

NACUBO Advisory 19-01

FASB ASC 606

Revenue from Contracts with Customers

Tuition Revenue

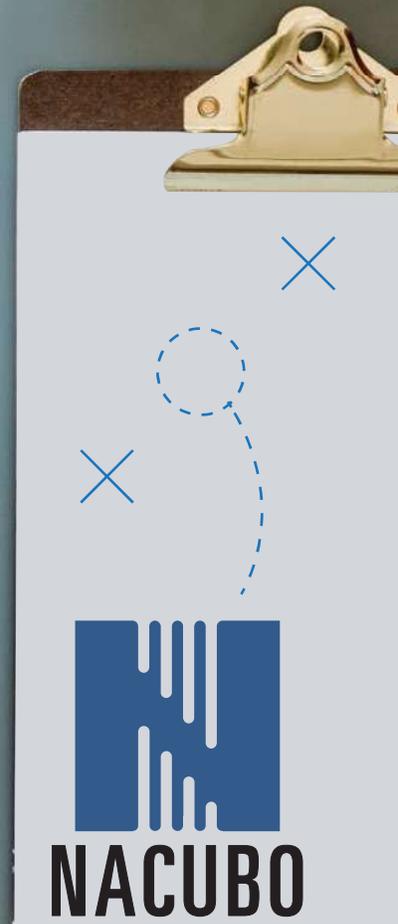


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Introduction

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014–09, *Revenue from Contracts with Customers (Topic 606)* which applies to all transactions involving a reciprocal transfer of good or services to a customer. Certain transactions such as contributions—including many sponsored grants—are not within the scope of Topic 606 and are not addressed in this paper. For simplicity, this paper applies only to tuition contracts, but the concepts are equally applicable to all revenues from contracts with customers.

For independent colleges and universities, the new revenue recognition guidance may change the way student revenues—tuition, fees, housing, and dining—are recorded. Regardless of whether an institution offers traditional fall, spring, and summer terms or nontraditional programs that span fiscal years, tailored programs for specific industry customers, or frequent academic terms that begin and end over short intervals, it will be necessary to analyze each revenue stream and consider whether changes to current accounting may be required. Institutions should plan to provide documentation based on those analyses to their auditors in order to demonstrate their understanding of, and compliance with, the new accounting and reporting requirements.

Tuition Contracts

NACUBO’s advisory guidance is written specifically for colleges and universities and is based on our in-depth understanding of tuition contracts with students. When students enroll or register for classes, they agree to be financially responsible for the tuition and fees associated with those courses. In a majority of cases, this agreement is a separate written contract (see Appendix B for information on Student Financial Responsibility Agreements). If a specific contract does not exist, the terms are often documented in a series of communications with the student. NACUBO contends, based on precedent, that a student’s signed financial responsibility agreement (or similar contract / series of documents) is a noncancelable contract that entitles an institution to consideration, in exchange for promised services, on the payment due date (see the Recognition of Receivables section of this report). This Advisory is based on that premise.

Note: NACUBO’s guidance differs in certain aspects from guidance issued by the AICPA. The examples in the AICPA guidance acknowledge the existence of a contract but do not indicate a student’s contractual agreement to payment terms. Consequently, the examples assume that a tuition contract is cancelable until the withdrawal period has ended. NACUBO believes that for the majority of institutions, this is not the case; students must pay invoiced fees in order to receive services. Colleges and universities have the right to receive consideration for promised services when payment due dates are specified in contracts with students. If, however, after consultation with legal counsel you determine that tuition contracts with your students are cancelable you may wish to follow the example included in the [AICPA’s guidance](#).

Although our objective is industry guidance that will be applied consistently across institutions, it is not meant to replace the need to study Topic 606 to understand the full implications for your institution. The standard contains a significant number of details that further explain the requirements.

Under the new guidance, revenue recognition from all contracts with customers must be evaluated through five steps, described in ASC 606-10-05-4:

- Step 1:** Identify the contract(s) with a customer.
- Step 2:** Identify the performance obligations in the contract.
- Step 3:** Determine the transaction price.
- Step 4:** Allocate the transaction price to the performance obligations in the contract.
- Step 5:** Recognize revenue when (or as) the entity satisfies a performance obligation.

The standard primarily focuses on an individual contract with a customer. However, it includes a practical expedient that allows the guidance to be applied to a portfolio of contracts with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying the guidance to the portfolio would not differ materially from applying the guidance to the individual contracts within that portfolio. Further information on applying the portfolio approach is included later in this document (page 7).

The following discussion addresses each of the five steps and how they apply to tuition revenue at most higher education institutions. Specific situations may vary.

Step 1: Identify the contract(s) with a customer

Institutions must first determine whether a contract with a student exists. ASC 606 requires all of the following criteria to be met in order for a contract to exist:

- 1. The parties have approved the contract and are committed to perform their respective obligations.** Many institutions require an enrollment deposit to secure a place in the future academic term. The invoicing and receipt of these deposits provides evidence that the parties are committed to perform. A student's enrollment in courses is further evidence that the parties are committed to perform.
- 2. The entity can identify each party's rights regarding the goods or services to be transferred.** When the institution provides the student with a letter of acceptance or communicates enrollment expectations, each party's rights and obligations have been clearly identified.
- 3. The entity can identify the payment terms for the goods or services to be transferred.** Communication with the student regarding tuition price, financial aid to be provided (if any), and payment schedules satisfies this criterion.
- 4. The contract has commercial substance; that is, the risk, timing, or amount of the entity's future cash flows is expected to change as a result of the contract.** Because the student is providing consideration in return for instruction, the contract has commercial substance.
- 5. It is probable that the entity will collect the consideration to which it will be entitled.** Based on experience, the institution expects to receive the payments due under the contract. Even if future payment may be doubtful for a particular student, the portfolio approach allows the institution to assess this probability for the portfolio. Additionally, signed Student Responsibility Agreements are the norm and have held up in court.

Step 2: Identify the performance obligations in the contract

At contract inception, an entity must assess the goods or services promised and identify as a performance obligation each promise to transfer to the customer either:

- A good or service (or a bundle of goods or services) that is distinct.
- A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer (see paragraph 606-10-25-15).

The performance obligation corresponding to tuition and fees is delivery of the academic program throughout the stated period of the contract (i.e., the academic term). The academic program includes student services, use of research space and study areas, access to reference materials, and so on. Once the performance obligations are identified, the entity must determine whether they will be satisfied at a point in time or over a period of time. The performance obligations associated with academic programs are satisfied over a period of time as the student simultaneously receives and consumes the benefits as the entity performs.

When the academic and residential programs are intertwined, for example an international study experience, or when there is one bundled price for a living/learning study program, it may make sense to define the performance obligation as delivery of the complete student experience. In most cases, however, tuition and housing would be separate performance obligations.

Step 3: Determine the transaction price

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. That consideration may be fixed or variable. In other words, it is the revenue expected to be realized, not necessarily the amount billed. When determining the transaction price, an institution should consider the factors discussed below.

Variable consideration

Per FASB ASC 606-10-32-6, consideration can vary because of amounts such as discounts, rebates, refunds, credits, incentives, or other similar items. The promised consideration can also vary if an entity's entitlement to the consideration is contingent on the occurrence or nonoccurrence of a future event. When applying this concept in higher education, consider that most institutions have tuition refund policies that allow students to drop courses, or withdraw, and receive a full or partial refund in the first few weeks of a term. Accordingly, consideration received for tuition is typically considered variable as the exact amount of revenue to be recognized is not known with certainty at inception of the contract.

When the transaction price includes variable consideration, only the amount that the institution expects to collect should be included. When the portfolio approach is used, an estimate of refunds should be reflected in the transaction price based on the institution's historical experience.

Constraints on variable consideration

FASB ASC 606-10-32-11 explains that “An entity shall include in the transaction price some or all of an amount of variable consideration estimated ... only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.” Many institutions have indicated to NACUBO that refunds are not material in relation to the entire portfolio of students paying tuition. Therefore, refund estimates reduce the total transaction price. If, however, the institution expects that refunds to students will be material, the estimated amount of refunds would not be reflected in the transaction price but would, instead, be recorded as a separate refund liability.

For nearly all higher education institutions, the deadlines for decisions that generate refunds (the add/drop periods) come very early in the academic period. Therefore, if the add/drop period does not span the end of a fiscal period, institutions may choose to simply record the refunds against revenue when they are made—similar to today’s accounting. It will be important, however, for schools to document their assessment of refund estimates and experience in order to demonstrate to their auditors that they have considered the impact on the amount and timing of revenue recognition.

Consideration payable to a customer

Within Topic 606, the concept of “consideration payable to a customer” is described very generically and paraphrased here. If an entity reduces the price that is charged, or pays (or expects to pay) consideration to a customer in the form of cash or credit that the customer can apply against amounts owed to the entity, the entity should account for the payment (or expectation of payment) as a reduction of the transaction price unless the reduced price or payment to the customer is in exchange for a distinct good or service.

Applying this concept to higher education, institutions should consider the following for identifying and quantifying the consideration payable to a customer:

Institutional financial aid. Most colleges and universities provide institutionally funded grants and scholarships to students who either demonstrate financial need or qualify academically. Under ASC 606, this institutional aid represents consideration payable to a customer and, as such, reduces the transaction price.

(In most cases, institutional aid is provided only as an offset to tuition and fees, and any aid used to offset living expenses is specifically earmarked for that purpose. In these cases, aid offered for specific purposes should only reduce the transaction price for the specific service (e.g., academic program or residential services). *Note:* Institutions should consider their aid policies, for purpose of both revenue recognition and the taxable income requirements in Section 117 of the Internal Revenue Code.

Excess institutional aid. In certain circumstances, for extremely high financial need students, institutional aid awarded to a student may exceed the transaction price (for example, aid might

cover tuition, room and board, and provide for certain living expenses). Although the transaction price is reduced by consideration payable to a customer, institutions would not record negative revenue. In these cases, the excess aid is considered a separate transaction that is not related to the institution's tuition performance obligation. The aid is given to assist the student with personal costs; the objective is to help the student successfully complete the academic term. Accordingly, the excess aid is considered a scholarship expense rather than a reduction of revenue. This is consistent with the functional definition of a scholarship expense in Chapter 701 of the *NACUBO Financial Accounting and Reporting Manual* (FARM) and NACUBO's recommendation contained in Advisory Report 1997-1 *Accounting and Reporting Scholarship Allowances to Tuition and Other Fee Revenues by Higher Education*, which specifies that institutional aid incurred as an incremental expense (i.e., in excess of institutional revenue) is reported as an expense.

Consideration in exchange for service. Consideration payable to a customer *in exchange for services* is reported as an expense. Examples include tuition remission for employees or their dependents, or reduced tuition or stipends for teaching or research assistantships. The consideration payable is reported as an expense in the proper functional category and natural classification.

Collectibility

When calculating the transaction price, collectibility is not considered. However, uncollectible receivables should be estimated and continue to be adjusted through establishing an allowance for doubtful accounts and recognizing bad debt expense.

Changes to the transaction price

The transaction price may also change over time. This is especially true as financial aid amounts may change and students may add or drop courses. Subsequent changes in the transaction price are allocated to the performance obligation using the same method that was used at the contract's inception. As a practical matter, adjusting the transaction price in the appropriate period for changes will only matter when performance obligations cross over financial reporting periods.

Step 4: Allocate the transaction price to the performance obligations in the contract

The transaction price for each performance obligation is allocated based on the amount of consideration the entity expects to receive for transferring the distinct goods or services to the customer. As tuition is generally separately priced (e.g. not bundled with housing), no allocation is necessary.

In situations where the academic and residential programs are very tightly linked and are never separately priced (such as some international programs), institutions may need to consider the full package of instruction and housing as one performance obligation (and portfolio), and recognize it as such when recording revenue.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

When the performance obligation is satisfied over a period of time, as is common with most services, the organization needs to develop an appropriate methodology to measure the progress for satisfying the obligation. That methodology should be applied consistently to similar performance obligations and in similar circumstances. At the end of each reporting period, progress toward satisfaction of the performance obligation is remeasured. The remaining performance obligation remains a liability on the statement of financial position, and revenue for performance obligations satisfied during the period is reflected in the statement of activities.

It is likely that all independent institutions will recognize revenue pro rata over the duration of the academic period to which the charges relate. Services are promised and provided over a time period—that is, consumed as they are delivered. Only in highly unusual circumstances would revenue be recognized on a schedule other than pro rata during the academic period. An example might be an academic program delivered on behalf of a third-party sponsor for which payment from the sponsor is based on specific milestones, rather than the passage of time.

For institutions with traditional fall, spring, and summer terms that issue financial statements only at the end of their fiscal year—most commonly May, June, or August—the contract liability/revenue recognition will be similar to the way it is reported today, with revenue reported for the portion of the summer term that is completed by the end of the fiscal year, and a liability for the portion of the summer term that will be completed in the following fiscal year.

For institutions that prepare interim financial statements or have nontraditional programs, the revenue recognition/contract liability split will be similar to the summer term description above. The key factor will be determining the portion of the contract liability that remains at the end of the reporting period.

Portfolio Approach

When accounting for a portfolio, an entity uses estimates and assumptions that reflect the size and composition of the portfolio. Institutions should consider all available information including historic, current, and forecasts when determining variable consideration using the portfolio approach. Given the large number and homogeneity of tuition contracts, as a practical matter, most independent institutions will likely use the portfolio approach for tuition and fees.

The following are some factors to consider when determining how to group contracts into separate portfolios:

- **Type of customer.** Examples of types of customers are undergraduate, graduate, nondegree, or online students.
- **Contract duration.** Varying academic terms may result in different portfolios. For example, an institution that has courses offered under a traditional academic program as

well as a separate program of online courses may have different portfolios to reflect the period covered by the contracts.

- **Geographic locations.** Institutions with campuses in multiple locations may have different fee structures or payment terms that may require different portfolios for each campus.

Presentation and Disclosure

The following discussion addresses presentation and recognition criteria from contracts with customers in the institution's financial statements. These concepts are illustrated in the "Illustrative Disclosures" (page 12).

Statement of financial position

Per ASC 606-10-45-1, when either party to a contract has performed, an entity shall present the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

When a customer transfers consideration before the entity has transferred a good or service, the entity records a contract liability (deferred revenue). A *contract liability* is defined as "an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from the customer." (ASC 606-10-45-2). The contract liability is measured at the amount of consideration received from the customer and not the cost to perform under the contract. Although the standard uses the term *contract liability*, it allows the reporting entity to use an alternative description such as *deferred revenue* in the statement of financial position.

Conversely, when an entity has performed before the customer pays consideration or before payment is due, it presents a contract asset (excluding any amounts presented as a receivable). A *contract asset* is defined as "an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer ..." (ASC 606-10-45-3). A contract asset exists when an entity has a contract with a customer for which revenue has been recognized (i.e., goods or services have been transferred to the customer), but customer payment has not yet been received (even if payment is not yet due). Because performance of the contract with the student is delivered over time, and payment is generally required in advance of the academic term, it is unlikely that contract assets will arise from these transactions.

Recognition of receivables

The relevant guidance for reporting receivables is found in ASC 606-10-45-4, which states: "A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an entity would recognize a receivable if it has a present right to payment even though that amount may be subject to refund in the future."

The concept of an “unconditional right to consideration” is dependent on when the contract is no longer cancelable; however, enforceability of the rights and obligations in a contract is a matter of law (ASC 606-10-25-1). In its Basis for Conclusions, FASB notes, “**In many cases, an unconditional right to consideration arises when the entity satisfies the performance obligation and invoices the customer. ... [T]he act of invoicing the customer for payment does not indicate whether the entity has an unconditional right to consideration. For instance, the entity may have an unconditional right to consideration before it invoices (unbilled receivable) if only the passage of time is required before payment of that consideration is due. **In other cases, an entity can have an unconditional right to consideration before it has satisfied a performance obligation. For example, an entity may enter into a noncancelable contract that requires the customer to pay the consideration a month before the entity provides goods or services. In those cases, on the date when payment is due, the entity has an unconditional right to consideration.****” (BC325) [Emphasis added]

In the case of tuition, the student and college enter into a contract under which the student agrees to attend the college and pay the fees required by the specified due date. The signed tuition contract is no longer cancelable on the date when payment is due; students must make payment to attend classes. Therefore, a receivable would be recognized by the institution at the time that payment is due. The offset to the receivable is deferred revenue, which will be reclassified from deferred revenue to revenue as the performance obligation is satisfied.

Although the contract is noncancelable, it is subject to possible modification or termination in the future—particularly because most institutions have a period during which the student can add or drop courses or withdraw from classes altogether and receive a refund. However, this has no bearing on receivable recognition because the institution has a present right to payment even though that amount may be subject to a refund in the future (ASC 606-10-45-4). In contracts for promised services, such as tuition contracts for educational services, only the passage of time means that performance is not required to have an unconditional right to consideration.

In summary, tuition contract modification or termination should be reflected in the transaction price if it is not material to total revenue, or separately as a refund liability if it is expected to be material. Any modifications or terminations would not have a bearing on the institution’s present right to consideration at the time payment is due, and thus would not delay recognition of the receivable.

Statement of activities

ASC 606-10-32-1 specifies that revenue is recognized at the amount of the transaction price, when (or as) a performance obligation is satisfied. And as noted previously, the transaction price excludes any estimated withdrawal refunds and institutional aid. Accordingly, independent institutions will show the net amount for tuition and fee revenue on the statement of activities. The amount of consideration paid to the student (i.e., institutional aid or discount) that is part of the reported transaction price (revenue) may be included parenthetically on the face of the statement or shown in the notes to financial statements.

Notes to financial statements

The objective of the disclosure requirements in Topic 606 is to provide financial statement users with qualitative and quantitative information that is sufficient for them to understand the nature, amount, timing, and uncertainty of revenue, certain costs, and cash flows arising from contracts with customers. Although the disclosure requirements are extensive, institutions have great latitude in how they present the information to meet the objectives.

The following is a comprehensive list of the required disclosures under Topic 606 applicable to higher education institutions¹. Items in italics are optional for institutions that are not considered public entities (i.e., institutions that are not conduit bond obligors or that do not have other publicly traded debt).

1. General disclosures

The following amounts are required to be disclosed for each reporting period presented, unless presented separately in the statement of activities in accordance with other Topics:

- Revenue recognized from contracts with customers, disclosed separately from other sources of revenue.
- Credit losses, if any, recorded on any receivables or contract assets arising from contracts with customers, disclosed separately from credit losses from other contracts.

2. Disaggregation of revenue

- A quantitative disaggregation of revenue recognized from contracts with customers into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.²

3. Contract balances

- The opening and closing balances of receivables, contract assets, and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed.
- Revenue recognized in the reporting period that was included in the contract liability balance at the beginning of the period.
- Revenue recognized in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods.
- An explanation of how the institution's contracts and typical payment terms will affect its contract asset and contract liability balances.
- Qualitative and quantitative information and an explanation of the significant changes in the contract asset and the contract liability balances during the reporting period.

¹ For further detail regarding disclosures required under Topic 606, refer to FASB ASC 606-10-50.

² Nonpublic entities may elect not to apply the quantitative disaggregation disclosure guidance. If such an election is made, the entity shall disclose, at a minimum, revenue disaggregated according to the timing of transfer of goods or services (for example, revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred to customers over time) and qualitative information about how economic factors (such as type of customer, geographical location of customers, and type of contract) affect the nature, amount, timing, and uncertainty of revenue and cash flows.

4. Performance obligations

Information about the entity's performance obligations in contracts with customers, including a description of all of the following:

- When the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered, or upon completion of service).
- The significant payment terms (for example, when payment typically is due, whether the contract has a significant financing component, whether the consideration amount is variable, and whether it is probable that a significant reversal of cumulative revenue recognized will occur due to an uncertainty related to the variable consideration).
- The nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (that is, if the entity is acting as an agent).
- Obligations for returns, refunds, and other similar obligations.

5. Transaction price allocated to remaining performance obligations

For performance obligations that are part of a contract that has an original expected duration of more than one year, the following disclosures are required. If the expected duration of the contract is one year or less, an entity may choose not to include these disclosures.³

- The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period
- An explanation of when the entity expects to recognize as revenue the amount disclosed, which the entity shall disclose in either of the following ways:
 - a. On a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations.
 - b. By using qualitative information.

6. Determining the timing of satisfaction of performance obligations

For performance obligations that an entity satisfies over time, an entity shall disclose both of the following:

- The methods used to recognize revenue (for example, a description of the output methods or input methods used and how those methods are applied).
- An explanation of why the methods used provide a faithful depiction of the transfer of goods or services.

For performance obligations satisfied at a point in time, the significant judgments made in evaluating when a customer obtains control of promised goods or services.

³ FASB ASC 606-10-50-14 provides an exemption for the required disclosures in Item 5 if the performance obligation is part of a contract that has an original expected duration of one year or less. For more information on this exemption see the section on Disclosure Considerations.

7. Determining the transaction price and the amounts allocated to performance obligations

Information about the methods, inputs, and assumptions used for all of the following:

- Determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money, and measuring noncash consideration.
- Assessing whether an estimate of variable consideration is constrained.
- Allocating the transaction price, including estimating stand-alone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract (if applicable).
- Measuring obligations for returns, refunds, and other similar obligations.

Disclosure considerations

The requirement to disaggregate revenue will require significant judgment. Revenue must be broken down into categories based on the institution's business model (e.g., students served or programs offered). When making this assessment for tuition revenue, an institution may wish to consider the portfolios it has created for recognizing revenue. These may provide an appropriate level of disaggregation. Consideration should also be given to how the organization's revenue has been presented for other purposes, such as reports for accreditation, information provided to bond rating agencies, and annual reports to contributors.

As previously noted, the standard provides an exemption for the required disclosures related to the allocation of the transaction price to remaining performance obligations if they are part of a contract that has an original expected duration of one year or less. As most tuition contracts are for less than one year, these disclosures would generally not be required. If, however, the institution enters into contracts with students that apply to multiple academic years and the institution is considered a public entity, these disclosures would be required.

If an institution avails itself of this exemption, it must disclose the nature of the performance obligations, the remaining duration, and a description of the variable consideration that has been excluded from its disclosures, as well as whether any consideration is not included in the transaction price.

Illustrative Disclosures

The following sample disclosures are based on the Example 1 shown in Appendix A. The college in these examples offers only undergraduate degree programs. If it also offered graduate or non-degree courses, and those programs were substantially different from the undergraduate program, the institution might have broken those out separately in the notes, as they represent a disaggregation of revenue.

Organization

The college is a tax-exempt organization that provides academic instruction toward baccalaureate degrees. The college serves approximately 3,000 students. Approximately 85% of the students are residents of [state], and 15% are from outside [state].

Revenue recognition and disaggregation of revenue

Tuition revenue is recognized in the fiscal year in which the academic programs are delivered. Institutional scholarships awarded to students reduce the amount of revenue recognized. In addition, students who adjust their course load or withdraw completely within the first two weeks of the academic term may receive a full or partial refund in accordance with the college's refund policy. Historically, refunds have been approximately 0.2% of the total amount billed. Refunds issued reduce the amount of revenue recognized. Payments for tuition are due approximately one week prior to the start of the academic term.

Deferred revenue

Deferred revenue represents payments received prior to the start of the academic term. The following table depicts activities for deferred revenue related to tuition.

Balance at Aug. 31, 20X0	Refunds issued	Revenue recognized included in Aug. 31, 20X0, balance	Cash received in advance of performance	Balance at Aug. 31, 20X1
\$ 17,495,000	15,500	17,479,500	18,375,000	\$ 18,375,000

The balance of deferred revenue at Aug. 31, 20X1, less any refunds issued will be recognized as revenue over the academic term beginning on Sept. 4, 20X1, as services are rendered.

Note: The college applies the practical expedient in FASB ASC 606-10-50-14 and, therefore, does not disclose information about remaining performance obligations that have original expected durations of one year or less.

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Summary of Issues to Consider

1. Does the institution have enrollment agreements or other documents of understanding that would constitute a contract between the institution and student?
2. If using the portfolio approach, how many distinct portfolios are there? Do the undergraduates have the same academic schedule as the graduates? Are there nontraditional terms that would constitute a separate portfolio?
3. What are the billing practices? Are invoices created and sent (and posted to the financial system as receivables and revenue) for the new academic term before the end of the previous fiscal year? If yes, will financial system adjustments be needed to comply with the reporting under Topic 606?
4. What are the refund policies? Are refunds material? If yes, is there a historical refund pattern that can be used to estimate the refund liability?
5. Are there situations that may give rise to a contract asset?
6. Will contract liabilities be material as of the balance sheet date?
7. Based on the institution's business model and programs offered, what are the relevant disaggregation categories for reporting revenue to reflect the nature, amount, timing, and uncertainty of revenue and cash flows that may be affected by economic factors? How have the various sources of revenue and student served been presented in accreditation reports or surveys for bond rating agencies?
8. Does the institution qualify for one of the exceptions for disclosing performance obligations?

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Appendix A. Examples

Example 1. Fall Academic Term

The following example illustrates the concepts discussed in the body of this paper and the related accounting entries. Although this example illustrates only the treatment of tuition revenue, it could be applied equally to other student revenues such as those from residential and dining programs.

Note that sample journal entries are intended to illustrate the concepts in ASC 606. There is no requirement to modify systems to enable monthly entries that comply with 606. An institution can choose to analyze tuition revenue and record entries solely to support interim or annual financial reporting.

While the standard uses the term *contract liability*, it allows the reporting entity to use an alternative description in the statement of financial position (ASC 606-10-45-5). For purposes of this illustration, the contract liability is labeled *deferred revenue*, as that term tends to be a more understandable term for financial statement readers.

College A is a small baccalaureate institution, highly tuition dependent, with approximately 3,000 students. It is a conduit bond obligor and, therefore, is considered a public entity for financial reporting purposes. Its fiscal year runs September 1 through August 31. Because the bills for the fall semester are sent out prior to the end of the fiscal year, the institution is concerned about the correct amount to report as student receivables on its audited financial statements.

First-year students indicate their commitment to the college by paying a nonrefundable deposit of \$500 by May 1. Tuition is \$15,000 per semester. When students register for classes, they sign a statement indicating that they accept financial responsibility for the tuition charges, acknowledge that they must officially drop or withdraw from courses prior to the first day of class in order to cancel the charges incurred by registering, and agree that payment for classes must be made by the due date (which is before classes begin) or they will not be allowed to attend their selected course. Based on this agreement, the college has a noncancelable contract with the student.⁴

Invoices are sent August 1, with payment due August 31. Classes begin September 4 and the semester ends December 22. There is an add/drop period that ends on September 14. After September 14, students who choose to withdraw must submit a request for withdrawal.

⁴ Refer to the Recognition of Receivables section of this paper for further discussion on this topic.

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The refund schedule and the historic pattern of refunds for the fall semester are shown here.

Campus programs—fall terms				
Timing	Refund amount*	College retains	Historic pattern	Estimated refunds reflected in transaction price*
Withdrawal prior to the first day of classes (September 4)	100% of tuition paid	0%	Replaced by students on wait list	\$0
Withdrawal between first day of class and last day of second week of classes (the add/drop period) (September 14)	80% of tuition paid	20%	.5%	\$108,900
Withdrawal between first day of third week and last day of sixth week of classes (after the add/drop period) (October 14)	50% of tuition paid	50%	.2%	\$27,225
Withdrawal <i>after</i> sixth week of classes	No refund	100%	.1%	\$0

* Net of nonrefundable enrollment deposit.

The college decides to apply a portfolio approach to recognizing revenue.

May 1

Entry A: Record nonrefundable enrollment deposits of \$500 each paid by 750 first-year students.

Cash (750*\$500)	\$375,000	
Deferred revenue—academic program		\$375,000

August 1

Student invoices are prepared and mailed to students comprising the aggregate totals for the portfolio as shown in the table below. The college will not record a financial system entry, as an unconditional right to consideration does not exist until payment is due. The student system will serve as the subsidiary ledger to track amounts invoiced and paid.

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Fall billing	Undergraduate	Institutional aid	Transaction price prior to estimated refunds	Estimated refunds*	Transaction price after estimated refunds
Tuition	\$45,000,000	(\$17,400,000)	\$27,600,000	(\$136,125)	\$27,463,875

* Although an estimate of refunds is reflected in the transaction price, it does not reduce the amount billed to the student or other third-party payers.

During the month of August, a portion of student payments for tuition are received.

Entry B: Record cash payments received.

Cash	\$18,000,000	
Deferred revenue—academic program		\$18,000,000

August 31

Payment is due on all outstanding balances. At this time, the college has an unconditional right to consideration. Therefore, the college will record a receivable for the balance due, even though unforeseen circumstances may occur that could cause a student to withdraw or adjust his or her course schedule. The amounts due are shown in the following table.

Fall billing	Net undergraduate transaction price	Enrollment deposits applied	Student payments received	Government financial aid applied	Student payments due
Tuition	\$27,600,000	(\$375,000)	(\$18,000,000)	(\$6,713,700)	\$2,511,300

Entry C: Record receivables for remaining tuition amounts due from students and third parties.

Accounts Receivable Students	\$2,511,300	
Accounts Receivable Third parties	\$6,713,700	
Deferred revenue—academic program		\$9,225,000

September 4

Classes begin. No financial statement entry because revenue has not been earned.

September 14

The first threshold for refunds passes and no students have withdrawn or changed their course load from full time to part time. No financial statement entry is made. The college chooses to make an adjustment to the transaction price for estimated refunds at the end of the month.

September 30

At the end of the reporting period, the college updates the estimated transaction price, based on the events that have occurred as shown below.

	Transaction price after estimated refunds	Unpaid refunds after September 14	Estimated transaction price as of September 30
Fall billing			
Tuition	\$27,463,875	\$108,900	\$27,572,775

The college recognizes revenue for the first four weeks of the semester based on the recalculated transaction price.

Entry D: Record a portion of the revenue earned for the semester (4/16 or 25%*\$27,572,775).

Deferred revenue—academic program	\$6,893,194	
Tuition revenue		\$6,893,194

October 14

The final threshold for refunds passes and no students have withdrawn or changed their course load in a manner that would require a refund. At this point, the college recalculates the transaction price to reflect actual refund activity.

	Transaction price after estimated refunds	Estimated refunds in excess of actual refunds September 14	Estimated transaction price as of September 30	Estimated refunds in excess of actual refunds October 14	Estimated transaction price as of October 31
Fall billing					
Tuition	\$27,463,875	\$108,900	\$27,572,775	\$27,225	\$27,600,000

October 31

The college recognizes revenue for the month of October based on the recalculated transaction price.

Estimated transaction price—academic program	\$27,600,000
Percent to recognize through October 31 (8.5/16)	53%
Amount to recognize through October 31 (8.5/16)	14,628,000
Less: amount already recognized	(6,893,194)
Revenue to recognize as of October 31	\$7,734,806

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Entry E: Record a portion of the revenue earned for the semester.

Deferred revenue—academic program	\$7,734,806	
Tuition revenue		\$7,734,806

After these entries, the balance of the tuition deferred revenue is \$12,972,000, calculated as shown below:

Deferred revenue—tuition			
D	6,893,194	375,000	A
E	7,734,806	18,000,000	B
		9,225,000	C
	14,628,000	27,600,000	
	<i>Balance =</i>	<i>12,972,000</i>	

Throughout the remainder of the fall semester, the following entries will be recorded:

Entry F. Apply payments received against the appropriate receivables.

Entry G. Prorate revenue and amortize deferred revenue.

The accounting entries arranged by account are shown in the table below.

Cash		Deferred revenue—tuition				Revenue—tuition			
A	375,000	D	6,893,194	375,000	A		6,893,194	D	
B	18,000,000	E	7,734,806	18,000,000	B		7,734,806	E	
F	9,225,000	G	12,972,000	9,225,000	C		12,972,000	G	
	27,600,000		27,600,000	27,600,000		—	27,600,000		
	—								
Accounts receivable									
C1	2,511,300							F	
C2	6,713,700								
	9,225,000								
	9,225,000								

Example 2. Summer Term

In this second example, a university with a fiscal year end of May 31 conducts an eight-week summer program that spans one week in May, four weeks in June and three weeks in July. For purposes of this illustration, the term *contract liability* (rather than *deferred revenue*) is used.

Tuition is \$3,000 for the summer term, and is due the day before the start of the summer term. The university does not offer institutional aid for summer courses.

Four hundred students have enrolled for the summer term and have signed an agreement (contract) indicating that they accept financial responsibility for the tuition charges and acknowledging that they must officially drop or withdraw from courses prior to the first day of class in order to cancel the charges incurred by enrolling. Of the students who enrolled, 350 paid prior to the start of classes, and 50 are taking advantage of a short grace period to pay their bill.

Payment on all outstanding balances is due the day before classes begin; based on the terms of the contract, the university has an unconditional right to consideration when payment is due. Therefore, the college will record a receivable for the balance due (on May 24), even though unforeseen circumstances may occur that could cause students to withdraw or adjust their course schedules. (ASC 606-10-45-4: the college has a present right to payment even though that amount may be subject to refund in the future. Only the passage of time is required before the consideration is due when no performance or other actions are stipulated in the contract before the payment due date.)

The university offers two refund options during the summer term. Students can withdraw at any time prior to the completion of eight class sessions and receive a partial refund. The refund schedule is as follows:

Campus programs—summer term				
Timing	Refund amount	College retains	Historic pattern	Estimated refunds
Withdrawal prior to the first day of classes	100% of tuition paid	0%	0%	\$0
Withdrawal after classes begin and up to 4 class sessions are completed (during first week)	75% of tuition paid	25%	2%	\$18,000
Withdrawal after 4 and up to 8 class sessions (prior to end of second week)	50% of tuition paid	50%	2%	\$12,000
Withdrawal after 8 class sessions (start of third week)	No refund	100%	1%	\$0

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Due to the materiality of expected refunds for the summer term, the college decides it should book a separate refund liability. To calculate the refund liability, the university refers to ASC 606-10-32-10 which states “a refund liability is measured at the amount of consideration received (or receivable) for which the entity does not expect to be entitled... .” Because the outstanding amount due is expected to be paid quickly, the university records the refund liability based on the amount billed, rather than the amount paid, as this is more cost beneficial and the difference is not expected to be material.

Prior to the start of classes

Entry 1: Record payments, accounts receivable, and estimated refund liability for the summer term.

Cash (350*\$3000)	1,050,000	
Accounts receivable	150,000	
Contract liability—summer courses		1,170,000
Refund liability		30,000

End of Week 1

Entry 2: Release the first week’s refund liability (the first week refund period has expired and no students have withdrawn).

Refund liability	18,000	
Contract liability—summer courses		18,000

Entry 3: Recognize 1 week of revenue.

Revenue = [1 week/8 weeks * \$1,200,000 – 12,000 = \$148,500]

Contract liability—summer courses	148,500	
Tuition revenue		148,500

The balances related to the summer term recorded in the audited financial statements as of May 31, 20X1 are:

Cash	\$ 1,050,000	
Accounts receivable	150,000	
Contract liability		\$ 1,039,500
Refund liability		12,000
Revenue		148,500
Total	\$ 1,200,000	\$ 1,200,000

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Week 2

Entry 4: Four students withdraw.

Refund liability	6,000	
Cash		6,000

Entry 5: Release remaining refund liability (refund period has expired).

Refund liability	6,000	
Contract liability—summer courses		6,000

Entry 6: Recognize 1 week of revenue [1 week/7 weeks * \$1,045,500 (contract liability at end of week 2)].

Contract liability—summer courses	149,357	
Tuition revenue		149,357

Remainder of term

Entry 7: Students with outstanding balances pay.

Cash	150,000	
Accounts receivable		150,000

Entry 8: Recognize remaining revenue ratably over the balance of the term [$\$149,357 \times 6$ weeks].

Contract liability—summer courses	896,143	
Tuition revenue		896,143

The accounting entries arranged by account are shown in the table below.

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Cash				Contract liability— summer courses				Tuition revenue	
1	1,050,000	6,000	4	3	129,750	1,020,000	1	148,500	3
8	150,000			7	149,357	18,000	2	149,357	7
	<u>1,200,000</u>	<u>6,000</u>		9	896,143	131,250	5	896,143	9
						6,000	6	—	
					<u>1,175,250</u>	<u>1,175,250</u>		<u>1,194,000</u>	
Contract asset				Refund liability					
3	18,750	18,750	5	2	18,000	30,000	1		
	<u>18,750</u>	<u>18,750</u>		4	6,000				
				6	6,000				
					<u>30,000</u>	<u>30,000</u>			
Accounts receivable									
5	150,000	150,000	8						
	<u>150,000</u>	<u>150,000</u>							

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Appendix B. NACUBO Advisory Guidance 2018–01: Best Practices for Financial Responsibility Agreements with Students

2018 Update

Because of various court decisions and changes to case law, this advisory report has been updated to address the ability of a college or university to pass on the cost of third-party collection fees to a student who is in default on his or her obligation to the institution.

The previous version of this advisory report used language that was influenced by the *Bradley v. Franklin Collection Services, Inc.* case [739 F.3d 606 (11th Cir. 2014)]. Later, *Annunziato v. Collecto, Inc.* [207 F.Supp.3d 249 (E.D.N.Y. 2016)] raised the profile of consumer claims against schools and agencies who assess or collect fees. In this class action litigation, the agency was attempting to recover a nonfederal collection fee for a school, but the school could not produce a student agreement executed by the class representative. Additionally, the court disagreed that the language in the unsigned student agreement supported a percentage-based collection fee wherein the school was “made whole.”

To address those concerns, this advisory report now suggests using language similar to that in the *Robertson v. Enhanced Recovery Company, LLC* [2017 WL 5951584 (D.N.J. Nov 30, 2017)] case. Here, the court articulated that “the contract states only that the collection fee is meant ‘to cover collection-related costs’; it does not limit the collection fee to the exact cost [the collector] incurs in collecting the underlying debt.”

The “Collection Agency Fees” subsection under the “Delinquent Account/Collection” heading has been updated to reflect these developments.

Additionally, under “Method of Communication,” we have clarified that the provision where a student may revoke his or her consent should be limited to contact via an automatic telephone dialing system, rather than withdrawing consent generally.

Finally, the “Collection Agency Fees” section has been updated to allow schools to pass to students the costs, such as court costs, associated with a lawsuit, if filed to recover an outstanding balance.

Colleges and universities increasingly ask students to affirm their understanding of their financial obligation to the institution by signing a financial responsibility agreement prior to registering for classes. A financial responsibility agreement provides relevant information about official institutional policies to students and contractually binds them to those policies. It is intended to potentially protect student debts from bankruptcy discharge and set parameters for internal and external collection efforts to ensure compliance with laws and regulations such as:

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- Fair Debt Collection Practices Act (FDCPA).
- Telephone Consumer Protection Act (TCPA).
- Title IV of the Higher Education Act.
- Internal Revenue Code.

NACUBO recommends use of a comprehensive financial responsibility agreement as a student service best practice, protecting the school, maximizing collections, and providing an efficient process to obtain cost-saving electronic agreements. NACUBO's Student Financial Services Council has prepared a template of priority and optional subjects and text to assist schools in developing or strengthening their agreements. This report was reviewed by Chad Echols, of The Echols Firm LLC, whose practice focuses on the rights and legal responsibilities of creditors and collection agencies.

Members are encouraged to consider requiring students to sign an agreement prior to registering for classes and periodically thereafter. The institution will need to determine how often students are asked to reaffirm the financial responsibility agreement, taking into account state law, characteristics of the student population, and coordination with other processes.

Current practices vary widely. Some institutions choose to require students to affirm their agreement each time they register for a class, others ask students to sign one each term or each year, while some colleges and universities are satisfied with a one-time requirement that is clearly worded to cover the student's entire enrollment. No matter how an institution handles this issue, the legal goal remains a clear contract that binds the student to the most current policies of the institution and covers all the amounts that become due and owing during a student's tenure with the institution.

NACUBO recommends using an electronic agreement located within the school's online registration system behind the student authentication portal. We further recommend an "opt-in" format that utilizes check boxes next to each topic for which the student's agreement is required. For some topics, specific "opt-out" instructions must be provided to meet regulatory requirements and protect the institution from potential future disputes. Where appropriate, opt-out instructions should clearly delineate the consequences to the student of opting out.

Additionally, it is important for the school to accurately implement the terms of the institution's agreement. For example, if a student properly opts out of a term, then the school needs to accurately capture the opt-out information and be sure the student's interaction with the school reflects the ramifications or implications of opting out. Ultimately, how a school builds its agreement or chooses which text to incorporate depends on campus leadership, culture, level of IT support, and the advice of the school's legal counsel.

Institutions should carefully review the suggestions in this report. There are many considerations to properly implementing a student agreement. These include (but are not limited to):

- **State laws.** Ensure compliance with state laws relating to debt collections, late fees, convenience fees for certain payment methods, collection agency fees, attorney's fees, and the like.
- **Truth in Lending Act (TILA).** Make sure the student agreement falls within the exceptions for a private education loan and does not trigger a requirement that the institution follow TILA when implementing an agreement. The TILA requirements are beyond the scope of this advisory report and an institution would need to seek specific counsel to ensure compliance. See 12 CFR §§ 226.46-226.48.
- **E-SIGN Act.** Make certain the process in which a student electronically executes an agreement complies with the federal E-SIGN Act and the state's Uniform Electronic Transactions Act (UETA). These laws govern the validity of electronic records and signatures. Forty-seven states and the District of Columbia have passed UETA. The other three states (Washington, New York, and Illinois) have state provisions governing the validity and use of electronic signatures.

The following sample language provides a template for a college or university to use as a starting point in developing or reviewing its financial responsibility agreement. It is not legal advice or intended to be adopted without review by an institution's legal counsel. NACUBO recommends that prior to implementation, schools submit any student agreement to legal counsel for review and approval to ensure that it complies with all applicable federal, state, and local laws, and institutional policy. Institutions should also ensure that student financial services staff is prepared to respond to student inquiries regarding any new terms and conditions.

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Priority Subjects and Text

PAYMENT OF FEES/PROMISE TO PAY

I understand that when I register for any class at {Institution Name} or receive any service from {Institution Name} I accept full responsibility to pay all tuition, fees, and other associated costs assessed as a result of my registration and/or receipt of services. I further understand and agree that my registration and acceptance of these terms constitutes a promissory note agreement (i.e., a financial obligation in the form of an educational loan as defined by the U.S. Bankruptcy Code at 11 U.S.C. §523(a)(8)) in which {Institution Name} is providing me educational services, deferring some or all of my payment obligation for those services, **and I promise to pay for all assessed tuition, fees, and other associated costs by the published or assigned due date. (emphasis added)**

I understand and agree that if I drop or withdraw from some or all of the classes for which I register, I will be responsible for paying all or a portion of tuition and fees in accordance with the published tuition refund schedule at {Institution's tuition refund policy/schedule URL}. I have read the terms and conditions of the published tuition refund schedule and understand those terms are incorporated herein by reference. I further understand that my failure to attend class or receive a bill does not absolve me of my financial responsibility as described above.

DELINQUENT ACCOUNT/COLLECTION

Financial hold. I understand and agree that if I fail to pay my student account bill or any monies due and owing {Institution Name} by the scheduled due date, {Institution Name} will place a financial hold on my student account, preventing me from registering for future classes, requesting transcripts, or receiving my diploma.

Late payment charge. I understand and agree that if I fail to pay my student account bill or any monies due and owing {Institution Name} by the scheduled due date, {Institution Name} will assess late payment and/or finance charges at the rate of {Institution \$ or % amount} per month on the past due portion of my student account until my past due account is paid in full.

Note: Schools looking to implement this provision should make certain any and all amounts comport with applicable law.

Collection agency fees. I understand and accept that if I fail to pay my student account bill or any monies due and owing {Institution Name} by the scheduled due date, and fail to make acceptable payment arrangements to bring my account current, {Institution Name} may refer my delinquent account to a collection agency. I further understand that if {Institution Name} refers my student account balance to a third party for collection, a collection fee will be assessed and will be due in full at the time of the referral to the third party. The collection fee will be calculated at the maximum amount permitted by applicable law, but not to exceed {XX percent} of the amount outstanding. For purposes of this provision, the third party may be a debt collection company or an attorney. If a lawsuit is filed to recover an outstanding balance, I shall also be responsible for any costs associated with the lawsuit such as court costs or other applicable costs. Finally, I understand that my delinquent account may be reported to one or more of the national credit bureaus.

Note: This provision is critical if a school intends to pass any collection agency fees on to a defaulting student. The provision will not allow fees in states that prohibit the assessment of collection fees. As an example, [see the North Carolina Department of Insurance memo](#). The bracketed items may be adjusted to fit the specific laws which apply to the jurisdiction in which the provision shall be enforced.

COMMUNICATION

Method of communication. I understand and agree that {Institution Name} uses e-mail as an official method of communication with me, and that therefore I am responsible for reading the e-mails I receive from {Institution Name} on a timely basis.

Contact. I authorize {Institution Name} and its agents and contractors to contact me at my current and any future cellular phone number(s), e-mail address(es), or wireless device(s) regarding my delinquent student account(s)/loan(s), any other debt I owe to {Institution Name}, or to receive general information from {Institution Name}. I authorize {Institution Name} and its agents and contractors to use automated telephone dialing equipment, artificial or prerecorded voice or text messages, and personal calls and e-mails, in their efforts to contact me. Furthermore, I understand that I may withdraw my consent to call my cellular telephone using automated telephone dialing equipment by submitting my request in writing to {Institutional office or position} or in writing to the applicable contractor or agent contacting me on behalf of {Institution Name}.

Updating contact information. I understand and agree that I am responsible for keeping {Institution Name} records up-to-date with my current physical addresses, e-mail addresses, and phone numbers by following the procedure at {Institution website for updating student address/email address/phone number}. The linked procedure is incorporated herein by reference. Upon leaving {Institution Name} for any reason, it is my responsibility to provide {Institution Name} with updated contact information for purposes of continued communication regarding any amounts that remain due and owing to {Institution Name}.

ENTIRE AGREEMENT

This agreement supersedes all prior understandings, representations, negotiations, and correspondence between me and {Institution Name}, constitutes the entire agreement between the parties with respect to the matters described, and shall not be modified or affected by any course of dealing or course of performance. This agreement may be modified by {Institution Name} if the modification is signed by me. Any modification is specifically limited to those policies and/or terms addressed in the modification.

Optional Subjects and Text

FINANCIAL AID

I understand that aid described as “estimated” on my Financial Aid Award does not represent actual or guaranteed payment, but is an estimate of the aid I may receive if I meet all requirements stipulated by that aid program.

I understand that my Financial Aid Award is contingent upon my continued enrollment and attendance in each class upon which my financial aid eligibility was calculated. If I drop any class before completion, I understand that my financial aid eligibility may decrease and some or all of the financial aid awarded to me may be revoked.

If some or all of my financial aid is revoked because I dropped or failed to attend class, I agree to repay all revoked aid that was disbursed to my account and resulted in a credit balance that was refunded to me.

I agree to allow financial aid I receive to pay any and all charges assessed to my account at {Institution Name} such as tuition, fees, campus housing and meal plans, student health insurance, parking permits, service fees, fines, bookstore charges, or any other amount, in accordance with the terms of the aid.

Federal aid. I understand that any federal Title IV financial aid that I receive, except for Federal Work Study wages, will first be applied to any outstanding balance on my account for tuition, fees, and room and board. Title IV financial aid includes aid from the Pell Grant, Supplemental Educational Opportunity Grant (SEOG), Direct Loan, PLUS Loan, Perkins Loan, and TEACH Grant programs. I authorize {Institution Name} to apply my Title IV financial aid to other charges assessed to my student account such as student health insurance, parking permits, bookstore charges, service fees and fines, and any other education-related charges. I further understand that this authorization will remain in effect until I rescind it or the end of {Institution’s authorization term} and that I may withdraw it at any time by following the instructions at {Institution’s authorization website}.

Note: This authorization cannot be mandatory or coerced. The institution may also want an authorization from the student to use Title IV funds to pay other educationally related charges from the prior year.

Prizes, awards, scholarships, grants. I understand that all prizes, awards, scholarships, and grants awarded to me by {Institution Name} will be credited to my student account and applied toward any outstanding balance. I further understand that my receipt of a prize, award, scholarship, or grant is considered a financial resource according to federal Title IV financial aid regulations, and may therefore reduce my eligibility for other federal and/or state financial aid (i.e., loans, grants, Federal Work Study) which, if already disbursed to my student account, must be reversed and returned to the aid source.

METHOD OF BILLING

I understand that {Institution Name} uses electronic billing (e-bill) as its official billing method, and therefore I am responsible for viewing and paying my student account e-bill by the scheduled due date. I further understand that failure to review my e-bill does not constitute a valid reason for not paying my bill on time. E-bill information is available at {link to E-bill information}.

BILLING ERRORS

I understand that administrative, clerical or technical billing errors do not absolve me of my financial responsibility to pay the correct amount of tuition, fees and other associated financial obligations assessed as a result of my registration at {Institution Name}.

RETURNED PAYMENTS/FAILED PAYMENT AGREEMENTS

If a payment made to my student account is returned by the bank for any reason, I agree to repay the original amount of the payment plus a returned payment fee of \${Institution fee amount}. I understand that multiple returned payments and/or failure to comply with the terms of any payment plan or agreement I sign with {Institution Name} may result in cancellation of my classes and/or suspension of my eligibility to register for future classes at {Institution Name}. *Note: Make sure any amount assessed for NSF payments comports with applicable law.*

WITHDRAWAL

If I decide to completely withdraw from {Institution Name}, I will follow the instructions at {Institution's withdrawal policy website} which I understand and agree are incorporated herein by reference.

PRIVACY RIGHTS & RESPONSIBILITIES

I understand that {Institution Name} is bound by the [Family Educational Rights and Privacy Act \(FERPA\)](#) which prohibits {Institution Name} from releasing any information from my education record without my written permission. Therefore, I understand that if I want {Institution name} to share information from my education record with someone else, I must provide written permission by following the procedure outlined at {link to institution's FERPA release website}. I further understand that I may revoke my permission at any time as instructed in the same procedure.

IRS FORM 1098-T

I agree to provide my Social Security number (SSN) or taxpayer identification number (TIN) to {Institution Name} upon request as required by Internal Revenue Service (IRS) regulations for Form 1098-T reporting purposes. If I fail to provide my SSN or TIN to {Institution Name}, I agree to pay any and all IRS fines assessed as a result of my missing SSN/TIN.

I consent to receive my annual IRS Form 1098-T, Tuition Statement, electronically from {Institution Name}. I understand that if I do not consent to receive my Form 1098-T electronically, a paper copy will be provided. I understand that I can withdraw this consent or request a paper copy by following the instructions at {Institution's IRS Form 1098-T reporting website}.

STUDENT AGE

I understand and agree that if I am younger than the applicable age of majority when I execute this agreement that the educational services provided by {Institution Name} are a necessity, and I am contractually obligated pursuant to the "doctrine of necessities."

Other Considerations

Institutions may also want to consider including paragraphs addressing the following.

- **Governing Law.** The reference to state law should not be a default provision. This provision should be considered carefully depending on whether the institution is located in a consumer friendly or creditor friendly state.
- **Arbitration or Mediation.** A clause may be added requiring the use of arbitration or mediation rather than civil litigation in the case of disputes. Alternative dispute resolution can be extremely helpful in avoiding class action liability and limiting the public nature of civil litigation. Specific provisions regarding this issue should be developed by the institution's counsel.
- **Additional Title IV Authorizations.** Students may also authorize a school to hold Title IV funds in their student account rather than pay out a credit balance, to apply Federal Work-Study wages to outstanding charges on the student account, or to pay other educationally related charges from prior years. Some institutions may want to include these authorizations as part of this agreement.