



CERINI & ASSOCIATES, LLP | CERTIFIED PUBLIC ACCOUNTANTS
PRESENTS

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BRINGING A UNIQUE UNDERSTANDING OF KEY ISSUES FACING THE PRIVATE SCHOOL SECTOR

FROM THE EDITOR - KEN CERINI, CPA, CFP, FABFA

Welcome to our Winter 2021 edition of the Report Card, a newsletter designed to provide insight and information to private schools. The COVID pandemic was like a perfect storm for private schools. The inability to provide face-to-face services, the impact on fundraising, the need to pivot to new methods of learning, and the constant barrage of changing regulations wreaked havoc on the operational, organizational, and fiscal capacity of many providers. While there is no crystal ball on how to turn the tide for educational programs, here are some potential ideas:

- 1. Keep your families engaged:** *Private schools, while effective, are a luxury for many families. Now more than ever, schools need to show their value and find ways to keep their families engaged. While we realize that this is extremely difficult in a remote environment, keeping that sense of community and engagement is important.*
- 2. Look for donations of appreciated stock:** *The pandemic has hit schools financially. Even so, the stock market reached new highs last year. Now maybe a time to talk to high net-worth donors, alumni, etc. to make meaningful donations to the school. Make sure that you can accept donations of appreciated stock. With many portfolios having significant gains, getting donors to donate appreciated stock generates the opportunity for them to get a tax deduction and avoid taxes on gains.*
- 3. Leverage the power of people:** *Consider having everyone involved in the school reach out to people they know through social media channels to raise money for the school. Many schools do direct mail campaigns. While they can be effective, it's more effective having ambassadors reaching directly out to their personal circles.*
- 4. Expand on Distance Learning:** *We've proven distance learning works. Find ways to incorporate it into more creative learning. Consider linking to classes around the world, offering unique subject matter through collaborations with other schools, etc. Be innovative ... pull your staff together to find creative ways to make a difference in the educational process.*
- 5. Tap into government assistance:** *PPP, ERTC, ESSR, private grants, etc. There are still a tremendous level of resources that schools can tap into if they qualify. Explore these opportunities (please see the article on page 2).*

In addition, many schools have seen an uptick in hacking attempts as more and more of their staff have been relegated to remote services. Schools need to stay vigilant to ensure that they are not compromised (please see the article on page 7).

Risk continues to be a significant factor for schools, and insurance is a great way to potentially mitigate some of that (please see the article on page 9).

Finally, there are new accounting regulations focused on revenue recognition that will be required for schools commencing with the 2020/21 year-end. While the pronouncement will most likely not have a significant impact on a school's financial reporting, it does require additional disclosure (please see the article on page 3).

These are tough times, and while teachers are able to be vaccinated, the impact of COVID will be with us for a long time. We all need to stay strong and collectively continue to share ideas and help each other. If you have questions, or if we can be of any assistance, please don't hesitate to reach out. We will get through this.

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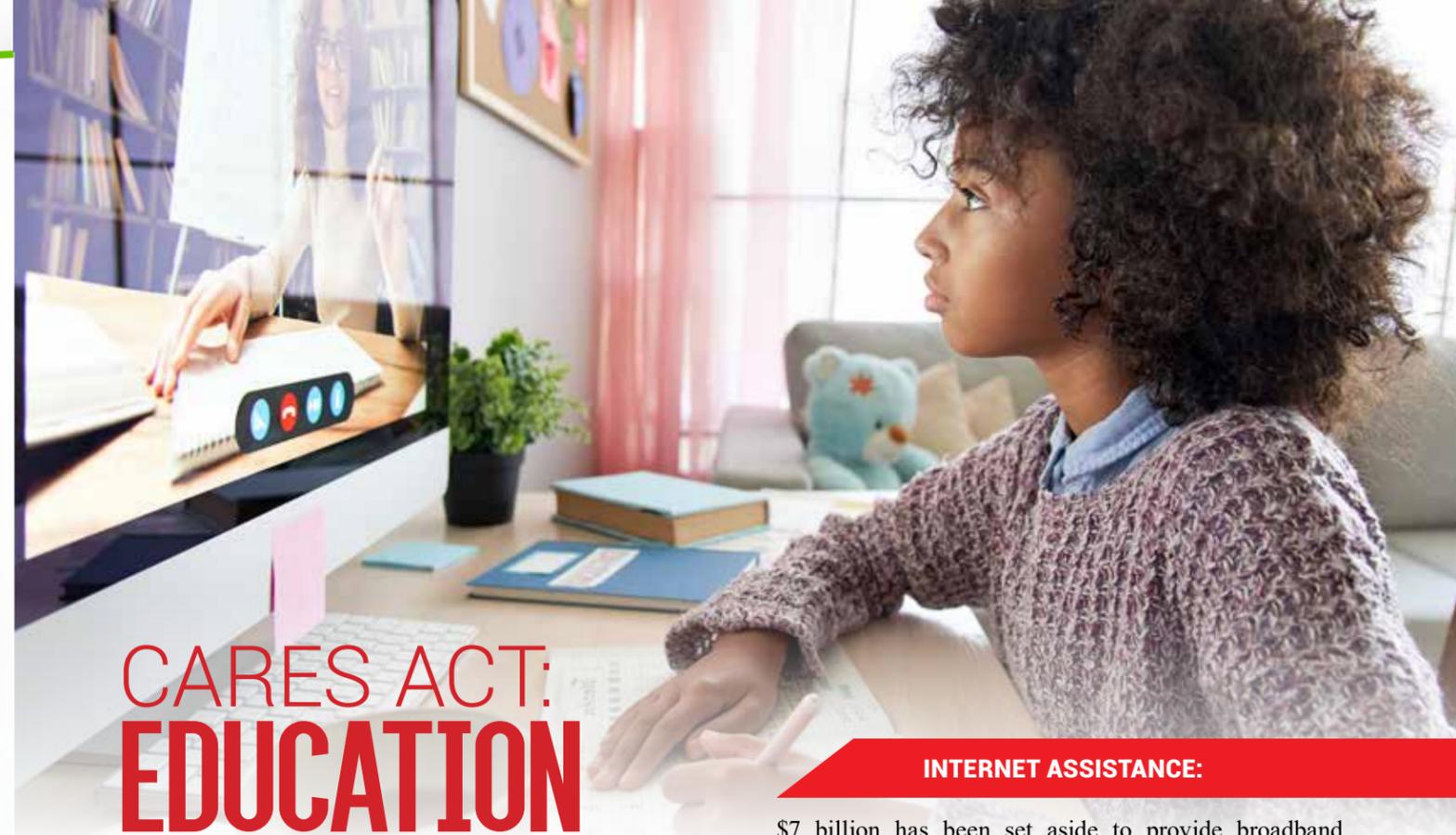
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CARES ACT: EDUCATION

Less than a week before schools closed down for the holidays, Congress passed round two of the CARES Act providing an additional \$900 billion of pandemic relief. While this was about half of the first wave of funding, pre-K to 12 schools were definitely on Congress' nice list, with approximately \$54.3 billion of funding available for such schools; including \$10 billion for childcare and \$13 billion for nutrition.

The \$54.3 billion of funding will be allocated to states and then districts according to the Title I formula based upon the number of low-income children in the district. New York State is slated to get approximately \$4.1 billion of this amount. States can reserve as much as 10% for administration with the balance going to local education agencies. These funds are not expected to be linked to a school's reopening for in-person instruction and it is anticipated that the funding will have the same flexibility as under the first wave of CARES Act funding including preparing schools for re-opening, PPE, providing technology and training, after and summer school programs, etc.

In addition, schools should also benefit from two other areas of the bill:

TESTING/VACCINATIONS:

\$22 billion has been set aside for COVID-19 testing and vaccines, some of which are expected to find their way down to school systems.

INTERNET ASSISTANCE:

\$7 billion has been set aside to provide broadband, including \$3.2 billion set aside for home-based broadband, which would help low-income students by giving those households \$50 per month to help defray internet costs.

The bill does not include additional E-Rate funding for schools.

Furthermore, \$4 billion has been allotted for governors to spend on education at their discretion, with about \$1.3 billion for public schools and higher education institutions and about \$2.7 billion of this amount earmarked for private schools, particularly those serving low-income students, to help cover COVID related costs. The new law specifically prohibits using the funds to support private school vouchers or other mechanisms for spending public money on private school tuition.

CHILD CARE:

\$10 billion has been set aside for childcare services. This is to help pay for additional supplies and operating costs due to COVID-19 and to help subsidize the cost of childcare for some families; including essential workers and low-income families. \$250 million has been set aside to help Head Start programs that serve infants, toddlers, and preschoolers from low-income families.

We expect more details and applications in the coming weeks. As information becomes available, we will keep you informed.



FINANCIAL ACCOUNTING STANDARDS BOARD (“FASB”) ACCOUNTING STANDARDS UPDATE (“ASU”) 2014-09 - **REVENUE RECOGNITION - NOT-FOR-PROFIT (“NFP”) ENTITIES (INCLUDING PRIVATE SCHOOLS)**

Nonprofit organizations are required to adopt the new revenue recognition standards during 2021. For schools, this means that if they haven't already early adopted the new standard, they will need to adopt it for the 2020/2021 fiscal year. The new revenue recognition standards are not applicable to support (e.g. contributions), it is only for exchange transactions. This will make it more important for schools to analyze their revenue streams (especially grants) to determine if they are contributions or exchange transactions.

For many schools, where the revenue is transactionally based (bookstore sales) or generated within the school's fiscal year (tuition-based), the adoption of the new standard will have little anticipated impact on the school's financial reporting.

In order to determine the impact, for each revenue stream, there is a 5-step process that needs to be considered:

- ▶ Identify the contract(s) with the customer
- ▶ Identify the performance obligation
- ▶ Determine the transaction price
- ▶ Allocate the transaction price
- ▶ Recognize revenue when (or as) a performance obligation is satisfied

EXAMPLE:

Your school charges \$20,500 per year tuition for the school year September through June. The tuition includes a \$500 non-refundable activity fee. In addition, the students need to purchase \$250 of books from the school bookstore.

- ▶ **Identify the contract(s) with the customer:** *In this case, there are two contracts, the tuition and the purchase of the school books*
- ▶ **Identify the performance obligation:** *The school is required to provide 10 months of education throughout the school year and is required to provide the student with appropriate textbooks*
- ▶ **Determine the transaction price:** *The tuition and activity fee is \$20,500, and the books are \$250.*
- ▶ **Allocate the transaction price:** *The tuition is \$20,000 and the activity fee is \$500*
- ▶ **Recognize revenue when (or as) a performance obligation is satisfied:** *The \$500 activity fee is recognized as revenue when the contract for the student is signed as the activity fee is non-refundable. The tuition revenue is recorded ratably over the 10 months as the service is delivered (\$2,000 per month). The bookstore sales of \$250 are recorded at the time the books are transferred to the student.*

As you can see, there is not a significant difference between the current methodology and the new revenue recognition standards.

The main area of FASB ASU 2014-19 that will impact schools is the additional footnote disclosures which should address the following:

- ▶ **Disaggregation of revenues** - *qualitative and quantitative disaggregation of revenue into categories that depict how revenue and cash flows are affected by economic factors (if this information is not already provided on the financial statements elsewhere)*
- ▶ **Information about contract balances** - *opening and closing balances, amount of revenue recognized from contract liabilities, and an explanation of significant changes in contract liabilities (this would rarely be applicable to NFP entities based on their revenue streams)*
- ▶ **Remaining performance obligations** - *transaction price allocated to remaining performance obligations and quantitative or qualitative explanation of when amounts will be recognized as revenue (again this would rarely be applicable to NFP entities based on their revenue streams)*

EXAMPLE

The following is an example of a significant accounting policy disclosure that addresses the elements of the changes prescribed by FASB ASU 2014-09:

NOTE X – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounts Receivable, Grants Receivable and Revenue Recognition:

Revenue from government agencies, including mandated service income and title funds, and other third-party payers, such as school districts, are recognized as the school satisfies its performance obligations under such contracts by delivering services to the students the school serves. Revenues for tuition-funded students are recognized ratably, over the term of the school year. The School's performance obligations include providing educational and other services to students predominantly funded for self-pay tuition-based services. The transaction price is based on contracts signed with families, net of any scholarships or financial aid provided to such students.

(CONTINUED ON NEXT PAGE)

EXAMPLE

The following is an example of the disaggregation of revenue disclosure that addresses the elements of the changes prescribed by FASB ASU 2014-09:

**NOTE XX –
REVENUE**

Note – If the School disaggregates revenue by type is depicted on the face of the statement of activities, this example is not applicable. If the disaggregation requirements of paragraphs 4 and 5 of FASB ASC 606-10-50 are not available within the financial statements, they should be presented within a separate footnote as provided in this example.

The School disaggregates revenue from contracts with customers by type of service or payor source as this depicts the nature, amount, timing, and uncertainty of its revenue and cash flows as affected by economic factors. Revenue from contracts with customers consist of the following for the year ended June 30, 2021:

	FEE FOR SERVICE	FUNDRAISING	TOTAL
NEW YORK STATE	\$ XXX,XXX	\$ -	\$ XXX,XXX
SCHOOL DISTRICTS	XXX,XXX	-	XXX,XXX
FAMILY PAID TUITION	XXX,XXX	-	XXX,XXX
CONTRIBUTION	-	XXX,XXX	XXX,XXX
FUNDRAISING	-	XXX,XXX	XXX,XXX
	\$ X,XXX,XXX	\$ XXX,XXX	\$ X,XXX,XXX

Note – If revenue was recognized during the period of performance obligation that was satisfied or partially satisfied in prior periods (*i.e. rate changes*), that should also be disclosed. Additionally, a school should also provide information about significant changes in contract assets, if applicable. The example below follows the disclosure requirements under FASB ASC 606-10-50-11 and assumes that contract assets appear on the face of the statement of financial position, and assumes that the tuition and room and board are considered separate performance obligations under FASB ASC 606-10-25-9. Deferred tuition includes upfront payments from students that span two fiscal years.

DEFERRED REVENUE, BEGINNING OF YEAR	\$ XXX,XXX
REVENUE RECOGNIZED THAT WAS INCLUDED IN DEFERRED TUITION AT THE BEGINNING OF THE YEAR	XXX,XXX
INCREASE IN DEFERRED TUITION DUE TO THE CURRENT YEAR CASH RECEIPTS IN ADVANCE OF CONTRACT PERIOD	XXX,XXX
DEFERRED REVENUE, END OF YEAR	\$ X,XXX,XXX

Government-funded revenue is subject to audit and retroactive adjustment. Settlements with third-party payers for retroactive revenue adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing services using the most likely outcome method. These settlements are estimated based on the terms of the payment agreement with the payer, reports filed with the payer, correspondence from the payer, and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, (*that is, new information becomes available*), or as years are reconciled or are no longer subject to such audits, reviews, and investigations. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

Laws and regulations governing the school’s government funding streams are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The School records revenue from bookstore and athletic equipment sales when title transfers from the school to the purchaser. Performance obligations for all the School’s services are provided and consumed either at a point in time or in-full during the School’s fiscal year, and therefore these types of fee allocation performance obligations are not left unsatisfied at the end of the reporting period. The School records receivables and revenue when earned based on contracted rates for services provided. Prepayments of services (*e.g. the following year tuition or summer camp*) are recorded as deferred income until such time as the School meets its performance obligation.

CYBERSECURITY - SCHOOL FROM HOME IT CONCERNS

With the COVID pandemic, everyone has been forced to operate more remotely and this is even more prevalent in schools where remote learning is a standard, as parents are afraid to send their children to physical buildings or governmental regulations have prohibited in-person classes. This opens schools up to higher levels of IT security concerns. So what are the biggest issues you should be focused on:

REMOTE WORKERS WILL CONTINUE TO BE THE FOCUS OF CYBER CRIMINALS THROUGH 2021 AND BEYOND

Cybercriminals look for weaknesses in IT control systems, and for most schools, that is your staff. Cybercriminals monitor users and launch attacks that exploit their behaviors and habits. This has been evident throughout the COVID pandemic, as staff became remote workers overnight to comply with state and federal stay at home mandates, and their use of technology and devices shifted. Cybercriminals took advantage of this new work dynamic to launch phishing, vishing, ransomware, and a multitude of other attacks that targeted holes in schools' IT controls and increased use of electronic communication, as many schools were more focused on remote service delivery than boosting their network security to adjust to the new work paradigm. 2020 saw a significant uptick in cybercrimes due to remote workers, with reports of nearly 25% of organizations incurring some level of additional expense to address cybersecurity breaches or malware intrusions. This number will only go up during 2021 as cybercriminals continue to evolve their approaches, attacking remote workers, unless organizations strengthen their systems and reeducate their staff.

NEW METHODS OF CONNECTING REMOTELY ARE ESSENTIAL

In order to move to a remote learning environment, many schools worked with the systems they already had in place, which included allowing staff to VPN into the school's server. While this provided an opportunity for people to quickly pivot, it opened many organizations up to increased exposure. According to the Department of Homeland Security, as VPNs are remote-access into a server, they increase the susceptibility to hacking and ransomware, as cybercriminals find ways to exploit them. This doesn't mean that organizations shouldn't use VPNs, they just need to make sure that the VPN they are using is regularly updated as new patches are released. Software providers are constantly releasing patches to update their systems to block cybercriminals, but with increased staff working from home and working on their own devices, these patches may not be updated everywhere they need to be, leaving areas where hackers can use remote sites linked to a server through a VPN as a way of getting in.

With 400 million businesses and consumers using VPNs across the globe (*according to GlobalWebIndex*), it's likely that we will continue to see VPNs targeted by cybercriminals in successful attacks. To combat this, organizations can look into implementing a zero-trust security model to limit exposure. This does not replace a VPN but reduces risk as under a zero-trust security model, users have access to the smallest set of permissions necessary to perform their job responsibilities. So, even if a hacker gets into a system, they will be limited as to what they have access to. We anticipate increased reliance on zero-trust network access during 2021.

ENHANCED INTEGRATION OF SECURITY SOLUTIONS

There are many different cybersecurity and network security solutions on the market, making it very difficult to oversee and manage the overall system security. As a result, more organizations will look to **Secure Access Service Edge (SASE)** frameworks to create a more holistic cybersecurity approach that includes custom access policy management, enforcement of security utilities, and monitoring from one central panel. SASE is a cloud-based model that combines your different cyber and network security solutions into a uniform platform, making it easier to monitor and manage.

REMOTE OPERATIONS ARE HERE TO STAY

While there is nothing positive that can be said about the COVID pandemic, the number of lives it took, the financial strain it created, and the disruption it placed on all aspects of our lives ... it showed us that we can, with the help of technology, function in ways that we never thought possible before. It has accelerated our reliance on software, which will result in better information at lower costs, and opened up new ways to operate. Organizations will need to consider what their new normal is going to look like, as things will never go back to where they were before the pandemic. In determining what your corporate structure and work situation will look like going forward, it is imperative that you consider your IT environment and how to secure your organization in a more complete and forward-looking capacity.

On-line crimes reported to the FBI's Internet Crime Complaint Center has almost quadrupled since the start of the pandemic, and it's no wonder with more people spending time on their computers more than ever before. Add to that more users moving from secure, trusted networks to unknown potentially insecure networks, expect the number of cybercrimes to continue to rise during 2021. However, this shouldn't stop organizations from adopting new technologies and continue to provide remote working opportunities for their staff, it just means that organizations need to be diligent and proactive in their security strategies and solutions to maximize the benefits of the new work environment they find themselves in without exposing themselves to additional risk.

KEVIN URSO
PRESIDENT

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SCHOOL INSURANCE

Over 11 million K-12 students were enrolled in private schools in the US in 2018, and that number is only expected to grow.

Private and charter schools allow students to experience elite academics, arts, and technical training that public schools cannot provide, which might be why 59% of Americans agree that private & charter schools usually provide a better education than public schools. While this may or may not be the case, I am not here to debate whether public or private education is better for children, but instead, I want to point out that the risks and challenges associated with schools, no matter what type, go beyond those that a typical business faces, which makes the need for specialty insurances that much more important for schools.

General Liability will help protect your school from claims of bodily injury or property damage. This insurance also helps cover certain claims of slander and libel including the school's legal fees and settlement money in case of a lawsuit. Although general liability coverage can help pay your student's medical bills if they get hurt at school, many schools seek to comply with state educational code requirements and limit their general liability exposure by providing Student Accident insurance to students in kindergarten through 12th grade.

Social Service Professional coverage covers liability for damages arising from errors and omissions in the providing of professional services. Broad coverage applies to nonprofit professionals, including educational professionals, childcare workers, counselors, daycare providers, instructors, mentors, psychologists, social workers, tutors, etc.

High limits of Abuse and Molestation coverage used to be the norm and very attainable. Abuse and molestation coverage is becoming more and more difficult to obtain especially if you are looking for high limits of insurance. This may be one of the more difficult coverages to place currently in the marketplace as insurers are experiencing an uptick in abuse and molestation claims. Insurers are becoming more reserved with the limits they are offering, and some umbrella carriers are not including it on their forms.

Educators Legal Liability is designed to cover a broad range of nonbodily injury/non-property liability claims made against the administrators, employees, and staff members of both schools and colleges. ELL, which is also known as "School board legal liability insurance," is a hybrid of traditional **Directors and Officers (D&O)** and **Errors and Omissions (E&O)** coverages. Typical claims covered by ELL include wrongful termination, wrongful dismissal, failure to grant tenure, and negligent counseling.

Umbrella Insurance is an extension of your general liability policy. Providing your school with additional liability coverage above and beyond your underlying liability policy in the event, your limits get exhausted. An umbrella policy starts anywhere from \$1,000,000 limit to several million dollars such as \$10,000,000 and in some rare cases \$20,000,000 depending on the size of the school. In the event of a large claim having an Umbrella policy with proper limits of insurance based on your exposure can be the difference of the claim being fully covered or not.

Workers Compensation is an obvious coverage that is needed for schools, or any business for that matter, that has employees. The reason I wanted to include this is because it is a policy that can get out of hand quickly and frustrate you the most. Workplace injuries are going to occur, I can guarantee that. Working with an insurance carrier and broker who is proactive on workplace safety can be the difference in saving you thousands and thousands of extra premium dollars. Monitoring your experience modification, reviewing claims that have occurred from at least the past 5 years (*maybe even 10*), identify trends in those claims such as the same injuries occurring or the same claimant getting hurt. Forming a safety committee can be a benefit as well. I recommend 3-5 people for this committee to meet quarterly and talk about scenarios where someone almost got hurt or talk about an actual injury. Do this with your insurance broker who will help implement policies & procedures and you will see improvement in your claims history which will save you money!

RISK MANAGEMENT:

Insurance costs are based on the underlying risk associated within your school. Reducing risk or improving your risk profile can get you the best coverages, limits, terms, and conditions, as well as the best pricing. Working with a risk manager who helps improve your risk profile while lowering your overall cost of risk will result in a safer environment and, in turn, reduces policy costs for your school. Risk profile improvement leads to best-in-class consideration by policy writers.

Many insureds only hear from their broker 90 days before their renewal. It's critical you work with a broker throughout the year to help improve your risk profile to position you to the underwriter as "best in class." Here are the steps you should take to improve your risk profile.

1. Identify exposures;
2. Develop Strategies;
3. Implement policies and procedures; and
4. Monitor the plan.

As you can see, 90 days is simply not enough time.

Since Covid-19 Schools are now faced with challenges they never thought of. The need to reevaluate risk is critical with so many changes that have occurred in schools around the country in such a short period of time. Schools of all types are now faced with a potential pandemic exclusion on their liability policy making it problematic if a student contracts Covid-19 at the school and spreads it to someone. They could potentially sue you. Regardless if this can be defended or not, it is an exposure that schools are now facing.

Cyber liability is another problematic area where schools have transitioned to remote learning by using technology platforms like Zoom or Microsoft teams. Teachers and students are now interacting using this technology and there have been many reports of "Zoom bombing" where a zoom meeting gets hacked with inappropriate content. Whether the hacker used racial slurs or inappropriate pictures, there are liability concerns associated with that. Furthermore, with employees working from home, they are more susceptible to phishing schemes and other cybersecurity attacks.

Schools and educational institutions present a unique challenge to finding the right school insurance coverage. Although most if not all schools face the same exposures, not all risk is equal. Management of risk within an organization is equally as essential to a school regardless of the size of the school. Its critical you work with your broker and implement the proper policies and procedures to get the best terms and conditions possible from your insurance carrier.





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