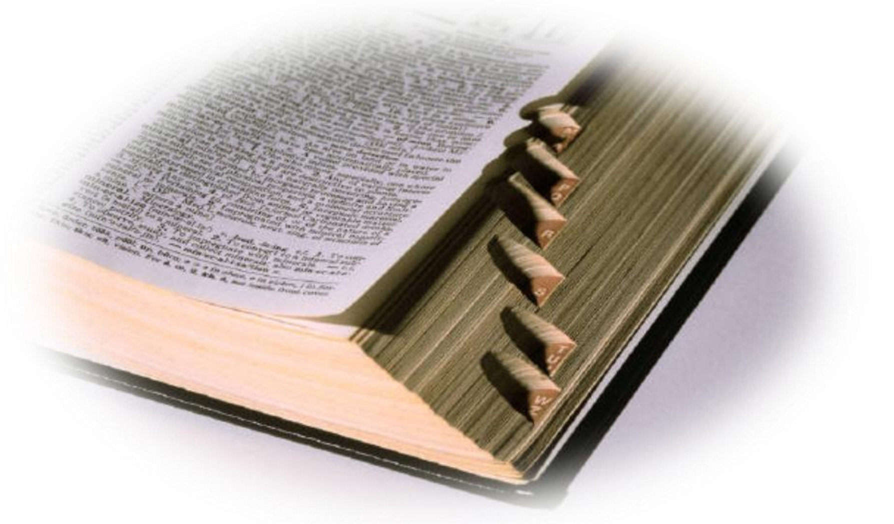
Business Officer Training

90/10 Regulation & Calculation

90/10 Vocabulary

- Appendix C to Subpart B of Part 668
- Cash basis of accounting
- Revenue
- Higher Education Opportunity Act (HEOA)



90/10 Overview

- Rule established by law
- Applies to for-profit schools receiving Title IV funds and to proprietary institutions that become non-profit
- Reported in annual audited financial statements using format from Appendix C to Subpart B of Part 668

Basic 90/10 Requirement

- A for-profit school may derive no more than 90% of its revenues from the Title IV federal student aid programs
- 10% of revenue must come from non-Title IV funding
  - Tuition, fees, other institutional charges, school activities necessary for students enrolled in those programs
- Must calculate using the cash basis of accounting

HEOA Changes

- Requirement now part of General Provisions, not Institutional Eligibility
- Count revenue from certain non-title IV eligible programs
- Count as revenue Net Present Value (NPV) of institutional loans made from July 1, 2008 to July 1, 2012
- Count as revenue the amount of a loan in excess of the loan limits before ECASLA on or after July 1, 2008 and before July 1, 2011

The 90/10 Formula

FSA program funds (except LEAP or FWS) used for tuition, fees and other institutional charges to students

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The sum of revenues generated by the school from: (1) tuition, fees and other institutional charges for student enrolled in eligible training programs, plus (2) school activities* necessary for the education or training of students enrolled in those eligible programs

*to the extent not included in tuition, fees and other institutional charges

Title IV Revenue Adjustments

- Exclude from revenue:
  - FWS funds paid directly to student, unless credited to student account
  - LEAP, SLEAP, and GAP funds received from a state
  - Campus-Based matching funds

Title IV Revenue Adjustments

- Exclude from revenue
  - Amount charged for books, supplies, and equipment, unless included in tuition, fees, or other charges
  - Returned Title IV funds
  - Administrative Cost Allowance
  - Title IV credit balances

Revenue from Programs and Activities

- Tuition, fees and other institutional charges for students enrolled in eligible programs
- Activities conducted by institution necessary for education and training if students, if -
  - Conducted on campus or faculty under school control
  - Performed under supervision of a member of the school's faculty
  - Required to be performed by all students in a specific program at the institution

Revenue From Non-Title IV-Eligible Programs

- Count revenue if program:
  - Approved by State agency
  - Accredited by recognized agency
  - Provides industry-recognized credential
  - Provides training needed to maintain State licensing requirements, or
  - Provides training for additional licensing requirements

Presumption Rule

- Schools must presume that any Title IV program funds it disburse to, or delivers to or on behalf of a student will be used to pay the student's tuition, fees, or institutional charges regardless of whether the school credits the funds to the student's account or pays the funds directly to the student

Application of Funds

- The following program funds reduce student tuition, fees and necessary activity charges before Title IV funds are applied:
  - Grant funds from non-Federal public agencies or private sources
  - Funds from contracts to provide training to low-income individuals
  - Funds from savings plans that qualify for special tax treatment (529 plans)
  - Institutional scholarships

Institutional Loans

- Count as revenue payments made during fiscal year:
  - For loans made before July 1, 2008
  - For loans made on or after July 1, 2012
  - For loans that don't qualify for Net Present Value (NPV)

NPV of Institutional Loans

- For loans made between July 1, 2008 and July 1, 2012 if the loans are:
  - Credited in-full to student's account
  - Bona fide with enforceable promissory notes
  - Issued at intervals related to enrollment periods
  - Subject to regular loan repayment and collection
  - Separate from enrollment contracts

NPV of Institutional Loans

- NPV = sum of discounted cash flows $R^t / (1+i)^t$, where:
  - "i" is the discount rate (rate of inflation)
  - "t" is period of cash flow in years (term of the loan)
  - "R" is net cash flow at period t, adjusted for loan collection rate

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NPV of Institutional Loans

Example: School makes $125,000 in 3-year loans at 8.5%

Year	Expected Cash Flow*	Actual Cash Flow **	Discounted Cash Flow
1	47,430	28,404	$28{,}404/(1+.03)^1 = 27{,}577$
2	47,430	28,404	$28{,}404/(1+.03)^2 = 26{,}773$
3	47,430	28,404	$28{,}404/(1+.03)^3 = 25{,}994$
			Total = 80,344

* Total annual payments due on the loans

** Reflects actual loan collection rate, in this case 60%

Alternative to NPV Method

- Instead of NPV calculation, utilize 50% of loans made during fiscal year
- Loans must be in repayment for at least 2 years before they can be sold

Institutional Scholarships

- The amount of institutional scholarships disbursed to student in the form of monetary aid or tuition discounts are included as revenue if:
  - Disbursed from restricted account
  - Funds in account provided by outside source and designated as scholarship funds
    - May use interest or earnings on these funds

Excess ECASLA Funds

- Count unsubsidized loan disbursements as non-Title IV revenue when:
  - Received by students on or after July 1, 2008 and before July 1, 2011
  - Disbursement exceeds loan limit before ECASLA
  - Calculate by payment period: If total excess is $2,000, $1,000 per payment period

Annual Disclosure

- Disclose percentage of revenues derived from Title IV in a footnote to annual audited financial statements
  - Dollar amount of the numerator and denominator
  - Individual revenue amounts identified in Section 2 of Appendix C to Subpart B of Part 668

Adjusted Student Title IV Revenue

1. Subsidized loans
2. Unsubsidized loans up to pre-ECASLA loan limits
3. Federal Pell Grants
4. FSEOG (subject to matching reduction)
5. FWS applied to tuition and fees (subject to matching reduction)
6. (Total) Student Title IV revenue
7. (Subtract) Revenue Adjustment
8. (Total) Adjusted Student Title IV Revenue

Adjusted Student Title IV Revenue

- The amount of FSEOG and FWS funds credited to student accounts are reduced by the amount of the institutional matching
- If Funds Applied First plus Title IV Revenue exceeds Tuition and Fees, Title IV Revenue is reduced by excess
- R2T4 refunds reduce Title IV Revenue

Adjusted Student Title IV Revenue

- Unsubsidized loans over the pre-ECASLA limit and student payments count as Student Non-Title IV revenue only for the amount needed to cover Tuition and Fees that are not paid by Funds Applied First and Student Title IV revenue

Student Non-Title IV Revenue

- Grant funds for the student from non-federal public agencies or independent private sources
- Funds for the student under contractual agreement with government agency for job training to low-income individuals
- Funds from savings plans that qualify for special tax treatment
- Institutional scholarships to the student
- Amount of unsubsidized loans over pre-ECASLA loan limits
- Student payments

Revenue From Other Sources

- Activities conducted by the school that are necessary for education and training
- Funds paid for education and training in qualified non-Title IV eligible programs
- NPV of institutional loans disbursed to students

Violation Report

- If a school fails to meet the 90/10 requirement, it must report the failure to the Department no later than 45 days after the end of its fiscal year
  - The address for reporting the violation is found in the 2010-11 *FSA Handbook*, page 2-55

Sanctions – First Fiscal Year

- If school fails 90/10 for any fiscal year:
  - It becomes provisionally certified for the two fiscal years following the fiscal year it failed
  - Provisional certification ends on date existing PPA scheduled to expire, or school loses eligibility for second consecutive 90/10 violation

Second Consecutive Fiscal Year Failure

- If school fails 90/10 for two consecutive fiscal years, it loses eligibility to participate for at least two fiscal years
  - To regain eligibility, school must meet state licensing, accreditation, and financial responsibility requirements for at least two fiscal years after the fiscal year it became ineligible

Improper Treatments

- Restricting access to DL funds
- Unequal charges
- Including Administrative Cost Allowance
- Including revenue from non-institutional charges

References and Resources

- 34 C.F.R. 668.14(b)(16)
- 34 C.F.R. 668.28
- Appendix C to Subpart B of Part 668 – 90/10 Revenue Calculation
- *FSA Handbook 2010-11*, Volume 2, Chapter 4
- *FSA Audit Guide*

QUESTIONS???

Thank you for joining us today!