Community College Edition

On Campus with The Bonadio Group CPAs, Consultants & More

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PRACTICAL GUIDANCE

Educating your board on Accounting for Employee Benefits

by Jean Close

Given the complexity of community college financial statements, management is tasked with providing considerable clarification for its board members. This can be a daunting job, as many board members lack the financial background required to make sense of the pages and pages of financial information that they are presented with. These are challenging times for higher education and today's decisions will have a significant impact on the future of the institution, particularly when these decisions relate to salaries and benefits.

Two of the most challenging items to explain to the board are the accounting for pension and post-employment benefits (generally health and life insurance). As many of the board members have a legislative background, they are accustomed to cash basis financial statements. It is often difficult to explain the need for accrual basis accounting.

Both Government Accounting Standards Board (GASB) 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (soon to be amended by GASB 75) and GASB 68 "Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No. 27" require accrual basis accounting. In plain English, what does this mean? It means that benefits are recorded in the financial statements when they are earned by the employee, rather than when they are paid by the college. By recording benefit expenses as they are earned, we are matching expenses with the tuition from students who benefit from these expenses in the financial statements.

Accrual accounting for pension and post-retirement benefits provides transparency regarding the true cost of the benefits that the college has agreed to. The cost of a pair of shoes isn't any less because you pay in monthly installments with a credit card. It is critical that management and board members know the true cost of benefits. Only then can they make informed decisions that will affect future students.

The confusion is exasperated by the fact that the internal financial statements that colleges share with the board exclude pension and post-retirement accruals. The SUNY annual report excludes pension accruals and SUNY began excluding post-retirement accruals in 2013.

Not only is accrual basis accounting difficult for many board members to understand, but the accrual basis financial statements are significantly different from the financial statements that are reviewed with the board on a monthly basis.

GASB has further complicated things with the issuance and later amendment of GASB 45. GASB originally allowed college's to bring in initial liabilities over 30 years. With the implementation of GASB 75, the entire liability for other post-employment benefits will be recorded in the financial statements.

So how can management convey this critical information to the board? First, accept the fact that this is complicated. These concepts may have to be explained several times to the board. Second, meet separately with the financial experts on the board. Take the time to ensure that they fully grasp the concepts involved. They will help you to explain these concepts to the full board. Third, put together clear and concise information for the board, showing the true cost of benefits. This information should be communicated throughout the year, not just at year end. Fourth, put together reconciliations of your cash and accrual financial information. Fifth, stress the importance of these items to the board. Board members need to be aware of the promises that the college is making and of the impact today's promises will have on tomorrow's students.

Proposed GASB Standard
by Michelle Schiefer

Like other governmental entities, community colleges often enter into leases for vehicles, equipment and buildings. The Governmental Accounting Standards Board (GASB) has proposed a change to the financial reporting for operating leases that would establish a single model approach for lease accounting in order to provide more transparency in the financial statements. The earliest this standard would be applicable for community colleges would be for their fiscal 2020 financial statements.

Based on the idea that all leases represent financings, the proposed standard would require government lessees to recognize a lease liability and a right to use leased asset and lessor governments would record a lease receivable and deferred inflow of resources. Lessees would amortize the leased asset over the term of the lease and recognize interest expense related to the lease liability. As a result, amounts currently reported as rent expense would be shown as amortization and interest expense instead. Lessors will reduce the balance of deferred inflow of resources as they recognize lease revenue over the lease term, recognizing interest revenue related to the receivable. The one exception to this proposal is for "short-term" leases lasting 12 months or less.

Community colleges should be cognizant of the proposed changes when negotiating new leases. Depending on the number of leases a community college has, they may want to invest in lease accounting software and/or centralized lease accounting processes.

GASB Statement No. 75
Accounting and Financial Reporting for Postemployment Benefits other than pensions
by Grace Gonzalez

Postemployment medical and dental plans were rather common in the past, but as the costs to maintain them have skyrocketed over the last few decades, a number of employers have chosen to freeze or completely liquidate their plans. The higher education industry, including community colleges, are among the last few employers who continue to offer such plans for the benefit of their workforce.

Government Accounting Standards Board (GASB) Statement 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions, addresses the accounting for such plans. Community Colleges are required to implement GASB 75 during their 2018 fiscal year. Similar to the implementation of GASB 68, which affected community colleges with defined benefit plans, GASB 75 will require colleges to record a liability for the unfunded portion of their plans. The impact of GASB 75, however, is expected to well exceed the impact of GASB 68. Previously, under GASB 45, community colleges amortized their initial other postemployment benefit obligation (OPEB) over a period of 30 years. In 2018, the entire actuarially determined liability will be required to be recorded, resulting in a direct negative offset to unrestricted net position. Moreover, the future outlook for the plans is expected to deteriorate even further as employees continue to live longer and health care premium increases don't show signs of slowing down in the future.

The first step to prepare for the implementation of GASB 75 is to start a conversation with your Board. Significant resources will be needed to implement the standard and once the implementation is complete, financial statements of the community college will likely be severely and negatively impacted. And while the Board's involvement will not directly affect the 2018 implementation of the standard because colleges will be recording costs for previously rendered employee services, it is imperative for the Board to act timely and strategically review the long-term viability of the plans. Colleges should work with their actuaries and independent auditors to aid the Board in their decision making process.

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Uniform Grant Guidance - Procurement Requirements by Gerald Archibald

Community colleges receiving federal funds should be well aware of the Uniform Grant Guidance (UGG) which went into effect on December 26, 2014. The most significant changes, relating to "Procurement Requirements" became effective on January 1, 2017, however, after a two year delay in required implementation.

Guidance with respect to UGG is extensive. It is noteworthy that UGG specifically requires policies and procedures over procurement in order to ensure that purchases are necessary and reasonable; open to competition; adhere to Conflict of Interest policies and are substantiated contemporaneously with proper documentation. The UGG also requires classification of purchases into 5 categories: micro-purchases (under $3,500), small purchases (under $150,000), procurement by sealed bids (over $150,000), competitive proposals (RFPs must be publicized, with responses from an adequate number of qualified sources) and non-competitive proposals (sole source).

From a practical perspective, starting on January 1, 2017, the purchase of any goods or services in excess of $3,500 with federal funds MUST be made in accordance with the new procurement rules. If your college has not formally implemented these new procedures, you should do so immediately. Your external auditors will be required to test compliance with these new rules in fiscal 2017 and it is likely that this area will be receiving increased scrutiny from the regulatory agencies, given that the procurement regulations have been publicly available for more than two years.

TBG Spotlight: Jon Miller

Jon, a partner in The Bonadio Group's Tax-Exempt division, joined Bonadio in 2002, after graduating from SUNY Geneseo. He specializes in higher education, with a focus on community colleges. Jon provides a variety of services to the firm's tax-exempt clients including: financial statement analysis, opportunities for operational improvements, and executive guidance on compliance with nonprofit policies and regulations. In addition, he consults on matters of financial due diligence and forecasting related to acquisitions and development of business plans in response to government and private funder requests.

Jon is a member of the American Institute of Certified Public Accountants. He is also the Assistant Treasurer and a member of the Board of Directors for the Flower City Habitat for Humanity. Jon enjoys knowing that he is actively involved in rebuilding neighborhoods and communities in his home town.

Jon lives in Webster, NY with his wife, Erin and three daughters: Laina (7), Audra (4) and Livia (8 months). In his free time, Jonathan enjoys watching movies with his daughters and helping them with their arts and crafts. He is also actively involved in assisting his wife make decorating decisions for their new home.