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5 Higher Education Trends for Private Institutions to Monitor

By Daniel M. Campbell, Partner

There's no doubt that this has been a year and a half unlike any other for higher education institutions. The effects of the COVID-19 pandemic continue to be felt. At the same time, the industry is experiencing flat or declining enrollment trends and increasing tuition discount rates driven by competition to attract and retain students.

Let's take a look at some of the key trends and developments nonprofit higher education institutions should be aware of and monitoring.

1. Financial Outlook

Many institutions are struggling to find the liquidity necessary to fund operations. They're also facing challenges from limitations caused by the pandemic, including in the areas of instruction (onsite with social distancing versus distance learning), room and board, and sports restrictions that have led to declining auxiliary revenues. Expense growth and deferred maintenance have outpaced traditional revenue growth, which will likely continue in 2021.

Additional federal funding and pandemic relief, new regulations, and continued uncertainty will impact accounting estimates, financial markets, liquidity, and operating results in 2021.

In March 2021, Moody's Investors Service raised its outlook for the U.S. higher education industry from negative to stable. As *Inside Higher Ed* reported, this change was due to factors such as:

- Potential tuition and auxiliary revenue gains from a return to in-person learning in fall 2021
- The impact of federal relief funds
- Strong financial markets

However, Moody's also noted that it does not expect revenue to return to 2019 levels because of pressure to increase financial aid.

The National Student Clearinghouse Research Center's Fall 2020 Enrollment Estimates report notes the following trends compared to fall 2019 enrollment:

- Overall postsecondary enrollments decreased by 2.5% compared to the prior year
- Undergraduate enrollment declined 3.6%
- Graduate enrollment increased 3.6%
- First-time student enrollment at private nonprofit four-year institutions was down 10.5%

The National Association of College and University Business Officers (NACUBO) 2020 Tuition Discounting Study surveyed 361 private, nonprofit colleges and universities and found that:

- Respondents reported an estimated average institutional tuition discount rate of 53.9% for first-time, full-time, first-year students in 2020-21 and 48.1% for all undergraduates. Both are a record high.
- Almost 90% of first-year students and approximately 83% of all undergraduate students received some form of institutional grant aid in 2020-21. Student grant aid covered an average of 60.3% of listed tuition and fees for first-time undergraduates and 54.3% for all undergraduates.
- Net tuition and fee revenue decreased between 2019-20 and 2021-21, with a decline of 6.2% per first-time undergraduate and 2.5% per undergraduate overall (measured in inflation-adjusted dollars).
- Enrollment was down for a third year, with a decline of 5% among first-year students and 2.6% among all undergraduates.

Approximately 80% of the survey respondents said they anticipate a significant change in enrollment and net tuition and room and board revenue as a result of the pandemic.

2. Accounting Standards Changes

Two of the accounting standard updates with the biggest impact for higher education institutions are Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue Recognition from Contract with Customers*, and FASB Topic 842, Leases.

While ASU 2014-09 has gone through several implementation deferrals, institutions with a 2021 fiscal year-end will be required to adopt this update. It affects all revenue streams, including tuition, room and board, fees, and sponsorships, but not leases or grants that are considered contributions.

The objective of the new standard is to increase comparability and transparency, and it requires enhanced qualitative and quantitative disclosures. Key points include:

- Tuition and related discounts should be shown on a net basis on the statement of activities.
- Revenue should be recognized at the contract price, which would be the net amount of tuition.
- The gross presentation is still required (if it is considered to be material) but should be disclosed in the notes to the financial statement.
- If your institution prefers to show the discount amount on the statement of activities, you should add a parenthetical reference.
- While it's not required, we recommend that you use footnotes to disclose institutional aid funded by donors, endowment appropriations, and operations. This is helpful in situations where institutional aid is increasing due to funding as opposed to funded from operations (unfunded).

Private institutions also need to be planning for the updates to lease accounting standards. Topic 842, Leases, overhauled the prior accounting standard for leasing transactions, including updating the definition of lease and enhancing lease-related disclosures. Under the new standards, organizations are required to record a right-of-use asset and related lease liability for substantially all their leased assets. Learn more about the changes and download the free CapinCrouse Lease Toolkit here.

The U.S. Department of Education's new borrower defense rules have significant implications for institutions that participate in federal student aid programs.

3. Higher Education Emergency Relief Funds (HEERF)

There are differences in HEERF I, created under the Coronavirus Aid, Relief, and Economic Security (CARES) Act of March 2020; HEERF II, created under the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) of December 2020; and HEERF III, created under the American Rescue Plan (ARP) in March 2021.

The approximately $40 billion of assistance in HEERF III is available to institutions and students through September 30, 2023. Not-for-profit institutions are required to spend 50% of their HEERF III funds on student grants, and the allowable usage is similar to HEERF II. Additional guidance is expected.

The National Association of Student Financial Aid Administrators (NASFAA) has a helpful HEERF III reference page and a comparison chart showing the requirements and allowable uses for the three HEERF allocations.

Watch our recorded "HEERF Update: Where are the "Gotchas"?" webcast for additional insight and considerations related to HEERF. We discuss how to apply professional accounting standards to HEERF funds received and expended, identify allowable expenditures of HEERF funding, and more.

4. The Financial Responsibility Supplemental Schedule (FRSS)

The U.S. Department of Education (ED) finalized new borrower defense rules that became effective on July 1, 2020. These regulations have significant implications for institutions that participate in federal student aid programs, regardless of whether they meet the Uniform Guidance audit threshold requirement.

Here are key points to be aware of:

- All institutions that are Title IV recipients and issue audit reports after July 1, 2020, must meet the FRSS disclosure requirements. While the FRSS identifies the amounts the ED needs to calculate the ratios used in the Composite Score calculation, it does not require that the score be calculated on the schedule.

- The FRSS helps the ED calculate the Composite Score Ratio when the institution submits its audit report via EZ Audit. This ratio reflects the overall financial health *(*not quality) of the institution on a scale of -1 to 3. It includes the primary reserve ratio, equity ratio, and net income ratio.
- Institutions need to track pre- versus post-implementation debt and property, plant, and equipment (PPE) activity. This will require you to track debt and PPE acquired since fiscal year 2020 separate from post-implementation principal payments (debt) and depreciation/disposals (PPE).
- You can use the FRSS to forecast significant financial activity and make informed decisions based on how it will impact your Composite Score.

5. The Graham-Leach-Bliley Act (GLBA)

While the GLBA is not a new requirement for higher education institutions, many are struggling to become fully compliant. And GLBA compliance is under continued heightened scrutiny by the ED.

Noncompliance can have significant financial and reputational consequences. A reportable finding must be included in your audit report. That finding is then referred to the Federal Trade Commission (FTC) and the FSA's Postsecondary Institution Cybersecurity Team, either of which may request additional information. Fines, penalties, and ultimately a loss of federal funding could occur.

Our GLBA: Where We Are Now article has additional information, including steps your institution can take to assess and mitigate your risk and work toward long-term compliance.

Navigating the Challenges and Opportunities Ahead

Now that the 2020-21 academic year has ended, there are lessons learned, insights gained, and new challenges and opportunities on the horizon. Monitoring the key trends and developments will help your institution plan strategically for what's ahead.

Please contact us with questions or if you'd like to discuss how our team of dedicated higher education specialists can help you maximize your outcomes.

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Dan has more than 35 years of public accounting experience leading audit engagements of nonprofit organizations and for-profit industries. Dan leads the firm's higher education practice segment, which includes more than 80 client relationships, and commits a significant portion of his professional time to board training, strategic planning initiatives, and accreditation support. He served on the Board of Trustees of Davis College for 25 years. Prior to joining the firm in 2006, Dan managed audits of financial institutions, construction contractors, and manufacturers.

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