PSC-ED-FSA-TISD

Moderator: Greg Martin
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12:30 pm CT

Coordinator: Thank you for standing by. At this time all participants are in a listen-only mode. Today's call is being recorded. If you have any objections, you may disconnect at this time. I'd now like to turn the call over to Mr. Greg Martin. You may begin.

Greg Martin: Thank you. Hello and welcome to today's webinar on 90/10. Thank you for joining us. My name is Greg Martin and I will be moderating today's session. Our presenter today is Byron Scott from the Chicago regional office.

This is the third in a series of five webinars that together comprise the Department's business officer training designed to provide information and guidance to business officers on administration of the Title IV programs.

Specifically this webinar will provide information on revenue generated from programs and activities, application of funds, revenue generated from institutional aid and funds excluded from revenue.

Note that the next webinar in this series, the campus-based programs will be offered at this time tomorrow. And that will conclude our repeated sessions which we started last week and are doing again this week.

Finally we will conclude with a question-and-answer webinar on November 10, 2011, at 1:30 pm which will provide an opportunity to ask questions directly of our policy liaison staff and we do expect Jeff Baker to be on that call so you will want to make time for that.

Please consult our Dear Colleague Letter ANN-11-24 available on IFAP for details and registration information on all of these webinars. Today's call will be conducted in listen-only mode. If you have questions during the webinar, click on the QA button on the top menu bar at the top of your screen.

A new window will open. Click on the top blank field to type your question and then click as. Please remember to indicate the slide number with your question if you are referencing a particular slide.

We have question managers on the call who will make every effort to respond as quickly as possible. Do not use the raised hand icon on your screen as it is not functional in listen-only mode and we will be unable to respond to you.

Please also make sure that any ~~W~~webcams you have are turned off. Following the presentation and if we have time, there will be a brief question-and-answer period during which selected questions received during the presentation will be asked of our presenters.

Should you wish to download a copy of the slides, click on the handouts icon near the top right corner. It looks like three pieces of white paper and by going onto this you can download a copy of the handouts. This and all of our business officer training webinars will be recorded and made available on our IFAP Website.

This will probably be accomplished sometime at the end of November and we will put out a Dear Colleague letter in the form of an announcement letter that will indicate that the slides, the recordings and the transcripts are available and there will be a link in that letter to which you would go to download that material.

With that I'm going to turn the call over to Byron Scott who will begin today's presentation. Byron?

Byron Scott: Thanks very much, Greg. As mentioned, my name is Byron Scott and I am a Training Officer in Chicago. I am pleased to be presenting today. Prior to becoming a Training Officer, I was a Financial Analyst and Program Reviewer for the Chicago School Participation Team so I've been working with 90/10 issues for quite a long time.

Today's training session will focus on what is commonly referred to as the 90/10 Rule. As a reminder, this session is designed only for proprietary schools and for people who have an interest in them.

The subject matter of this session is not applicable to non-profit or public institutions so if you are not from or representing a proprietary institution, you may wish to disconnect from this session now.

This will be a relatively technical presentation. The information we discuss today should be applicable to most schools. Unfortunately, we may not be able to answer every detailed question from individual institutions; however, we hope that you will find the majority of the information today to be useful and applicable at your institution.

If you click up on the download icon which looks like three sheets of paper up on the top right of your screen, you will be able to download a document called 90/10 Calculation Appendix C.pdf. This is an Adobe Acrobat version of Appendix C to Subpart B of 34 CFR Part 668.

This appendix has the steps for the 90/10 calculation and we will walk through this later in the session. Simply click on the icon to download the attachment which you can then print or save to your computer. Let’s get started.

Let’s talk briefly about some of the phrases we’ll be using during today’s session to ensure that we all understand the terms we’ll be using today. Appendix C as in Charlie to Subpart B as in Boy of 34 CFR Part 668.

This appendix to the regulation contains detailed information about the 90/10 Rule including how to calculate and present the results. We will refer to this as Appendix C today.

Section 1 of this appendix shows a sample student account record which is used to track the funds applied first in the calculation as well as the application of Title IV funds. Section 2 shows the detailed information that must be included in the footnote to the school’s annual audited financial statement.

Section 3 explains how the 90/10 calculation is performed including various adjustments to dollar amounts in the calculation and Section 4 has an example of how to calculate the net present value of institutional loans. We’ll discuss these items in more detail during today’s session. Appendix C can be found in the regulations at the end of Subpart B of Part 668 after Section 668.28.

Schools use the cash basis of accounting for performing the 90/10 calculation. Under the cash basis of accounting, revenue is recognized when received rather than when it is earned.

For the purpose of calculating the qualifying percentages under the 90/10 Rule, revenue is an inflow or other enhancement of assets to an entity or reduction of its liabilities resulting from the delivery or production of goods or services.

A school may recognize revenue only when the school receives cash, i.e., when there is an inflow of cash. As a result, in order for a school to recognize revenue under the cash basis of accounting, that revenue must represent cash received from a source outside the institution.

The Higher Education Opportunity Act which we'll refer to today as the HEOA was signed into law in August of 2008. This law made changes to several aspects of the 90/10 rule which we will discuss shortly.

The 90/10 requirement was established in law many years ago. Several aspects of the rule were changed by the HEOA and we'll discuss these changes shortly.

The rule applies to all proprietary schools participating in the Title IV program. For-profit institutions that convert to non-profit status also must comply with the 90/10 Rule for one complete fiscal year after the change in status in order to confirm that the status change was not intended to evade compliance with the 90/10 Rule.

Schools that undergo this kind of change in status will report the 90/10 percentage for the fiscal year in which the conversion occurred as well as for the first full fiscal year following the change.

Each school's 90/10 calculation is reported in a footnote to its annual or audited financial statement that it submits to the Department. As a reminder, those financial statements must be prepared by an independent auditor and must be submitted to the Department's ~~easy~~EZ-audit system within six months after the end of the institution's fiscal year.

The format for reporting the calculation is specified in federal regulation in Appendix C. We will discuss the reporting format in more detail later in this session. You should also remember that there are special reporting requirements for schools that violate the 90/10 Rule in a fiscal year and we will also discuss those requirements later.

The basic requirement of the 90/10 Rule is that proprietary institutions may derive no more than 90% of their revenues from Title IV program funds. At least 10% of revenues must be derived from sources other than Title IV revenues including tuition, fees and other institutional charges as well as school activities necessary for students enrolled in those programs.

A school must use the cash basis of accounting in calculating its revenue percentage under the 90/10 Rule except for institutional loans made to students that meet the criteria defined in Federal Regulation 34 CFR 668.28(a) as in Apple. We'll discuss institutional loans in more detail shortly.

Schools use the cash basis of accounting for performing the 90/10 calculation even though the audited financial statements themselves are prepared under the accrual method of accounting.

According to Dear CPA Letter CPA-99-01 which is included as Appendix E to the current audit guide, CPAs must determine whether the 90/10 calculation is fairly stated in all material respects and have adequate evidence in the working papers to support the conclusion.

The working papers must support the determination that the 90/10 calculation was made using the cash basis of accounting that only allowable revenues are included and that the presumption of Title IV funds being applied to tuition and fees first is used. As we mentioned earlier, the HEOA made changes to several aspects of the 90/10 Rule when it was passed in 2008.

One of the most important changes was that the rule was moved from the institutional eligibility section to the general provisions section of the Higher Education Act. As a result of this change, schools that violate the 90/10 revenue requirement for one fiscal year no longer use eligibility to participate in the Title IV programs.

Instead the school's participation status becomes provisional for two years and if the school violates the 90/10 Rule for two consecutive fiscal years, it loses its eligibility to participate in the Title IV program for at least two fiscal years.

Another significant change from the HEOA was the ability to include revenues from certain programs that are ineligible for Title IV funding. Previously revenues could be included in the calculation only if they were from programs that were eligible for Title IV funding.

There were also changes in the treatment of institutional loans in the calculation and the HEOA also temporarily changed the treatment of increased FFEL and ~~d~~Direct ~~l~~Loan limits resulting from the Ensuring Continued Access to Student Loans Act of 2008, also known as ECASLA.

As you may recall, ECASLA increased the amount of unsubsidized ~~d~~Direct and FFEL funds that independent undergraduates could borrow by $2,000 and also permitted dependent undergraduates to borrow an additional $2,000 in unsubsidized loans.

The HEOA permitted this additional $2,000 in unsubsidized loans to be included as non-Title IV revenue in the 90/10 calculation for loans made after July 1st of 2008 and before July 1st of 2011. ~~I~~if the funds were used to pay institutional charges after other Title IV funds were applied. We'll discuss these changes in more detail shortly.

This slide shows the 90/10 formula. The numerator, or top part of the equation, includes all FSA program funds with limited exceptions that we'll discuss in a moment that are used to pay tuition, fees and other institutional charges to students.

The denominator, or bottom part of the equation, includes tuition, fees and other institutional charges for students enrolled in training programs that are eligible for inclusion in the calculation plus school activities necessary for the education or training of students enrolled in those eligible programs. We're going to discuss both of these components in more detail.

Let's start with the numerator, or top part of the equation. Some revenues that you might think would be included are excluded from the revenues attributable to Title IV program funds.

For example, F~~f~~ederal W~~w~~ork ~~s~~Study wages paid directly to students are excluded. FWS wages would be included as Title IV revenue only if the wages were credited to the student's account and not paid directly to the student.

LEAP, ~~F~~SLEAP and GAP funds received from a state are excluded, as are ~~c~~Campus-based matching funds, in other words ~~f~~Federal W~~w~~ork ~~s~~Study and FSEOG matching funds. Campus-based matching funds are completely excluded from the calculation - both the numerator and denominator - because they do not represent an inflow of cash revenue to the school.

Schools must ensure that their accounting records accurately record ~~c~~Campus-based matching funds so that the 90/10 calculation will be correct. Remember when making adjustments to Title IV revenues, the funds are also excluded from total revenues - the denominator - because the funds were not used to pay for tuition, fees or other institutional charges.

The amounts charged for books, supplies and equipment are excluded from the 90/10 calculation unless those charges are considered to be institutional charges. Whether or not these charges are institutional charges is connected to how they are treated in ~~r~~Return to Title IV or R2T4 calculation.

Further information about institutional charges may be found in Volume 5 of the FSA Handbook. Title IV funds returned to the Department as a result of an R2T4 calculation are excluded from Title IV revenues.

The a~~A~~dministrative cost allowance, or ~~the~~ ACA~~ffordable Care Ac~~t for Pell and the ~~c~~Campus-based programs is also excluded from the equation because the funds are not used to pay student institutional charges.

Title IV credit balances are excluded from the calculation unless funds from the credit balance are used to pay allowable institutional charges at a subsequent point in the fiscal year. The amount of Title IV funds included in the numerator and the revenue in the denominator cannot exceed the amount of the student's institutional charges.

For example, if the student's total institutional charges were $4,000 and total Title IV funds applied to the account were $5,000, the calculation would include $4,000 in both the numerator and denominator of the equation. The amount of Title IV funds applied to the student's account that exceed total institutional charges would not be included in the calculation.

This slide describes the denominator of the equation. The denominator includes tuition, fees and other institutional charges for students enrolled in programs that are eligible for Title IV funding.

A school activities necessary for the education or training of students enrolled in eligible programs may be included to the extent that they are not included in tuition, fees and other institutional charges if certain criteria are met.

Funds from these activities may only be included if the activities are conducted on campus or at a facility under the institution's control and performed under the supervision of a member of the institution's faculty and are required to be performed by all students in a specific educational program at the institution.

For example, at a ~~c~~Cosmetology school students are required to work in the school's salon or clinic. Because that activity is required for all students enrolled in the eligible program, the revenue from clinic activities may be included.

If student work in the clinic was optional, or if the clinic was not under the control of the school, or the work was not supervised by the faculty, the revenue could not be included. The revenue from the products sold at the clinic may not be included as Title IV revenue.

One of the changes resulting in the HEOA permitted the inclusion of revenues from programs that are not eligible for Title IV funding if the programs meet certain criteria.

Funds paid by a student or on behalf of the student by a party other than the institution for an education or training program that is not eligible for Title IV funds may be included in the denominator of the equation if the program meets one of the criteria shown on the slide.

The program must be approved by a state agency or accredited by an accrediting agency recognized by the Department, or it must provide an industry-recognized credential, or it must provide training needed to maintain state licensing requirements, or provide training for additional licensing requirements.

As long as the program that is not eligible for Title IV funding meets one of these criteria, tuition and fee revenue can be included as non-Title IV revenue in the calculation.

For example, if a C~~c~~osmetology school had a ~~n~~Nail T~~t~~echnology program that was not eligible for Title IV funding, assuming the ~~n~~Nail ~~t~~Technology program met the state licensure or accreditation or credential requirements, the school could include the tuition revenue from the ~~n~~Nail T~~t~~echnology program as non-Title IV revenue in the 90/10 calculation.

~~The statute - it~~ The school could not, ~~-~~ however, include clinic revenue from the ineligible program in the 90/10 calculation. The law permits only the inclusion of tuition revenue from programs that are not eligible for Title IV funding.

If including tuition revenue from a program that is not eligible for Title IV funding based on the fact that the program provides an industry-recognized credential, the school is responsible for determining that the credential is industry-recognized.

Let's go back to some of the basic principles in the 90/10 calculation.

Schools must presume that any Title IV funds it disburses to or delivers to or on behalf of the student will be used to pay the student's tuition, fees or other institutional charges regardless of whether the school credits the funds to the student's account or pays the funds directly to the student, except to the extent that the student's tuition, fees or other charges are satisfied by the exceptions we'll discuss on the next slide.

This is sometimes referred to as the presumption rule and it means that Title IV funds that schools disburse to student accounts or deliver directly to students are considered to be the first funds applied to student charges with the limited exceptions that we'll discuss now.

As I just stated, schools must presume that Title IV funds disbursed to a student are used to pay institutional charges except to the extent that the student's tuition, fees or other charges are satisfied by grant funds provided by non-federal public agencies or private sources independent of the institution or are from funds provided under a contractual arrangement with a federal, state or local government agency for the purpose of providing job training to low-income individuals who need that training; or funds used by a student from a savings plan for educational expenses established by or on behalf of the student if the savings plan qualifies for special tax treatment under the Internal Revenue Code of 1986, for example, 529 plans or institutional scholarships if the scholarships meet certain conditions which we will discuss shortly.

The amount of these kinds of funds reduce the amount of Title IV revenues in the numerator of the calculation. For example, if a student's tuition charges were $10,000 and the student received $5,000 in non-federal grant funds plus $10,000 in Title IV funds, the $5,000 from the non-federal grant reduces the amount of Title IV funds in the numerator of the equation.

Due to the non-federal grant, only $5,000 of the Title IV revenue instead of the normally-expected $10,000 would count in the numerator. The full $10,000 of the student's institutional charges would be included in the denominator of the equation.

Schools must include institutional loans to students as revenue, i.e., in the denominator of the equation if the loans meet certain requirements. The date that the loans were made impacts how the revenue is counted.

For loans made in ~~current fiscal years~~ on or after July 1^{st} 2008 and before July 1^{st} 2012, you can look at the net present value or NPV of the loan, however, first we'll talk about loans that were made before July 1 of 2008 and loans that will be made on or after July 1st of 2012.

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For loans that fall into either of these two time periods, schools may include as revenue only the amounts of payments made on those loans that the school received in the fiscal year for which the calculation is being performed. We’ll talk in more detail about NPV on the next slides.

There are other requirements related to institutional loans. If a school makes a loan and transfers it to or sells it to a third party, the loan may not be included in the NPV calculation. Any institutional loan that is sold to a third party within a year of when it was made must be treated in the calculation as a loan made by a third party.

The amount the school may count as non-Title IV revenue may not be more than the amount paid to the school for the loan less any amount the school agrees to pay to the third party if the loan goes into default or otherwise triggers a contingent payment by the school.

Applying the requirements of the cash basis of accounting, a school must adjust its 90/10 revenue for any such payment on an institutional loan in the fiscal year in which the payment is made. The net present value or NPV of institutional loans must be included as revenue in the calculation if those loans meet certain criteria.

For loans made on or after July 1st of 2008 and before July 1st of 2012, include the net present value of loans made to students during the fiscal year if the loans are credited in full to a student’s account, are bona fide as evidence by standalone repayment agreements between the students and the institution that are enforceable promissory notes, that are issued at intervals related to the institution’s enrollment periods, ~~and~~ are subject to regular loan repayment and collections by the institution, and are separate from the enrollment contract signed by the student.

In the context of net present value, loans made refers to the date of the proceeds the loans are posted to the student's account. It is based on the~~is~~ disbursement date, not the date the loan was originated or the loan period of the loan. The method for calculating the net present value is specified under federal regulation and it is shown on the next slide.

A school calculates the net present value of the loans made during the fiscal year by the formula shown on this slide. The variable RT is the net cash flow at the time or period of T and the variable T is the time or period of the cash flow in years from the time the loan entered repayment.

The variable I is the discount rate. For this calculation, schools must use the most recent annual inflation rate as the discount rate. The Department does not specify how you obtain the inflation rate. One possible source can be found on the ~~W~~web at www.usinflationcalculator.com. Schools should document whatever source they choose ~~as~~for the rate they use in the calculation.

So the ne~~x~~t cash flow for the time period T is divided by one plus the discount rate factored by the time period. For each year of repayment, this calculation is performed. This formula is applied to loans made during the fiscal year if loans have substantially the same repayment period by using that repayment period for the range of values of variable T.

If the loans have variable repayment period, they should be grouped by repayment period and use that repayment period for each group for the range of values for variable T. The next slide has an example of this calculation.

In this example, the school made $125,000 in institutional loans during the fiscal year. The interest rate on the loans was 8.5%. The expected cash flow of $47,340 represents the total annual payments due on the loans.

Based on the collection rate of 60%, the actual cash flow is $28,404 per year. The school determined that the discount rate. ~~which~~ and ~~again~~ remember is the inflation rate, was 3%. The discounted cash flow is calculated for each year as shown on the slide. In Year 1, $27,577 is reached by dividing $28,404 by 1.03 which is one plus the discount or inflation rate.

In Year 2 after one is added to the discount rate of 3%, the result 1.03 is multiplied by 1.03. The result of that is divided into $28,404. In the third year, the only change is the calculation is that 1.03 is multiplied by itself three times. The results of each calculation for each year of the repayment period are added to determine the net present value of the loans made.

In this example, $80,344 is the amount of net present value included as revenue in the denominator of the calculation. The loan collection rate should be based on the school's own loan collection history and may be a prior annual rate or a historical rate covering several years.

If the school wishes, instead of performing the specified NPV calculation, the school may determine the net present value by using 50% of the total amount of the loans that the school made during the fiscal year as the NPV.

Using the example on the previous slide, 50% of the $125,000 in loans made would be $62,500. This amount is less than the $80,344 that would be included based on the other NPV calculation.

The school could use $62,500 as the NPV of the loans and include this amount in the denominator of the 90/10 calculation. A school may only use this 50% alternative for calculating NPV if it does not sell any of the loans until they have been in repayment for at least two years.

Institutional scholarships provided by the institution in the form of monetary aid or tuition discount and based on the academic achievement or financial need of a student that are disbursed to students during the fiscal year are included as revenue in the 90/10 calculation only if the scholarships are disbursed from an established restricted account and only to the extent that the funds in that account represent designated funds from an outside source or income earned on those funds.

The law specifies that tuition discounts can be included as institutional scholarships only if these criteria are met. Institutional grants in the form of tuition waivers do not count as revenue because no new revenue is generated.

Similarly internal transfers of cash among accounts are not considered revenue because they do not represent an inflow of cash to the institution. Institutional scholarships are not revenues generated by the school.

Therefore, institutional scholarships can only be included as revenue, i.e., in the denominator of the equation, if the scholarships meet the criteria shown on this slide.

For each student who received an unsubsidized loan under the FFEL or ~~d~~Direct ~~l~~Loan program on or after July 1st of 2008 and prior to July 1 of 2011~~1~~, the amount of the loan disbursement for a payment period that exceeded the disbursement for which the student would have been eligible for that payment period under the loan limit in effect on the day prior to enactment of the ECASLA law is included and deemed to be revenue from a source other than Title IV funds.

This amount can only be included as non-Title IV revenue to the extent that the excess amount pays for tuition, fees or other institutional charges remaining on the student's account after other Title IV program funds are applied.

The inclusion of these revenues in the calculation is based on the actual date of disbursement to the student's account, not the origination date of the loan or the loan period. ~~Inclusion is based on the disbursement to the student's account.~~

If a student's loan for the period contains a post-ECASLA amount and the post-ECASLA amount is one-third of the total loan amount, then each payment period's loan disbursement is generally considered to consist of one-third post-ECASLA loan funds and two-thirds pre-ECASLA loan funds.

For example, if the total loan was $6,000 of which $2,000 was post-ECASLA and $4,000 is pre-ECASLA, ~~if~~ and each disbursement is $3,000, then the school treats $1,000 of each disbursement as a post-ECASLA loan disbursement.

As mentioned earlier, funds that are returned as a result of the student's withdrawal are excluded from revenues in the calculation.

One important detail about this exclusion is that if any funds form a loan disbursement in the R2T4 calculation were included as non-Title IV revenue under this ECASLA provision, the amount refunded is considered to consist of pre-ECASLA loan amounts and post-ECASLA loan amounts in the same proportion as present in the loan disbursement.

In a footnote to the annual audited financial statement, a school must report the percentage of revenues derived from Title IV funds for the fiscal year covered by the financial statement.

The footnote must also include the dollar amount of the numerator and denominator of the ratio as well as the individual revenue amounts identified in Section 2 of Appendix C. We'll discuss the individual revenue categories that must be reported in the footnote on the next slide.

We're now going to take a look at the Appendix C handout so if you've not already done so, you may wish to click up on the download icon which looks like three little sheets of paper up on the top right of your screen and you will find a document titled 90/10 Calculation Appendix C.pdf.

Click on the filename then click the download button. This will download the attachment which you can then print or save to your computer. This appendix has the steps for the 90/10 calculation and we're going to walk through those steps now. You may wish to have the appendix visible as we go through the next several slides.

As you look at Appendix C, you will see that Section 1 is a sample student account record at the school showing funds applied in priority order. Section 2 shows revenue by source which are the categories that must be reported in the footnote in the annual financial statement.

Section 3 describes how the revenue percentage is calculated and Section 4 shows how to calculate the net present value.

Now let’s take a look at the details of the 90/10 calculation using Appendix C. As stated before, schools report the results of the 90/10 calculation in a footnote to the annual audited financial statement.

In the footnote, schools report the amount disbursed and the adjusted amount for the following revenue categories: subsidized loans; unsubsidized loans up to the pre-ECASLA loan limit; ~~f~~Federal Pell ~~g~~Grants and you would also ACG and SMART~~mar~~t ~~g~~Grant ~~f~~Funds here if they are applicable at your institution.

Number 4 are funds from FSEOG subject to the matching reduction. Number 5 would be any ~~f~~Federal W~~w~~ork ~~s~~Study funds that were applied directly to tuition and fees, in other words not paid to students and also the work study funds are subject to the matching reduction.

That gives total student Title IV revenue from which you would subtract any revenue adjustment which results in the total adjusted student Title IV revenue that you use in the calculation. The amounts disbursed could vary from the adjusted amount used in the calculation for several possible reasons and we’ll go over some examples on the next two slides.

Section 3 of Appendix C describes reasons for making adjustments and references the line numbers that are adjusted in Sections 1 and 2. As an example, let’s look at an adjustment for the institutional match for ~~c~~Campus-based funds.

Looking at the appendix, you can see that Line 10 in Sections 1 and 2 shows that the student received FSEOG disbursements totaling $500. Due to the matching requirement, only $375 of this amount is included as the adjusted amount in the calculation as shown on Line 10 of Section 2.

This means the total adjusted amount of Title IV revenue used for this student is $4,575 which you can see on Line 17 of Section 2, not the $4,700 that you see in Line 12 of Section 1. The total amount of Title IV funds actually disbursed to this student is different from the adjusted amount used in the 90/10 calculation.

Another example of a reason for an adjustment could be if the amount of funds applied first and total Title IV revenue added together exceeded total tuition and fee charges. You can see an example of this on Line 18 of Section 2.

Looking at the example in Section 2, the adjusted student Title IV revenue is $4,575 which is on Line 17. That is added to the student's $2,700 in funds applied first which is on Line 6 in Section 1 for a total of $7,275. That amount exceeds the $7000 in total tuition and fees charged to the student. That $7,000 amount is shown on Line 1 of Section 1.

Because we don't adjust funds applied first and because the funds used in the calculation on a per-student basis can never exceed the amount of the student's tuition and fee charges, the amount of this student's Title IV revenue is adjusted by $275, as you can see on Line 18 of Section 2.

This $275 adjustment brings total funds applied first plus total adjusted student Title IV revenue to the $7,000 amount the student was charged for tuition and fees.

Remember that if Title IV funds are returned for a student under Regulatory Section 668.22, which is the R2T4 calculation, then student Title IV revenue - Line 17 of Section 2 - is reduced by the amount refunded.

In performing the 90/10 calculation, adjusted student Title IV revenue for the school is the sum of the amounts of adjusted student Title IV revenue - Line 19 of Section 2 - for each student in the fiscal year. This total amount is the numerator of the 90/10 equation.

Another example of a revenue amount that may have to be adjusted is unsubsidized loans over the pre-ECASLA limit which you can see on Line 13 of Section 1.

In the middle of the page on Section 3, you can see a description of how unsubsidized loans over the pre-ECASLA loan 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.

The narrative in Section 3 explains how these amounts are determined including the line numbers from Sections 1 and 2 where these amounts are listed. This is related to the second bullet on the previous slide.

Unsubsidized loans and student payments only count as non-Title IV revenue if they are applied to pay tuition and fee charges remaining after the application of funds applied first and student Title IV revenue.

In performing the 90/10 calculation, adjusted student Title IV revenue for the school is the sum of the amounts of adjusted student Title IV revenue on Line 19 of Section 2 for each student in the fiscal year.

Schools report student-level non-Title IV revenue in the following categories. I will list each category based on its line number in Section 1 of Appendix C. Line 2 are grant funds for the student from non-federal public agencies or private sources independent of the institution.

Line 3 are funds for the student under contractual agreement with a federal, state or local government agency for the purpose of providing job training to low-income individuals.

Line 4 are funds used by the student from savings plans for educational expenses that qualify for special tax treatment under the Internal Revenue Code. Line 5 are institutional scholarships disbursed to students that meet the requirements we've previously described.

Line 13 ~~are~~is the amount of unsubsidized loans over their pre-ECASLA loan limits and Line 14 are student payments. These amounts are included in the denominator of the 90/10 equation.

Looking at Appendix C, when performing the 90/10 calculation, student non—Title IV revenue~~this line item~~ is composed of the sum of the amounts of Line 20 in Section 2 for each student at the school during the fiscal year whose non-Title IV funds were used to pay all or some of these students' tuition and fee charges.

In this portion of the denominator of the 90/10 calculation which is shown on Lines 21 through 24 of Section 2, schools report totals for the fiscal year. The categories in this section were described earlier in this session today. I will list each category based on its line number in Section 2 of Appendix C.

Line 21 is revenue from activities conducted by the school that are necessary for the education and training of students enrolled in programs eligible for Title IV funding.

Line 22 is revenue from funds paid to the school by or on behalf of students for the education and training in qualified non-Title IV-eligible programs and Line 23 includes the net present value of institutional loans disbursed to students. The total for this component is added to total student non-Title IV revenue which we discussed on the previous slide.

These two amounts are added to adjusted student Title IV revenue which is the numerator of the equation to determine the denominator of the 90/10 equation. The numerator is divided by the denominator to determine the percentage of revenues derived from Title IV for the fiscal year.

In addition to reporting the results of the 90/10 calculation in a footnote to the audited annual financial statement, a school that violates the 90/10 rule must report the violation no later than 45 days after the end of its fiscal year in which it failed to meet the standard.

The FSA Handbook contains the address to which a violation must be reported and you can find that on Page 2-5~~5~~9 of the 201~~1~~2-~~'~~131 FSA Handbook. This 45-day deadline for reporting a 90/10 violation for a fiscal year is prior to the submission deadline for the annual audited financial statement.

The Department expects that a school that is at risk of failing the 90/10 requirement will monitor its revenue sources and amounts carefully throughout the year and will know if it failed the 90/10 requirement shortly after the end of its fiscal year.

If a school violates the 90/10 requirement for any fiscal year, it becomes - if it is not already provisionally~~-~~ certified ~~—~~– provisionally ~~-~~certified for two fiscal years after the fiscal year in which it failed to satisfy the 90/10 requirement.

If the school is fully certified when the violation is reported, it will be converted to a provisional certification and the provisional Program Participation Agreement or PPA will expire at the end of the second fiscal year after the end of the failing fiscal year unless the school's current PPA expires sooner and then the expiration of the provisional PPA will be the expiration date of the existing PPA.

If the school is already provisionally ~~-~~certified when the violation is reported, the condition for the 90/10 violation will be added to the existing provisional PPA and the updated PPA will expire at the original expiration date of the current PPA, or the end of the second fiscal year following the failing fiscal year, whichever is sooner.

The school will be notified of the new PPA requirement by the ~~s~~School P~~p~~articipation ~~team~~ Division responsible for the school. When the school is notified, it will be reminded of the requirement to notify the Department of any 90/10 violation no later than 45 days after the end of the fiscal year in which the violation occurs.

If the school violates the 90/10 requirement for a second consecutive year, its existing provisional program participation agreement will be revoked by the Department.

After a PPA is revoked for this reason, a school cannot regain eligibility until it demonstrates that it complied with the state licensure and accreditation requirements under 34 CFR 600.5(a) and also that it complied with the financial responsibility requirements under Subpart L of 34 CFR Part 668 for a minimum of two fiscal years after the fiscal year in which it became ineligible.

The Department will notify a school of the consequences of a second consecutive violation of the 90/10 requirement. Remember a school must report all violations of the 90/10 requirement within 45 days after the end of the fiscal year in which the violation occurred.

These are few examples of improper actions in regards to the 90/10 calculation. A school may not have a practice of limiting student access to ~~f~~Federal ~~d~~Direct ~~l~~Loan funds in order to satisfy the requirements of the 90/10 Rule.

A school may not have a practice of limiting student borrowing to less than the amount of direct cost in order to force students to make a cash payment. Federal D~~d~~irect ~~l~~Loan borrowing may only be limited on a case-by-case basis and the borrower must be notified in writing of why his or her borrowing has been limited.

Schools may not have a practice of charging different tuition rates for cash-paying students compared to students receiving Title IV assistance. The Department considers such a practice to be an example of misrepresentation of the institutional charges.

A school should also not include the Administrative Cost Allowance or ACA for any Title IV program in its 90/10 calculation because funds are not considered revenue from tuition and fees. Student payments for non-institutional charges may not be included as revenue in the calculation.

For example, if the school operates a bookstore where students can purchase optional supplies that are not included as institutional charges in the R2T4 calculation, the school should not include the revenue from those sales in the 90/10 calculation.

On this ~~page~~slide you can see a listing of the regulations related to the 90/10 Rule as well as other helpful resources. We hope that the new audit guide when it is published ~~and we do not yet know what date that will be~~ will have additional information about the 90/10 requirement.

If you are an auditor and have questions, you may contact Marilyn Peck in the Dallas office of the Office of the Inspector General on 214-661-9535 or via e-mail at marilyn.peck@ed.gov.

This concludes our formal presentation on the 90/10 regulation and calculation. We hope this session has provided valuable insight into this requirement. As a reminder, don't forget to attend our other webinar modules in the ~~b~~Business ~~o~~Officer series.

At this time we'll address some of the questions received during this session. We will attempt to provide answers to questions that seem applicable to the largest number of schools. I'd like to turn over the question-and-answer period to Greg.

Greg Martin: Okay, thanks a lot, Byron. Excellent presentation and we thank all of you for being here today. We have had our question monitors on the lines taking care of the questions that were coming in and they did get to everyone but we have a couple of questions here which I'll ask Byron and the first one Byron deals with Slide 3.

For Slide 3, what is the regulation that requires a non-profit that was at one time for-profit to have the 90/10 calculated for the first full fiscal year they are a non-profit?

Byron Scott: It is a temporary condition included as a provision in the provisional PPA issued to schools to deter instances where a school converted from for-profit to non-profit only because it was not going to pass 90/10.

Greg Martin: Okay, thanks a lot, Byron. We have another one here. I have followed a formula at our campus which sometimes gives a student more than 100% but what I have heard is that a Title IV credit balance must be subtracted from the numerator so a student can't ever go over 100%. Is this correct and there's an example, $1,850 in Pell received, $1,500 in charges as revenue recognized?

Byron Scott: ~~Though~~ That's ~~the~~ one way to think about it, yes, and the short answer is that that is correct. The way to think about it is that if the institutional charges are $2,000 and the total Title IV received was $3,000, you don't include the amount of Title IV that exceeds or funds applied first, all those other things that come into the student side.

~~They never~~ - ~~t~~The amounts included in the equation - can never exceed the total amount of institutional charges, so if the student's institutional charges were $2,000 and the student's Pell ~~g~~Grant was $3,000, you would only include the $2,000 of the institutional charges and that was all paid by Pell.

Those amounts - the $2,000 - would go in both the numerator and the denominator of the equation.

Greg Martin: Okay, thanks. I have another question here. If the loan was not fully credited to the student's account but credited over two fiscal years, then do they only include the net present value of the amount disbursed during their fiscal year?

Byron Scott: The 90/10 calculation is based on the cash basis of accounting and so the funds are included in the calculation based on the date they are applied to the student's account.

So for example if a loan period was from September through May and the school's fiscal year ended in December 31st, if there was one disbursement in October, those funds would be applied to the calculation for the fiscal year ending in December.

And if the next disbursement was in February, then those funds - that disbursement - would be treated in the calculation for the fiscal year ending at the next December.

Greg Martin: Okay. Let's move down to another one here. Let's see. This deals with Slide 8 and so would that be the reference to the numerator, Title IV revenue minus Title IV credit balances or stipends issued as a Title IV credit balance. I guess that's asking how a credit balance is treated.

Byron Scott: Title IV funds that create a credit balance are not included in the calculation unless they are applied to institutional charges.

Greg Martin: Okay. Let's see here. Are unsub loan amounts with the $2,000 increase disbursed now able to be counted as non-Title IV?

Byron Scott: No. Any disbursements of ECASLA funds made on or after July 1st, 2011 are counted as Title IV funds if they were used to pay tuition, fees or other institutional charges. This special treatment of ECASLA loan funds ended for loans disbursed on or after July 1st of 2011.

Greg Martin: Okay. Are payments received from the Veterans Administration non-Title IV funds? Are they treated as funds applied first in the calculation?

Byron Scott: VA funds do not get counted ahead of Title IV funds but they do count as non-Title IV revenues if used to pay a student's tuition, fees and other institutional charges.

Greg Martin: Okay, and this is I believe our last question here. Does the 90/10 Rule apply only to proprietary colleges or proprietary institutions or does it also apply to state educational colleges?

Byron Scott: The 90/10 Rule applies only to for-profit or proprietary institutions. Public and non-profit institutions are not subject to the 90/10 requirement.

Greg Martin: Okay, thanks a lot Byron and before we close today, I want to thank everybody for being on the call. Shortly you'll see our survey come up on the screen and you'll see a blue arrow there - or purple, I'm rather colorblind so I can't really tell, I guess it's purple - that says start survey and we would really appreciate it if you would all take the time to complete that survey.

We do use the results to tailor future training. I want to remind you all again that the handouts for this session - both the slides and the appendix that Byron referenced earlier - are available by going to the icon in the top right-hand portion of your screen which looks like the three little pieces of white paper.

So if you do want to get a copy of this presentation, please do it now. Otherwise you'll have to wait until we put out the Dear Colleague letter with links which we will do probably near the end of November.

At that time there'll be an announcement on IFAP. It will direct you to a page where you'll be able to download the slides, any recordings of any of our business offering training sessions and also transcripts.

I do want to remind you that tomorrow we will have a campus-based session beginning at this time, 1:30 and that on November 10th we have our open Q&A.

Again thanks for being here. In addition to thanking Byron for the presentation, I want to thank (Steve Findley) of the Office of General Counsel and also (John Kowales) of our Policy Division for being today's question managers and with that I'll close the call.

Coordinator: That concludes today's conference. Thank you for your participation.

END