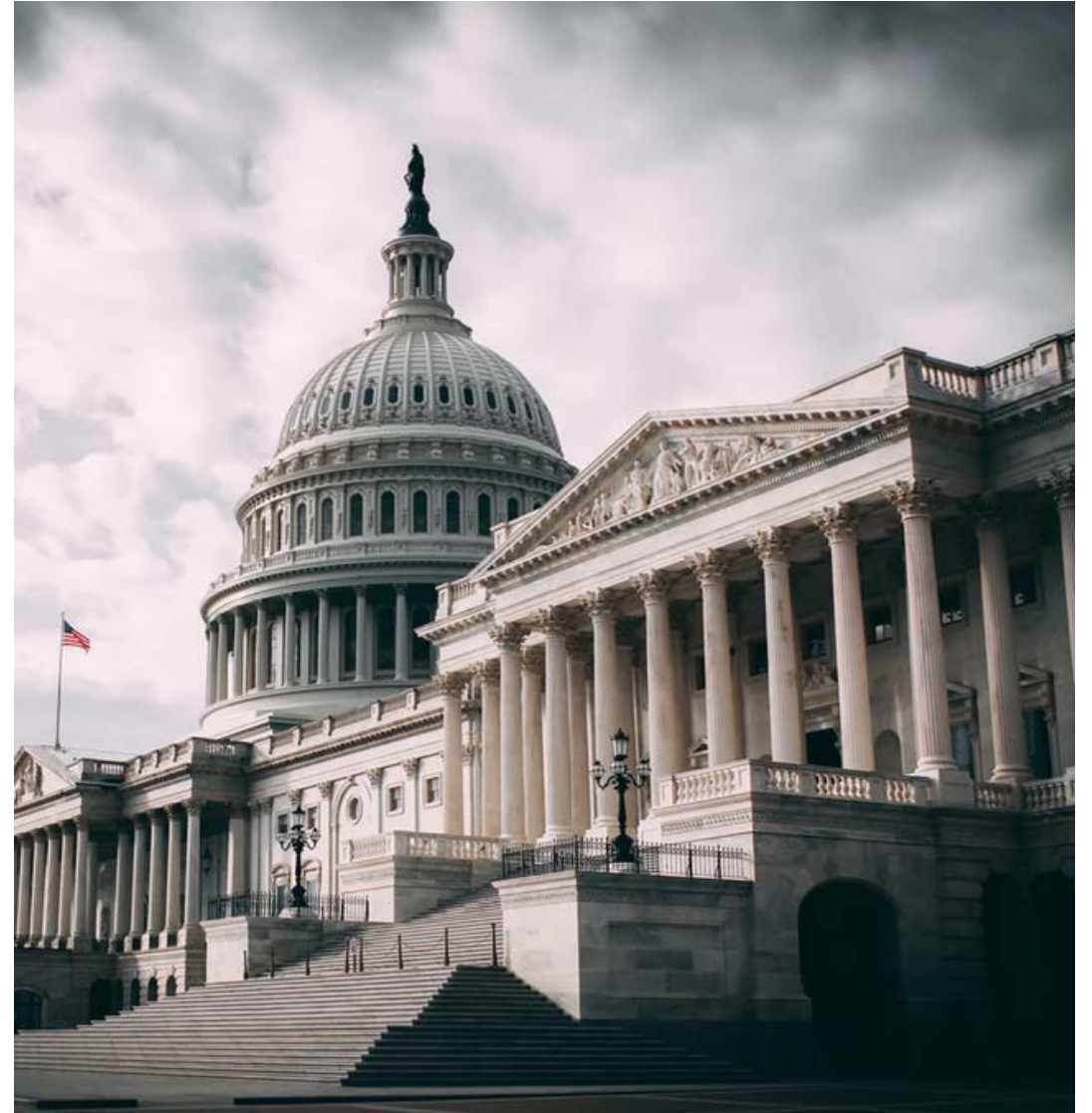


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# Borrower Defense to Repayment July 1, 2020 Financial Responsibility Rule Highlights

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Telephone Town Hall  
*Monday November 30, 2020*



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*Please keep your microphone muted unless you are speaking.*

## **NACUBO Staff**

**Sue Menditto**, Senior Director, Accounting Policy

**Megan Schneider**, Senior Director, Government Affairs

## **Department Of Education Staff**

**John Kolotos**, Financial responsibility policy expert

**Rhonda Puffer**, Financial responsibility accounting expert

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# Today's Agenda:

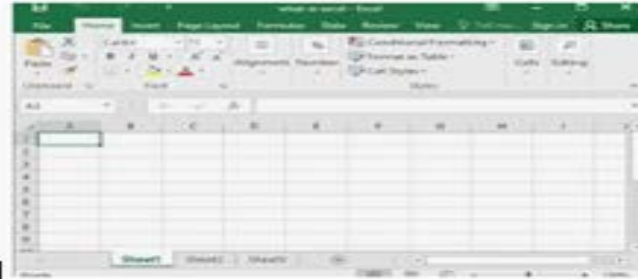
- “Borrower Defense” regulation and financial responsibility
- Noteworthy financial responsibility changes effective 7/1/20
- Supplemental Schedule
- eZ-Audit system
- Department of ED Q&A
- Outstanding issues

# Borrower Defense to Repayment

- Mandatory triggers: liabilities from
  - legal settlement
  - final judgement from a court
  - administrative action or proceedings from federal or state entity
- Two discretionary triggers = mandatory trigger
- 10-day reporting requirement
- Financial responsibility score is recalculated by ED

# Financial Responsibility Rules: Private Institutions

## Step-by-Step Guide to Using eZ-Audit Financial Responsibility Accounting Tutorials



- Uniform Guidance audit package (NACUBO's recommendation)
- Supplemental Schedule
  - Data must tie to values on face of statements or notes
  - Format of FRSS up to the institution
  - FRSS disclosures (optional may be helpful)
- Auditors must opine
- Terminology and definition changes:
  - Debt obtained for long-term purposes
  - Leases (likely next year for most)
  - How gains and losses are used in ratios
- eZ-Audit: new templates

# Financial Responsibility

## Supplemental Schedule

- Included with audited financial statements
- Illustration in Appendix B of the regulation
- All values must be cross-referenced
  - Face of financial statements or
  - Notes to the financial statements
- Appendix B is illustrative
  - Institutions can use a format that makes sense
  - Consider following the format of the eZ-Audit templates

## NACUBO Advisory 19-04

- Uniform Guidance audited financial statements
- Add a “financial responsibility” note

# Financial Responsibility

## Terminology and definition changes

- FASB ASU 2016-14
- Revenue and gains
- Expenses and losses
- Debt obtained for long-term purposes (DOLP)

## Pre-and post-implementation rules

- DOLP
- Leases
- PP&E

# Terminology and Definition changes (NACUBO Advisory 19-04)

Ratio	New Terminology	Former Definition <i>Highlighted terms are going away</i>	New Definition <i>Red font are new terms</i>
<b>Equity Ratio</b>			
<b>Numerator:</b> Modified net assets	<b>Numerator:</b> Modified net assets	(unrestricted net assets) + (temporarily restricted net assets) + (permanently restricted net assets) - (Intangible assets) - (unsecured related party receivables)	(net assets without donor restrictions) + (net assets with donor restrictions) - (Intangible assets) - (unsecured related party receivables)
<b>Denominator:</b> Modified assets	<b>Denominator:</b> Modified assets	(total assets)-(Intangible assets)-(unsecured related party receivables)	(total assets)-(Intangible assets)-(unsecured related party receivables)
<b>Net Income Ratio</b>			
<b>Numerator:</b> Change in unrestricted net assets	<b>Numerator:</b> Change in net assets without donor restrictions	Change in Unrestricted Net Assets is taken directly from the audited financial statements	Change in net assets without donor restrictions is taken directly from the audited financial statements
<b>Denominator:</b> Total unrestricted revenue	<b>Denominator:</b> Total revenue without donor restrictions and gains without donor restrictions	Total Unrestricted Revenue is taken directly from the audited financial statements (and includes net assets released from restriction during the fiscal year)	Total revenue (which includes net assets released from restriction) plus total gains. With regard to gains: investment returns are reported as a net amount (interest, dividends, unrealized and realized gains, and losses net of external and direct internal investment expenses (e.g. spending from funds functioning as endowment), and remaining net investment return as a non-operating item without restriction); will need to aggregate these two amounts to determine if there is a net investment gain or a net investment loss (net investment gains are included with total gains)

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# Pre-and Post-implementation Rules

**Pre-implementation DOLP** – is based on the regulatory definition in effect prior to the July 1, 2020 effective date of the new regulation

- Pre-implementation DOLP = debt up to the amount of net PP&E under the prior regulation (before 7/1/2020 or FY19 for most), reduced by activity that occurred after the date of the audited financial statements that were used to calculate the financial responsibility composite score under the previous regulation
- *Institutions can choose to further disaggregate PP&E on the FRSS to display capital leases and related obligations or ROU assets and related obligations.*

**Post-implementation DOLP** – debt entered into for the audited financial statements that apply to the July 1, 2020 effective date (FY20 for most) and used for the acquisition or development of assets capitalized as well as capital leases or ROU assets.

- Per the Regulation and reinforced in an ED [Question and Answer document](#), debt collateralized by PP&E does not qualify.
- Institutions that do not elect the grandfathering transition option, after implementing ASU 2016-02, will include leased / ROU liabilities entered during the first effective year of the new financial responsibility regulations (FY20 for most) with post-implementation DOLP.
  - *Alternatively, institutions can separately display lease liabilities as part of post-implementation leases*

## Refinancings of pre-and post-implementation DOLP

- Allowable as long as the refinanced amount does not exceed the amount of the debt
- ED [Question and Answer document](#) Introduces the notion of **proceeds**. Proceeds in a refinance cannot exceed allowable DOLP

# Pre-and Post-implementation Rules

## Leases

- FASB ASU 2016-02 implementation
- Grandfathering provision
  - An election
  - 12/15/18
- “Pre” = operating leases entered into before 12/15/18
- “Post” = ROU assets after 12/15/18
- Pre-and Post rules apply to assets and liabilities

## PP&E

- Pre-and post assets track DOLP rules
- CIP is an allowable post-implementation asset

# Financial Responsibility

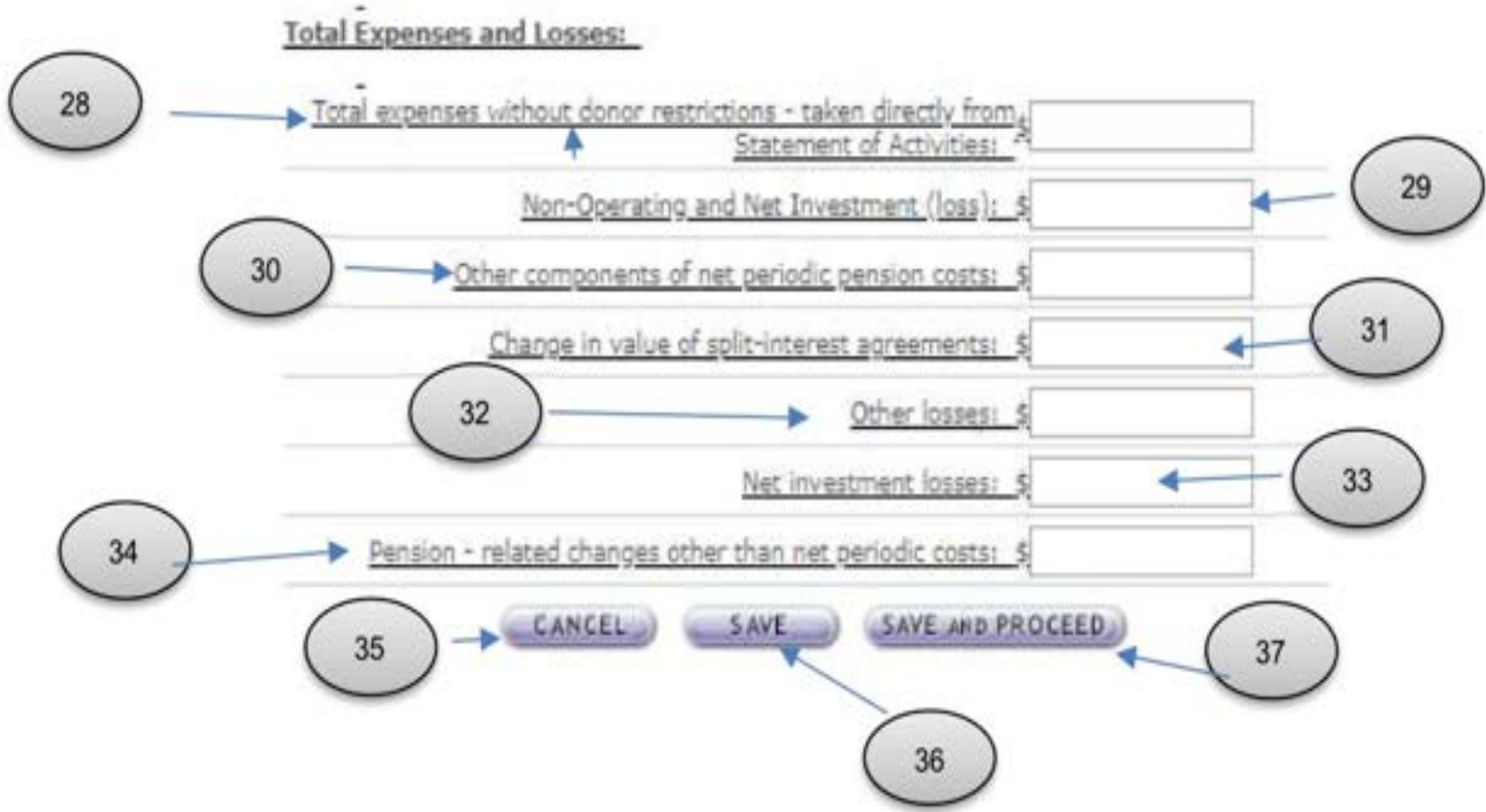
## Gains and losses

Statement of Activities – Without Donor Restrictions – Selected Nonoperating Items	If a Debit Balance	If a Credit Balance
* Investment return (aggregate operating and non-operating components to determine if it is a net gain or net loss)		Include in Revenue
* Nonservice component of net periodic pension/post-employment (non-operating)	Include in Expense	Include in Revenue
* Pension-related changes other than net periodic pension and post-employment benefit costs (typically non-operating)		Include in Revenue
* Change in value of annuity agreements (typically in non-operating)	Include in Expense	Include in Revenue
Change in value of interest rate swap agreements (non-operating)	Include in Expense	Include in Revenue

# eZ-Audit

## Total Expenses and Losses

### Step-by-Step Guide to Using eZ-Audit for Not-for-Profit Schools



# eZ-Audit

## Total Revenues and Gains

### Net Income Ratio:

Change in Net Assets Without Donor Restrictions:

Change in Net Assets Without Donor Restrictions: \$

Total Revenues and Gains:

Total Operating Revenue and Other Additions (Gains)

Investment return appropriated for spending: \$

Non-Operating Revenue and Other Gains: \$

CANCEL

SAVE

SAVE AS



# eZ-Audit Gains and Losses

GREEN -- Input descriptions and values				eZ-Audit Templates	
BLUE -- formulas		Primary Reserve Ratio	Net Income Ratio	Primary Reserve Ratio Total Expenses and Losses	
Source: Statement of Activities					
Total operating revenue	32,000,000	32,000,000		28	Total expenses without donor restrictions 31,450,000
Total expenses	31,450,000		31,450,000	29	Non-operating and net investment loss <b>3,670,000</b>
				30	Other components of net periodic pension costs 500,000
				31	Change in value of split interest agreements 82,000
				32	Other losses 138,000
				33	Net investment losses 250,000
				34	Pension related changes other than net periodic costs 2,700,000
		Non-Operating and Net Investment losses	Non-operating Revenue and Other Gains		Total Revenues and Gains
<b>Investments:</b>				42	Total operating revenue and other additions (gains) 32,000,000
FFE: Amount appropriated for spending	3,250,000			43	Investment return appropriated for spending 3,250,000
FFE: Net investment return	(3,500,000)			44	Non-operating revenue and other gains 6,000,000
Net investment gain or (loss)	(250,000)	(250,000)	-		
<b>Defined benefit plan activity:</b>					
Net periodic benefit cost other than service cost	(500,000)	(500,000)	-		
Changes other than net periodic benefit costs	(2,700,000)	(2,700,000)	-		
<b>Non-operating gains (describe on the lines below):</b>					
Gain 1	1,000,000	-	1,000,000		
Gain 2	2,000,000	-	2,000,000		
Gain 3	3,000,000	-	3,000,000		
		-	-		
		-	-		
<b>Non-operating losses (describe on the lines below):</b>					
Changes in value of split interest agreements	(82,000)	(82,000)	-		
Loss 1	(71,000)	(71,000)	-		
Loss 2	(67,000)	(67,000)	-		
		-	-		
		-	-		
<b>TOTALS</b>		(3,670,000)	6,000,000		

# eZ-Audit Gains and Losses

GREEN -- Input descriptions and values				eZ-Audit Templates		
BLUE -- formulas		Primary Reserve Ratio	Net Income Ratio	Primary Reserve Ratio Total Expenses and Losses		
<u>Source: Statement of Activities</u>						
Total operating revenue	32,000,000	32,000,000		28	Total expenses without donor restrictions	31,450,000
Total expenses	31,450,000		31,450,000	29	Non-operating and net investment loss	720,000
				30	Other components of net periodic pension costs	500,000
				31	Change in value of split interest agreements	82,000
				32	Other losses	138,000
				33	Net investment losses	0
				34	Pension related changes other than net periodic costs	0
		Non-Operating and Net Investment losses	Non-operating Revenue and Other Gains		Total Revenues and Gains	
<b>Investments:</b>						
FFE: Amount appropriated for spending	3,250,000			42	Total operating revenue and other additions (gains)	32,000,000
FFE: Net investment return	3,500,000			43	Investment return appropriated for spending	3,250,000
Net investment gain or (loss)	6,750,000	-	6,750,000	44	Non-operating revenue and other gains	15,450,000
<b>Defined benefit plan activity:</b>						
Net periodic benefit cost other than service cost	(500,000)	(500,000)	-			
Changes other than net periodic benefit costs	2,700,000	-	2,700,000			
<b>Non-operating gains (describe on the lines below):</b>						
Gain 1	1,000,000	-	1,000,000			
Gain 2	2,000,000	-	2,000,000			
Gain 3	3,000,000	-	3,000,000			
		-	-			
		-	-			
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Loss 1	(71,000)	(71,000)	-			
Loss 2	(67,000)	(67,000)	-			
		-	-			
		-	-			
		-	-			
		-	-			
<b>TOTALS</b>		(720,000)	15,450,000			

# Department of Education

## Financial Responsibility Resources

### [Q&A Document](#)

(<https://ifap.ed.gov/electronic-announcements/040920FinancialResponsibilityQuestionsAnswers>)

- Effective dates
- eZ-Audit
- Leases
- Long-term debt

### [Welcome to eZ-Audit](#)

Welcome to the eZ-Audit website. If you are registered to use this site, please enter your username and password to login. If you are not a registered user please refer to the [registration instructions](#) . If you have forgotten your password, please click the forgot password link. If you have forgotten your username please contact your Institution Administrator or the eZ-Audit Help Desk for support at (877)263-0780.

**eZ-Audit**  
**Update: [Common Submission Errors](#)**

**[Frequently Asked Questions](#)**

**[eZ-Audit Step-by-Step Guides](#)**

**[Steps to Creating an eZ-Audit Submission](#)**

**[Creating a PDF](#)**



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# Financial Responsibility

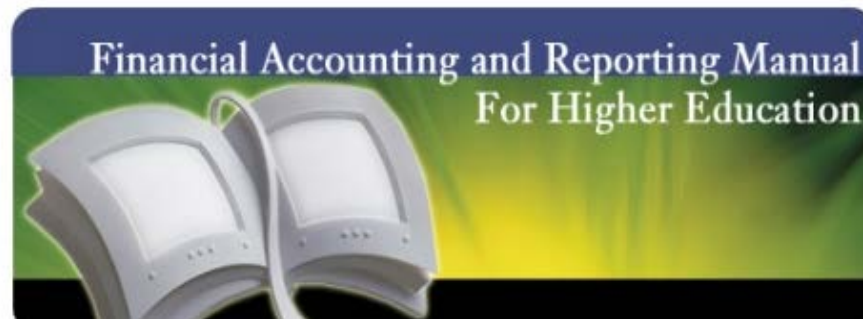
## Outstanding Issues

Refinancing pre-implementation debt

➤ Proceeds

[www.nacubo.org/Topics/COVID-19](http://www.nacubo.org/Topics/COVID-19)  
[www.nacubo.org/Topics/Accounting](http://www.nacubo.org/Topics/Accounting)  
[www.nacubo.org/News](http://www.nacubo.org/News)

- **Guidance**
- **Tutorials**
- **Checklists**
- **Whitepapers**
- **Telephone Town Hall Archive**
- **Flash Poll Findings**
- **+ much more**



## Financial Responsibility Accounting Tutorials

Effective July 1, 2020, not-for-profit institutions must comply with new financial responsibility rules included in the September 23, 2019 borrower defense to repayment regulation. These financial responsibility accounting tutorials provide analysis and guidance for substantial new requirements.

### Crosswalk: financial statements, supplemental schedule, and eZ-Audit

Audited financial statements (the recommendation is single audit statements) released after July 1, 2020 must include a financial responsibility supplemental schedule (FRSS). Institutions must input FRSS information into the Department of Education's eZ-Audit system and file by their single audit due date. The accompanying excel spreadsheets provide an illustrative set of financial statements, an FRSS, and a crosswalk to the eZ-Audit reporting templates.

### Understanding Debt Obtained for Long-term Purposes (DOLP)

DOLP **cannot** exceed net property, plant, and equipment, and **can** include liabilities related to construction in progress and capital lease / right-of-use assets. This tutorial covers pre and post-implementation rules, where to categorize leased / ROU liabilities, how DOLP is used to calculate expendable net assets (the numerator of the primary reserve ratio), and addresses presentation and documentation requirements in the new Financial Responsibility Supplemental Schedule. This tutorial is designed for institutions that do not elect to grandfather their operating leases.

### Leases and the Transition Election

The financial responsibility rules allow a grandfathering transition election for all operating leases entered into before December 15, 2018. The election is related to the conversion of all leases to right-of-use assets when FASB ASU 2016-02, **Leases**, is implemented – which for some will negatively impact composite scores. This tutorial explains the transition election, how to assess if it's beneficial, how to report ROU assets on the Financial Responsibility Supplemental Schedule after the election is made, and what to disclose about leases entered into before and after December 15, 2018.

# Stay tuned across NACUBO.org



MACUBO COVID-19 Resources

 <b>Business Guidance</b> Find critical resources and updates that specifically address college and university business operations and responses to COVID-19. <a href="#">Learn more</a>	 <b>COVID-19 Department of Education Resources</b> View resources and news related to the Department of Education's recently released guidance for campuses. <a href="#">Learn more</a>	 <b>COVID-19 Employer and Tax Resources</b> Explore guidance on topics including tax credits and deferrals, SBA loan interest loans for small employers, CARES Act loans for nonprofits, and more. <a href="#">Learn more</a>	 <b>COVID-19 Checklists</b> Prepare for a number of scenarios on campus... <a href="#">Learn more</a>
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## 2021 Intermediate Accounting and Report

January 26-28 | Details Coming Soon

## 2021 Unrelated Business Income T

February 24-25 | Details Coming Soon

## 2021 Higher Education Accounting For

April 7-8, 12-13 | Details Coming Soon




- Final UBIT Basketing Rules Released
- Court Halts Sweeping DACA Changes
- NACUBO On Your Side: November 17-23, 2020
- Tuition Prices Increase at Lowest Rate in Decades, And Student Loan Borrowing Declines

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## The Solutions Exchange



Thank you for your NACUBO membership.

We are able to serve higher education business and financial officers through advocacy efforts and professional development activities, and can offer essential technical expertise, because of members like you.

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# Q&A

## Still Have Questions?

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**Megan Schneider**, Senior Director, Government Affairs

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