article by CapinCrouse partner Gregg Capin. Gregg serves as a member of the FASB Not-for-Profit Advisory Committee (NAC).

Overall Change – One major change in the update is to move from the rigidity of presenting three classes of net assets, to presenting net assets with and without donor restrictions. Note that the characteristics of donor restrictions (time, purpose, and perpetuity) will remain an important part of reporting and disclosures.

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Statement of Financial Position – No significant changes are anticipated, other than conformity with presenting net assets with and without donor restrictions and encouraging better disclosure of the liquidity of those net assets.

Statement of Activities – Allowing either a one- or two-statement approach, the most significant change will be requiring the presentation of operating activities. **The dimensions of *mission* and *availability* will drive what is presented as operating and non-operating.** Note that:

- *Mission* (Business & Charitable Activity) is based on whether resources are from or directed at carrying out the not-for-profit's purposes for existence (vs. investing and financing, which are defined as non-operating).

- *Availability* is based on whether the resources are available for current-period activities, reflecting both a) external donor-imposed limitations, and b) internal actions of the not-for-profit's governing board, such as placing or removing self-imposed limitations on the use of resources for current-period operations.
- External and internal actions or limitations will be reported discretely. Remember that all resources with donor restriction not available for the current period are reported outside of operations.
- Internal actions will be presented separately as "transfers," with required disclosures. Examples include allocation of resources into reserves or quasi-endowment funds and release of the same.
- All gifts will be considered to be related to the organization's mission.
- Gifts with donor restrictions that limit their use or that are not used until future periods will be classified as non-operating in the period received.
- Investing and financing activities will not be considered mission-related unless programmatic, such as interest on student loans or programmatic investments.
- Capital-like transactions will include gifts of long-lived assets without donor restrictions and the gift of cash restricted for the acquisition or construction of the same. This is an area to look at carefully!
    - By placing a gift of a long-lived asset in service, rather than selling it, the entity will effectively make it unavailable for current operations (only as use over time).
    - Placed in service becomes determinative for recognition.
    - An unrestricted gift of a long-lived asset will be reported within operations and transferred out as placed in service.
    - Restricted gifts for acquisition or construction will be outside operations and reported as revenues that increase net assets with donor restrictions.
    - Once an acquired or constructed asset is placed in service, the restriction will be released and reported simultaneously as an operating inflow (release of restriction) and a transfer out of current operations.

We encourage you to carefully study and consider the Exposure Draft of the proposed updates, and give it time to resonate. Even with certain areas of concern and change, and the need to re-educate users, the proposed changes provide improvements in the relevance of information, understanding of operations, and other changes affecting your financial statements.

NACUBO Report Details Student Financial Services Policies and Procedures

According to NACUBO's recent *Student Financial Services (SFS) Policies and Procedures* report, the majority of higher education institutions require students who take out federal or institutional loans to complete financial literacy programs, and almost one-third require all first-year students to attend such programs.

In the report, NACBUO summarized data collected from more than 200 member institutions in late 2013 and early 2014. The data focuses on six aspects of student financial services: services provided, tuition and fees, student financial literacy, health insurance policies, veterans' affairs issues, and student information systems, with additional sections focused on continuing education and Return to Title IV calculations.

The report also found that:

- Mandatory e-billing and direct deposit of credit balances increased significantly
- Outsourcing of services is particularly popular at smaller institutions, with the most commonly outsourced services being e-payment options, tuition payment plans, tuition insurance, electronic signatures on promissory notes, and electronic distribution of 1098-T forms
- Those institutions offering financial literacy programs widely use online programs, as well as personal advising, coursework, and seminars[i]

NACUBO members can request a free copy of the report by logging into their NACUBO homepage.

1/3

Approximately a third of U.S. colleges and universities are on a financial path that can't be sustained.

Consolidation of the Industry

Are more college closures on the horizon? In a recent MarketWatch article, Susan Fitzgerald, a senior vice president at Moody's, said she expects to see more college closures during the next three or four years. "I don't think it's going to be a landslide of college closures, but we are coming through a very tough period of time," Fitzgerald told MarketWatch.[ii]

It is apparent to those within higher education that the current environment is changing quickly. Some of the concerns may not even be that valid — once the media and politicians get hold of something you can rest assured changes and regulations will be coming. There has always been concern over "higher education inflation," as well as concerns about student debt, the arms race colleges seem to be engaged in with each other, unreasonable demands from tenured faculty… and the list goes on. One thing we believe will come from this environment is consolidation.

"The Financially Sustainable University," a 2012 report from Sterling Partners and Bain & Co., noted that approximately a third of U.S. colleges and universities are on a financial path that can't be sustained. The MarketWatch article reports the following:

> While some of the schools on that list have resources, like a large endowment and a steady enrollment base, that could help them stave off closure, smaller, private colleges "need to be on the lookout," Jeff Denneen, the leader of Bain's higher education practice and one of the authors of the report, said in an interview.[iii]

Accreditation Issues for Christian Colleges

Last October, the New England Association of Schools and Colleges (NEASC), an accrediting board, and Gordon College, a Christian school in Wenham, Massachusetts, announced a year-long review "to ensure that the college's policies and processes are non-discriminatory and that it ensures its ability to foster an atmosphere that respects and supports people of diverse characteristics and backgrounds, consistent with the commission's standards for accreditation." This should serve as a warning for many faith-based institutions.

The review was in response to Gordon president D. Michael Lindsay signing a letter from faith leaders to President Obama earlier in 2014. The letter requested religious exemption from a new employment policy prohibiting federal contractors from employment discrimination on the basis of sexual orientation.

While this letter garnered a great deal of negative media attention, the college in fact was simply affirming its long-term commitment to evangelical beliefs. Gordon was not due for any type of review by the accrediting body and had done nothing that would have been in conflict with its last accreditation review.

The college recently received word that its accreditation is not at risk, and the school continues to be committed to its 125-year Christian heritage. As our world grows increasingly complex and religious freedoms that once were sacred begin to be challenged, our clients need to be ready for opposition from many sides.

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If an institution is not strong or nimble enough, it will be forced to either close or merge. Many will end up closing their doors completely as the cost of a merger can be prohibitive, especially when viewed against the low cost of waiting for your competition to go out of business and then absorbing the best parts of it.

CapinCrouse can help you:

1. Get everything in order in preparation for being acquired
2. Find a proper and ethical way to close operations
3. Identify acquisition candidates
4. Perform due diligence on targets
5. Assist with cost analysis
6. Review profit margins down to the course and session level

The higher education team at CapinCrouse understands the complexities of the higher education industry as well as the political climate in which we operate. Our team is available to guide boards and administrations through the very challenging process of accreditation, and we often can help review your application before submission.

We are committed to seeing you not only survive but truly thrive as an institution of higher education that seeks to hold to your belief systems.

Deferred Maintenance

Perhaps no issue has more unintended consequences for higher education institutions than deferred maintenance. As colleges and universities dealt with declining net tuition revenue and development dollars and non-existent endowment returns, they began to cut costs. Since most colleges are reluctant to touch the faculty, they began to cut back on repairs and maintenance on the theory that it could be skipped for a few years without anyone noticing.

The problem with deferred maintenance is that:

1. It gets more expensive the longer you wait,
2. Students (and more likely their parents) notice and are left comparing it to their other options, and
3. Borrowing for capital improvements can undermine your long-term facilities plan.

CapinCrouse can assist you in developing a realistic and sustainable repair and maintenance plan. A properly designed plan:

1. Determines realistic depreciable lives of assets
2. Develops a master plan for the ultimate replacement of everything
3. Ensures that maintenance is done BEFORE repairs are necessary
4. Depreciates new buildings using component depreciation

With a properly designed plan, your institution can stay ahead of the deferred maintenance issue that is plaguing your peers. This can make your school truly shine when students and their parents come to visit.

About CapinCrouse

As a national full-service CPA and advisory firm devoted to serving not-for-profit organizations, CapinCrouse provides professional solutions to organizations whose outcomes are measured in lives changed. Since 1972, the firm has served mission-focused not-for-profit organizations, churches, and higher education institutions by providing support in the key areas of financial integrity and security. With a network of offices across the nation, CapinCrouse has the resources of a large firm and the personal touch of a local firm. Learn more at capincrouse.com

Complimentary Webcasts
CapinCrouse regularly offers webcasts on current issues for colleges and universities. You can learn more and register for these informative sessions at capincrouse.com/events/webcasts

Higher Education Team
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[i] "Free Report Details Student Financial Services Policies and Procedures," NACUBO, accessed May 12, 2015, http://www.nacubo.org/Business_and_Policy_Areas/Student_Financial_Services/Student_Financial_Services_News/Free_Report_Details_Student_Financial_Services_Policies_and_Procedures.html

[ii] Jillian Berman, "Why more U.S. colleges will go under in the next few years," MarketWatch, accessed May 18, 2015, http://www.marketwatch.com/story/why-more-private-colleges-are-closing-2015-03-25

[iii] Ibid.