# On Campus

with THE BONADIO GROUP
CPAs, Consultants & More

Winter 2017 • Issue No. 7

SYLLABUS



# PRACTICAL GUIDANCE

## The Small College Dilemma: Intangible Benefits with Tangible Costs

by Kevin DiPaolo

**General Consensus:** Smaller, tuition dependent colleges continue to grapple with the reality that there are fewer students attending, and that it is costing these schools more to enroll and retain students. This can lead to a downward financial spiral that is difficult to reverse.

An analysis of hundreds of colleges and universities released in 2014 by Bain & Co. found that 43% were on an "unsustainable financial path"; up 33% from 2012. A Moody's study has found the percentage of small colleges with a sustained three-year growth rate of less than 2% increased fivefold, to 50%, from 2006 to 2014. Tuition discount rates have been rising steadily since the 1990s. The National Association of College and University Business Officers, (NACUBO), May 2016 report found that private colleges offered freshmen an average discount rate of 48% -- an all-time high.

Small institutions are generally well aware of these issues. Under a shared governance model, however, decisions to address these issues must be discussed and agreed to by the Board of Directors, President, Chief Financial Officer, and many of the institution's key stakeholders. Initiatives to address these problems are sometimes crisis-driven, and often lack proper analysis. Without proper data, opinions often differ, making it difficult to determine the best route forward.

**Next Steps:** So what can colleges and universities do to change direction? Perhaps, they can begin by borrowing techniques from the for profit sector. **One such technique is Activity Based Costing (ABC).** ABC is an alternative form of margin analysis and it allows colleges to view the profitability of their individual "services" (think course groupings or programs) based on assigning costs (especially fixed overhead costs) via activity factors, such as faculty-hours, student-use hours, or transaction volumes. This approach can be very useful in several ways: (1) Colleges have significant fixed overhead expenses and ABC aids in assigning those costs to service lines, (2) ABC can help determine which college "services" or courses are profitable, and subsidizing others, and finally, (3) ABC can guide both cost reduction and reallocation, allowing management to reinvest in profitable programs. The downside of this model is the significant time and effort involved in analyzing data and creating the ABC model. Multiple software programs specifically designed to support this analysis do exist, however. Once the ABC model is set up," what-if" scenarios can be run to determine which mix of programs can be most effective for the institution.

**Addressing the revenue line is a risk and reward area.** This is *Price x Volume = Revenue Maximization*. Conventional wisdom dictates that demand for many small schools is highly elastic over a narrow price range. Numerous close substitutes (i.e., alternative schools), are available, with very low switching costs to prospective students. In plain terms, schools are loathe to raise their real price grid (tuition minus financial aid), even fractionally because a mistake can make a multi-year dent in the top line volumes and revenues. Pricing actions can be powerful; but activity here requires *very careful* study.

**Some of these answers lie in analyzing data that is already stored on campus.**

Potentially safer revenue initiatives would be methods that (a) increase the conversion rate (application volume and or % acceptance), and (b) decrease student attrition (or increase % retention volumes, especially post-year 1). **Some of these answers lie in analyzing data that is already stored on campus.** Not just financial data, but all types of student data in a time series. The predictive power of this **Econometric Modeling** can be twofold. First, it can help identify the most important, or statistically relevant, characteristics of students that do select the college. The models can also identify characteristics of students most likely to terminate prior to completion; and also show which actions can be undertaken, either via recruitment or retention, to effectively slow that rate. It is important to note that relatively small percentage changes in the metrics cited above can result in significant dollar changes. This is especially true with retention. The per-student percentage contribution margin "saved" can be large and the positive effect can cascade through each year of the student's four year term.

### The Profitability Equation

Revenue Maximization
- Tuition/pricing/financial aid
- Recruitment/% conversion/student volume
- Retention year 1 through year 4

Cost Reduction
- Changes in curriculum
- Staff reduction
- Vendor outsourcing

Resource allocation/re-allocation
- Fixed or working capital investment/ROI
- Brick and mortar local/satellite campus hub-spoke/on-line

Re-financing (re-structure of debt, grants)

Partnerships/Alliances/Mergers

**Closing Comment:** The scope of considerations for financial well-being go beyond the examples set forth in The Profitability Equation shown above. Many financially challenged colleges and universities have served their regions well for a century or more and have produced thousands of capable graduates, all while staying loyal to their founding principles. Is increasingly specialized demand unfairly discounting the value of a general curriculum? As today's issues become more complex, isn't it even more vital to know how to think through them? In the end, our goal at The Bonadio Group is practical: Provide the know-how to help schools stay financially viable.

Kevin is a manager in The Bonadio Group's Enterprise Risk Management (ERM) Division.

## Be Alert!

# Student Financial Aid Updates and Proposed Changes

### by Karen Hignett

This past year significant changes have been made to Federal Student Financial Assistance Programs. These changes could have a significant impact on your institution.

- Effective February 17, 2016, the Department of Education released GEN-16-05 Extension of the Federal Perkins Loan Program, which extended the Perkins Loan Program through September 30, 2017, with no additional extension of the program. The final Perkins loan disbursements for undergraduate students can be made through June 30, 2018, while graduate Perkins loans may be disbursed through June 30, 2017. Additional guidance will be provided in the coming year regarding the disposition of an Institution's Perkins Loan Revolving Fund.
- Effective January 1, 2017, there are additional Gainful Employment Disclosures related to the performance of those programs. These include disclosure if the program is failing the debt-to-earnings rates, median earnings for program graduates, and information related to state licensure requirements. A redesigned template will be released this winter to align with the College Scorecard; it will auto-populate with warning messages if the program is failing, and will be in a printable format. Institutions are required to post the new disclosure template provided with no modifications directly on the institution's website and to update any promotional materials. Institutions will have only 30 days to comply with the disclosure requirements once the materials have been made available.
- On November 1, 2016, final rules were published regarding financial accountability which are applicable for independent nonprofit and for-profit institutions starting July 1, 2017. While additional guidance will be forthcoming, there are automatic and discretionary triggers which may lead to the determination that an institution is not financially responsible and would result in the Department of Education recalculating the institution's composite score.

  Automatic triggers, only applicable to nonprofit institutions, include litigation, debts, borrower defense-related lawsuits, and gainful employment programs that may become ineligible. With any of these triggers, the institution is required to notify the Secretary and their scores will be recalculated.

  Discretionary triggers include high dropout rates, citation by state agencies, violations of agreements with creditors, and fluctuations in federal grant or loan utilization rates. While these will not result in a recalculation of the institution's composite score, institutions may be required to operate under the zone alternative or provisional certification alternatives and may be required to post a letter of credit or other surety.

  The final ruling eliminated the requirement for full disclosure on the institution's website, however, the Department may require disclosure as part of the consumer information disclosures, depending on the trigger.
- On August 5, 2016, the Department Of Education issued a memorandum entitled, Applicability of Single Audit Act Regulations to the Title IV Student Aid Programs. This memorandum would require that Title IV student assistance programs be subject to an annual audit under the Higher Education Act, effective with the institution's 2017 single audit. The National Association of College and University Business Officers, (NACUBO), responded in November and objected to this proposal, stating that it posed a financial and administrative burden on institutions, and was counterintuitive to the goals of the Single Audit Act. A final decision has yet to be determined.

While we at the Bonadio Group will continue to keep you apprised of additional changes, we encourage you to review your current policies and procedures to ensure that you are in compliance with these changes.

*Karen is a principal in The Bonadio Group's Tax-Exempt Division.*

## Overtime Rules Update

by Jonathan Miller

On November 22, 2016, a United States District Judge in Texas issued a nationwide injunction on the U.S. Department of Labor's (DOL) Final Rule increasing the minimum salary threshold for salary exemptions to overtime rules. The injunction prevents implementation and enforcement of the DOL overtime pay regulations. Although the nationwide injunction halts implementation and enforcement of the DOL's Final Rule for the time being, the injunction is not permanent. Final determination has not yet been made in the Texas litigation, and appellate proceedings are possible, as well as retroactive application.

Prior to the increase in the FLSA minimum standards in the Final Rule, New York State's minimum salary threshold for both executive and administrative employees far exceeded Federal threshold. Currently under New York law, the salary threshold to qualify as an exempt employee for both administrative and executive staff is $675 per week ($35,100 annually) throughout the state. Additionally, since New York State's Minimum Wage Act ("MWA") minimum standards for determining exempt employee classification exceed the FLSA's minimum standards, employers should use the New York rules for determining exempt employee classifications.

On October 19, 2016, the New York State Department of Labor ("NYSDOL") announced proposed amendments to the state's minimum wage orders ("Proposed Amendments") to increase the salary basis threshold for executive and administrative employees under the state's wage and hour laws to keep pace with the increase in New York State's minimum wage. Under NYSDOL law, the executive and administrative employees generally will exempt faculty whose primary duty is teaching, tutoring, instruction, or lecturing, however consistent with the FLSA proposed changes, many other employees in higher education will be impacted with the proposed rules.

Under the new rules, the following increases to New York's minimum weekly salary threshold for the executive and administrative exemptions were effective beginning on December 31, 2016:

| Effective Date | Upstate New York State | New York City | | Nassua, Suffolk, and Westchester County Employers |
|---|---|---|---|---|
| | | Large Employers (11 + employees) | Small Employers (10 or less employees) | |
| December 31, 2016 | $ 727.50 | $ 825.00 | $ 787.50 | $ 750.00 |
| December 31, 2017 | $ 780.00 | $ 975.00 | $ 900.00 | $ 825.00 |
| December 31, 2018 | $ 832.00 | $ 1,125.00 | $ 1,012.50 | $ 900.00 |
| December 31, 2019 | $ 885.00 | $ 1,125.00 | $ 1,125.00 | $ 975.00 |
| December 31, 2020 | $ 937.50 | $ 1,125.00 | $ 1,125.00 | $ 1,050.00 |
| December 31, 2021 | $ 937.50 | $ 1,125.00 | $ 1,125.00 | $ 1,125.00 |

Jonathan is partner in The Bonadio Group's Healthcare/Tax-Exempt division.

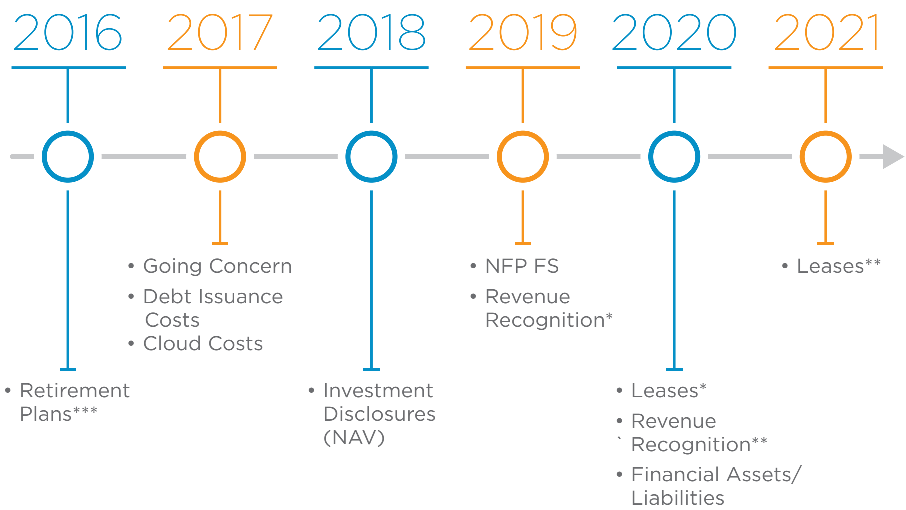
# TECHNICAL UPDATE

by Aimee Jozic

## A Timeline of Things to Come

Although fiscal 2016 was a quiet year relative to new accounting and auditing requirements, there are several newly adopted accounting standard updates (ASU) that will have a significant impact on Colleges' and Universities' financial statements. ASUs that are on the horizon and their effective dates are summarized below. Stay tuned for further information on adoption and implementation of these standards.

### Effective dates of ASUs for June 30 year-end




*Early adoption permitted, some with restrictions.*

* NFP with public debt

** NFP without public debt

*** Effective for plan years ending December 31, 2016

## Upcoming ASU's

**ASU 2015-12**—Retirement Plans

**ASU 2014-15**—Disclosure of uncertainties about an entity's ability to continue as a going concern

**ASU 2015-03**—Simplifying the presentation of debt issuance costs

**ASU 2015-05**—Customer's Accounting for Fees paid in a Cloud Computing Arrangement

**ASU 2015-07**—Fair Value – Disclosures for investments in certain entities that calculate net asset value

**ASU 2016-14**—Presentation of Financial Statements of Not-for-Profit Entities

**ASU 2014-09**—Revenue from Contracts with Customers

**ASU 2016-02**—Leases

**ASU 2016-01**—Financial Instruments

Aimee is a principal in The Bonadio Group's Healthcare/Tax-Exempt division.

# GETTING TO KNOW US

## Our Team

Jean Close
Partner | jclose@bonadio.com

Timothy Doyle
Partner | tdoyle@bonadio.com

Bettina Lipphardt
Partner | blipphardt@bonadio.com

Jonathan Miller
Partner| jmiller@bonadio.com

Joseph Peplin
Partner | jpeplin@bonadio.com

Craig Stevens
Partner | cstevens@bonadio.com

Robert Urban
Partner | rurban@bonadio.com

Mario Urso
Partner | murso@bonadio.com

Jamie Cote
Principal | jcote@bonadio.com

Grace Gonzalez
Principal | ggonzalez@bonadio.com

Karen Hignett
Principal | khignett@bonadio.com

Aimee Jozic
Principal | ajozic@bonadio.com

Michelle Mundy
Principal | mmundy@bonadio.com

Kevin Testo
Principal | ktesto@bonadio.com

Timothy Hammond
Manager | thammond@bonadio.com

Lisa Hann
Manager | lhann@bonadio.com

Richard Leicht
Manager | rleicht@bonadio.com

Heather Mowat
Manager | hmowat@bonadio.com

Samuel Pitts
Manager | spitts@bonadio.com

Michelle Schiefer
Manager | mpyzik@bonadio.com

Craig Rinefierd
Manager | crinefierd@bonadio.com

## What's New at Bonadio
## Bonadio Welcomes Higher-Ed Veteran Steven Morse

The Bonadio Higher Education Team is delighted to welcome Steven Morse, CPA, CGMA, who is joining us in February after a lengthy career at the Rochester Institute of Technology (RIT). During his 12 years at RIT, Steve served as assistant vice president for Institute Audit, Compliance and Advisement, and assistant vice president for National Technical Institute for the Deaf Finance and Budget. In his early career, Steve was an audit manager at Deloitte. Here at Bonadio, Steve will manage our Higher Education Internal Audit Practice. You can contact Steve directly at smorse@bonadio.com.

## TBG Spotlight: Bob Urban

Bob Urban is a Partner and a member of the Bonadio Group's College and University team. Bob began his career 1995 after receiving his Bachelors of Science Degree from the State University of New York at Albany. Prior to attending college, Bob spent six years in the United States Marine Corps before being honorably discharged in 1991. While in the Marines, Bob trained with special operation capable units and ensured that other Marines were trained to survive in amphibious environments in his role as a Water Safety Survival Instructor. Today, Bob volunteers his time helping veterans dealing with post-traumatic stress disorders. Additionally, Bob is the Treasurer of Cares, Inc., a tax-exempt organization providing technical assistance and housing for the homeless. Bob is an avid fan of thoroughbred horse racing and a member of the Manhattan Racing Stable. When he's not working with his clients, he can be found at the various race tracks in the New York Racing Association circuit, watching his horses race and train. Bob lives in Clifton Park, New York with his wife, Holly, and their four children and gets his exercise with a steady diet of Tae Kwon Do training with his wife and youngest daughter. Bob is on track to become a black belt in March of 2019!

## Breakfast Series

We hope that you were able to attend our November breakfast series where Bond, Schoeneck & King, PLLC and Direct Retirement Solutions discussed the tidal wave of retirement plan lawsuits that have hit higher education. We hope you will join us for our next breakfast session in the Spring.

## Audit Committee Actions

Did you know that TBG has published a helpful mini-series called Audit Committee Actions aimed at assisting your audit committee in performing their governance functions? Please reach out to a member of the TBG team to obtain a copy.