The webcast will start at 1:00 p.m. Eastern

- Visit capincrouse.com/financial-responsibility-reporting to access these materials from today's webcast:
  - Handout
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How to Apply the New Financial Responsibility Reporting Requirements for Private Nonprofit Institutions

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Learning Objectives

- Identify the U.S. ED's revised regulations surrounding borrower defense standards
- Identify the key updates in terminology and definitions
- Provide guidance on the new U.S. ED required supplemental schedule

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Background

September 2019: The U.S. ED issued new rules surrounding borrower defense to repayment. The key takeaways of the update center around:

- Updated requirements for "triggering" events that would require a school to inform the U.S. ED (4 total, 2 applicable to NFP institutions).
- Based on new accounting standards, updated key terminology and new methodology for the financial responsibility composite score calculation.
- Requires an additional/new supplemental schedule to be included within the audited financial statements of the higher ed institution if they received Title IV funding.

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Borrower Defense Rules

- 4 triggering events that require all institutions to notify the U.S. ED and result in an automatic recalculation of the composite score.

Two of those 4 events are applicable to NFP institutions:

- For the fiscal year reported, when an institution is subject to two or more **discretionary** triggering events, those events become mandatory triggering events, unless a triggering event is resolved before any subsequent event(s) occurs
- Liabilities arising from a settlement, final judgment from a court, or final determination arising from an administrative action or proceeding initiated by a federal or state entity

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Borrower Defense Rules

List of Discretionary Triggering events (2 or more would cause those events to become mandatory triggers):

- Actions taken against an institution by an accrediting agency, including unsatisfied showcause orders that could lead to the withdrawal, revocation, or suspension of institutional accreditation.
- Violation of security or loan agreements with creditors.
- Citations by state licensing or authorizing agencies for violations of state or agency agreements that may prompt the withdrawal or termination of licensure or authorization.
- High annual dropout rates, as calculated by ED.
- The institution’s two most recent official cohort default rates are 30 percent or greater, unless:

  (i) The institution files a challenge, request for adjustment, or appeal under that subpart with respect to its rates for one or both of those fiscal years; and

  (ii) That challenge, request, or appeal remains pending, results in reducing below 30 percent the official cohort default rate for either or both of those years, or precludes the rates from either or both years resulting in a loss of eligibility or provisional certification.

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Borrower Defense Rules

Requirements if an institution incurs a ***discretionary*** event:

- Institution has 10 days after written notice of the event to notify the U.S. ED if the following discretionary events occur:
  - Actions taken against an institution by an accrediting agency, including unsatisfied showcause orders that could lead to the withdrawal, revocation, or suspension of institutional accreditation.
  - Violation of security or loan agreements with creditors.
  - Citations by state licensing or authorizing agencies for violations of state or agency agreements that may prompt the withdrawal or termination of licensure or authorization

U.S. ED may choose to recalculate the composite score based on 1 of the above occurring, at their discretion.

Borrower Defense Rules

Requirements if an institution incurs a ***mandatory*** event:

- Institution has 10 days after written notice of the event to notify the U.S. ED.
- U.S. ED will recalculate the composite score at that point utilizing current financials (including additional liabilities).

Borrower Defense Rules – How to Approach

- Institutions should have a monitoring plan in place to be aware of potential events that may require U.S. ED notification.
- Institutions should proactively analyze financial stability and determine what, if any, impact an event could have on the composite score calculation.

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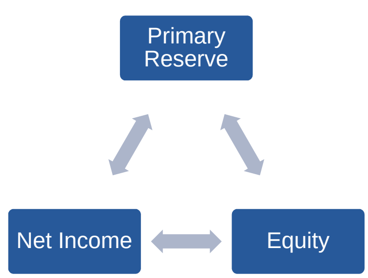
Financial Responsibility Score Updates

Three ratios making up the composite score are used by the U.S. ED to determine the “financial health” of an institution.

These calculations are combined into one overall calculation, “the composite score.” The composite score was historically calculated annually to assess the financial responsibility of the college or university.



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Financial Responsibility Score Updates

Terminology updates:

- The new borrower defense rules also updated key definitions and terminology in the calculations primarily related to:
  - ASU 2016-14 NFP Reporting Standards
  - ASU 2016-02 Leases
- Amends formula definitions to further explain total revenues, expenses, gains, and losses in the financial statements
- NACUBO provided terminology crosswalk in Advisory19-04

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Financial Responsibility Score Updates

Terminology updates (cont.):

- Redefines the definition of long-term debt:
  - Requires that all long-term debt incurred subsequent to the effective date of the regulation be used for capital investments.
  - Allows debt obtained during asset construction to be used when calculating expendable net assets.
  - Grandfathers long-term debt incurred prior to the effective date of the regulation and previously used to calculate expendable net assets. The grandfathering provision allows "pre-implementation debt" (long-term debt that did not exceed PP&E) as of the prior fiscal year, to be used in the calculation of expendable net assets.
  - Equates lease obligations, as a result of implementing ASU 2016-02, to debt obtained for long-term purposes in the calculation of expendable net assets.
  - Permits lease rental expense to be "grandfathered." Lease rental expense prior to the date of demarcation (December 15, 2018) will be allowed but subsequent lease contracts must follow ASU 2016-02.

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Financial Responsibility Score Updates

Audited Supplemental Schedule Requirement

- New supplemental schedule – “Financial Responsibility Supplemental Schedule.”
- The Schedule must provide a crosswalk so that all components needed for calculation of the fiscal responsibility scores are included, as well as reference to the applicable statement or footnote.
- The Schedule will be audited and must be included in the audit opinion.

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Financial Responsibility Score Updates

Audited Supplemental Schedule Requirement (cont.)

Impact Items for FY20

- Additional time will be required for FY20 audits
- Engagement letter and audit opinion modification are required for all Title IV engagements
- The face of the financial statements or the footnotes will likely need to be expanded for some amounts not previously disclosed in the audited financial statements
- NACUBO provided terminology crosswalk in Advisory19-04

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Financial Responsibility Score Updates

Financial Responsibility Schedule Example

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Financial Responsibility Supplemental Schedule Template

Request a free copy of the template at
info.capincrouse.com/reportingrequirements

Thank you.

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Sources: NAUCBO *Advisory 19-04*, NACUBO.org, ED.gov

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