

A blurred background image of a business meeting. Three people are visible: a man in a suit and glasses sitting at a table with a laptop, a woman standing and gesturing, and another woman sitting. The scene is dimly lit, suggesting an office environment.

Navigating the New Financial Responsibility rules

Lance Mann, CPA, CFE, CGMA
Assurance Director

DEANDORTON

Meet the speaker

- Lance Mann, CPA, CFE, CGMA
- Assurance Director at Dean Dorton
- Over 15 years of experience
- Industries include colleges and universities, healthcare organizations, nonprofits, and many more



Objectives

1. Understand Financial Responsibility Rules
2. Major changes
 - Supplemental Schedule
 - Debt
 - Leases
 - Expenses and losses
 - Revenue and gains
3. How to prepare Financial Responsibility Supplemental Schedule (FRSS) and non-GAAP items
4. Auditor perspective and expectations on FRSS and non-GAAP items in notes to the financial statements
5. UG audit package recommendations
6. Issues identified to date

Title IV Financial Responsibility Standards

- Must demonstrate financial health to participate in Title IV
 - Intended to guard against precipitous closure
 - Ensure adequate resources to provide education
- Three key ratios are calculated, weighted, and combined into a “composite score”
- Cover NFP (and proprietary institutions) with distinct definitions and formulas for each

Public institutions are exempt

Key ratios

Primary Reserve

- Measures if institution has financial resources to support its mission
- Evaluates whether financial reserves are sufficient to meet current and future operating commitments

Equity

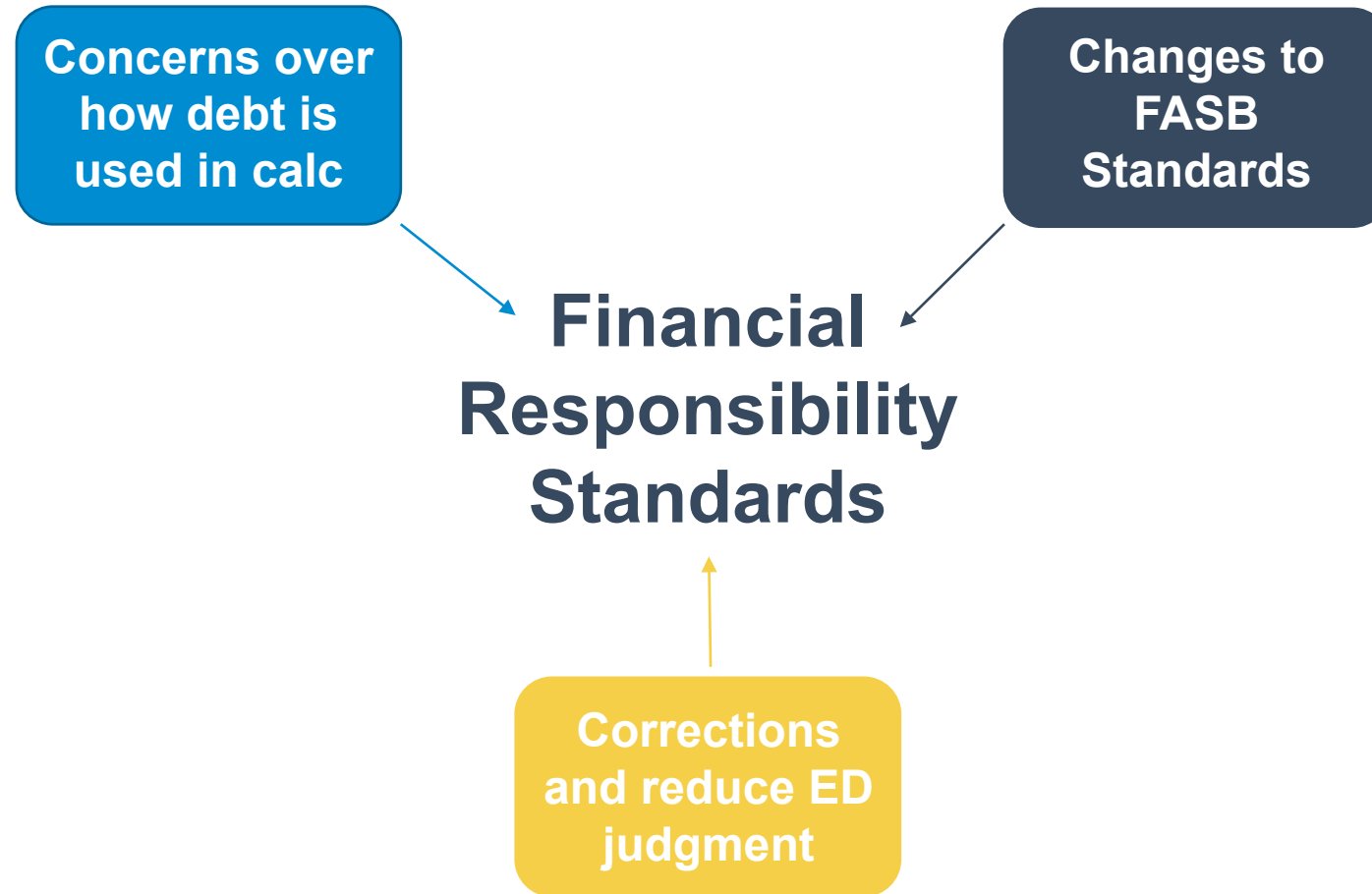
- Captures institution's overall capitalization structure
- Measures amount of total resources financed by contributions or accumulated

Net Income

- Provides a direct measure of institution's "profitability"
- Assesses college's ability to operate within its means

Three Ratios:
One
Composite
Score

Financial responsibility pressures for change



Financial reporting & accounting considerations

- Zone alternative (1.0 - 1.4)
 - Special disbursement requirements
 - Enhanced monitoring by ED
 - May remain “in the zone” for up to three years
- Failing (below 1.0)
 - Provisional certification
 - Must provide ED letter of credit for at least 10% of prior year Title IV funds

Fail	-1 to .9
Zone	1.0 to 1.4
Pass	1.5 to 3.0

**Letter of credit for 50% of
prior year Title IV funds
=
Financially responsible**



Primary Reserve Ratio 40%

Numerator: Expendable net assets

- + Net assets *without donor restrictions*
- + Net assets *with donor restrictions*
- Net assets *with donor restrictions*: restricted in perpetuity *
- Annuities, term endowments and life income funds with donor restrictions **
- Intangible assets
- Net property, plant and equipment ***
- + All debt obtained for long term purposes, not to exceed total net property, plant, and equipment ****
- + Post-employment and *defined benefit pension liabilities*
- Unsecured related party receivables *****

Clarification of terms

* The amount of net assets with donor restrictions restricted in perpetuity should be disclosed in a note to the financial statements or indicated on the Statement of Financial Position as a part of “Net assets with donor restrictions.

** Annuities, term endowments, and life income funds with donor restrictions are subtracted and must be separately disclosed and cross-referenced to the supplemental schedule.

*** The value of property, plant, and equipment includes construction in progress and lease right-of-use assets and is net of accumulated depreciation/amortization.

**** All debt obtained for long-term purposes, not to exceed net property, plant, and equipment, includes lease liabilities for lease right-of-use assets and the short-term portion of the debt, up to the amount of net property, plant, and equipment and short-term lines of credit and notes-payable used for construction in progress, not to exceed total construction in progress.

There are pre-implementation and post-implementation requirements for all debt obtained for long-term purposes.

Institutions must disclose the debt issue and terms. If an institution wishes to include short-term lines of credit or notes payable for construction in progress, the institution must include a disclosure in notes to the financial statements.

***** Unsecured related party receivables would be based on related party disclosures required by FASB (Topic 850)

Denominator: Total expenses *and losses*

- + Total expenses without donor restrictions
- + Total losses without donor restrictions
- Losses without donor restrictions on investments, post-employment and defined benefit pension plans

AND the formula in the regulation says:

Total Expenses without Donor Restrictions and Losses without Donor Restrictions = All expenses and losses without donor restrictions from the Statement of Activities less any losses without donor restrictions on investments, post-employment and defined benefit pension plans **and annuities**. (For institutions that have defined benefit pension and other post-employment plans, total expenses include the nonservice component of net periodic pension and other post-employment plan expenses, and these expenses will be classified as non-operating. Consequently, such expenses will be labeled non-operating or included with “other changes –nonoperating changes—in net assets without donor restrictions” when the Statement of Activities includes an operating measure).

Department of ED staff have told NACUBO this is a mistake

- Charitable gift annuities are not discussed in preamble
- eZ Audit does not exclude this loss

A faded background image of a business meeting. Several people in professional attire are gathered around a table, looking at documents and laptops. The image is semi-transparent, allowing the text to be clearly visible.

Net Income Ratio 20%

Net Income Ratio explained

Numerator:

Change in net assets **without donor restrictions**

This amount is taken directly from the SOA

Denominator:

- + Total revenue without donor restrictions
- + Total gains without donor restrictions

Net Income Ratio explained (Denominator)

- Denominator is the total revenue **and gains without donor restrictions**
- *Concerning investment gains without donor restrictions:*

Institutions that separately report investment spending as operating revenue (e.g., spending from funds functioning as endowment) and remaining net investment return as a non-operating item, will need to aggregate these two amounts to determine if there is a net investment gain or a net investment loss.

Funds functioning as an endowment

Net investment gain: *(add to revenue in the net income ratio denominator)*

Operating section of the SOA:	
Amount appropriated for spending	1,000
Nonoperating section of the SOA:	
Net investment return	<u>2,000</u>
Net investment gain	3,000

Net investment loss: *(no impact to net income ratio or primary reserve ratio)**

Operating section of the SOA:	
Amount appropriated for spending	1,000
Nonoperating section of the SOA:	
Net investment return	<u>(2,000)</u>
Net investment gain	(1,000)

****Net investment loss captured in eZ-Audit template***

A faded background image of a business meeting. Several people are gathered around a table, looking at documents and laptops. The image is semi-transparent, allowing the text to be clearly visible.

Equity Ratio 40%

Equity ratio explained

Numerator:

- + Net assets **without donor restrictions**
- + Net assets **with donor restrictions**
- Intangible assets
- Unsecured related party receivables

Denominator:

- + Total assets
- Intangible assets
- Unsecured related party receivables

Major financial responsibility changes

- Supplemental Schedule in Audited Financials
- Debt obtained for long-term purposes
- Leases
- Property Plant and Equipment
- Expenses and Losses
- Revenues and Gains
- New eZ-Audit Template

Supplemental schedule, F/S Reference, and eZ-Audit



A supplemental schedule must be submitted as part of the required audited financial statements submission (includes auditor opinion)



Must include all of the financial elements required to compute the composite score



Each item in the supplemental schedule must have a reference to the statement of financial position, statement of activities, schedule of natural to functional expenses, or note to the financial statements



The supplemental schedule is a source for input into eZ Audit system. Institutions can design their supplemental schedule to cross walk directly to eZ Audit

Pre and post implementation rules

- Debt obtained for long-term purposes (DOLP)
- Pre-implementation DOLP
 - The ending balance of debt reflected in the institution's previously accepted audited financial statements up to the total amount of property, plant, and equipment (PP&E) in those audited financial statements
 - *Reduced by activity that occurred after the date of the audited financial statements*

Pre and post implementation rules

- Post-implementation debt
 - Any debt that the institution acquires in the fiscal year it implements the requirements of the regulations, and any debt in future years, is post-implementation debt
 - *Post-implementation debt must be reduced by any payments or other reductions as well*
- To be considered DOLP – must be used for the acquisition or development of PP&E, capital leases, or ROU assets
- The value of post-implementation debt that may be included in adjusted equity or expendable net assets cannot be greater than the value of the post-implementation PP&E for which the debt was used to purchase

Other long-term debt considerations

Refinancing: P 49873 of Regulation

refinancing or renegotiated debt cannot increase the amount of debt associated with previously purchased PP&E. No pre-implementation debt required to be disclosed can increase. For each debt to be considered for the composite score, the individual debts must be disclosed as described below.

The Department is revising the reporting on long-term debt to require that an institution must, in a note to its financial statements, clearly identify for each debt to be considered in the composite score for pre- and post-implementation long-term debt and PP&E net of depreciation or amortization and the amount of CIP and the related debt.

An institution must also disclose in a note to its financial statements, for each pre- and post-implementation debt, the terms of its notes and lines of credit that include the beginning balance, actual payments and repayment schedules, ending balance, and any other changes in its debt including lines of credit.

Debt considerations

- Refinancing
- **Scenario #1:** Is pre-implementation debt related to the purchase of PP&E still considered qualified debt if it is refinanced by post-implementation debt?
- To the extent that the refinanced debt has not increased, the debt may be included in adjusted equity or expendable net assets as pre-implementation debt up to the value of pre-implementation PP&E, if:
 - It is not a credit facility
 - It is an arms length transaction
 - It is not a related party debt

Debt considerations

- Debt issuance costs
- **Refinancing Scenario #2**
 - What if the refinanced amount does increase the amount of the debt (and is not a credit facility, is an arms-length-transaction, and is not a related party debt.)
 - If existing qualified debt is refinanced and the new proceeds exceed the balance of the previous qualified debt, the refinanced debt is no longer considered to be qualified debt as it was related to the original purchase of PP&E
- Credit Facilities
- PPP Loans

Credit facility considerations

- Assumptions
 - Pre-implementation: \$40M of credit facility debt
 - Year of implementation: Made a \$20M payment in first month of the fiscal year; borrowed \$30M in the last month of the fiscal year (of which \$15M was for PP&E)

Credit Facility Debt			
	Pre-Implementation	Year of Implementation (PP&E)	Year of Implementation (WC)
	\$40,000,000	\$15,000,000	\$15,000,000
Application of payment	(\$20,000,000)		\$0
Ending Balance	\$20,000,000	\$15,000,000	\$15,000,000

Included as an adjustment
to expendable net assets

Not included

Credit facility considerations

- Assumptions
 - Start with ending balances from previous slide
 - Year of implementation: Made a payment of \$36M

Credit Facility Debt			
	Pre-Implementation	Year of Implementation (PP&E)	Year of Implementation (WC)
	\$20,000,000	\$15,000,000	\$15,000,000
Application of payment	(\$20,000,000)	(\$15,000,000)	(\$1,000,000)
Ending Balance	\$0	\$0	\$14,000,000

Included in expendable net assets

Not included

Capital leases

- Capital lease Assets
 - Balance per last eZ-Audit filing (before July 1, 2020 regulatory change)
 - Less amortization during the fiscal year
- Capital Lease Liabilities
 - Balance per last eZ-Audit filing (before July 1, 2020 regulatory change)
 - Less payment reductions during the fiscal year
- Above assets and liabilities =
 - Pre-implementation PP&E
 - Pre-implementation DOLP
- New capital leases entered into in FY20
 - Assets can be included with post-implementation PP&E
 - Related liabilities can be included with post-implementation DOLP

FASB ASU 2016-02

- Right-of-Use Assets and Liabilities
 - All debt obtained for long-term purposes, not to exceed net property, plant, and equipment, includes lease liabilities for lease right-of-use assets and the short-term portion of the debt, up to the amount of net property, plant, and equipment and short-term lines of credit and notes-payable used for construction in progress, not to exceed total construction in progress

FASB ASU 2016-02

- Approximately 10% of institutions implemented ASU 2016-02 in FY20
- ROU assets and related liabilities
 - FY20: Post-implementation PP&E
 - FY20: Post-implementation DOLP
- But: Can be included on the post-implementation lease ROU asset line and post-implementation ROU liability line (FRSS and eZ-Audit)
 - Easier to track and report

Right-of-Use assets and liabilities transition election

- December 15, 2018
- Also referred to a “Grandfathering” operating leases
- Reason: can negatively impact the Equity Ratio
- Transition Election is not reversible
- Supplemental Schedule
 - Pre-implementation ROU asset
 - Post implementation ROU liability
- eZ-Audit
 - Pre-implementation ROU asset
 - Post implementation ROU liability

Lease grandfathering considerations

Assumptions

	(000's)	
Operating leases	30,000	From FY19 Financials
Leases entered into prior to December 15, 2018	29,850	Grandfathered leases, pre-implementation
Leases entered into after December 15, 2018	150	
Operating leases as of June 30, 2019	30,000	

Pre and Post Rollforward

Lease Asset, pre-implementation for leases	29,850	FY19
Current year activity	(3,000)	
Lease Asset, pre-implementation for leases	26,850	FY20
Lease Asset, post-implementation for leases	150	FY19
New Leases FY20	450	
Lease Asset, post-implementation for leases	600	FY20

Things to think about:

- How easy is it to determine the leases entered into after 12/15/18?
- Do you have a way to track them going forward?
- What effect is it really having on the calculation?
- What are the auditors going to require?
- What is senior leadership perspective on the adoption?

Institution does not chose to Grandfather

		Result	Strength Factor	Strength Factor Score	Weight	Weighted Score
Equity Ratio	Net Assets 550,000	0.3521	6.0	2.1129	0.4000	0.85
	Total Assets 1,561,850					

Institution choses to Grandfather

Equity Ratio	Net Assets 550,000	0.3582	6.0	2.1490	0.4000	0.86
	Total Assets 1,535,600					

Effect on numerator of primary reserve ratio should be minimal as asset is being added in PPE and liability being subtracted in debt

PP&E

- Need to know pre-and post-implementation PPE
- PP&E includes construction in progress
- This is not a GAAP requirement –but will need to consider in your footnotes

Property, plant and equipment, net (includes Construction in progress)
Property, plant and equipment pre-implementation
Property, plant and equipment post-implementation with outstanding debt for original purchase
Property, plant and equipment post-implementation without outstanding debt for original purchase

PP&E

- What is pre-implementation vs. post-implementation?
 - PP&E balance on your fiscal-year ending in 2019 audited financial statements is the pre-implementation amount
- What do you need to track now
 - How much new PP&E did we add since the first day of FY 2020
 - Of that amount, how much was acquired with debt vs. no debt
 - These amounts will need to be tracked separately going forward – ***including depreciation***

PP&E

- Example disclosure – could be built into your existing PP&E footnote or a separate note that is only in the version of your financial statements that includes the DOE supplemental schedule

XYZ COLLEGE NOTES TO FINANCIAL STATEMENTS June 30, 2020 and 2019	
NOTE X - UNITED STATES DEPARTMENT OF EDUCATION SUPPLEMENTAL DISCLOSURES	
The Department of Education issued regulations on September 23, 2019, which became effective July 1, 2020, regarding additional disclosures deemed necessary to calculate certain ratios for determining sufficient financial responsibility under Title IV.	
Net Assets	
1. Annuities with donor restrictions	1,267,635
Property, Plant and Equipment, net	
2. Pre-implementation property, plant and equipment, (PP&E, net)	
a. Ending balance of last financial statements submitted to the Department of Education (June 30, 2019)	57,612,180
b. Less subsequent depreciation and disposals	(3,271,109)
c. Property, plant and equipment pre-implementation	54,341,071
3. Property, plant and equipment post-implementation with outstanding debt for original purchase	-
4. Property, plant and equipment post-implementation without outstanding debt for original purchase	1,500,007
5. Construction in progress acquired subsequent to June 30, 2019	699,922
6. Total property plant, and equipment, net - June 30, 2020	56,541,000



Expenses and Losses Revenues and Gains

Ratios impacted

**Primary Reserve Ratio =
Expendable net assets/Expenses
and Losses**

Expenses and Losses:

- + Total expenses without donor restrictions
- + Total losses without donor restrictions
- Losses without donor restrictions on investments, post-employment and defined benefit pension plans

**Net Income Ratio = [without
donor restrictions]**

**Change in net assets/Total
revenue + Total Gains**

Revenue and Gains:

Taken from the SOA

To correctly capture all gains:

- Aggregate endowment spending
AND endowment net return

Conceptual treatment of “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 Revenue
Change in value of interest rate swap agreements (non-operating)	Include in Expense	Include in Revenue

Gains and losses in the ratio formulas

Statement of Activities: Without Donor Restrictions Selected Nonoperating Items	If a Debit Balance	If a Credit Balance	Ratio Impacted
Investment return (operating plus nonoperating to determine if a net gain or net loss)		Include in revenue	Net income ratio
Nonservice component of net periodic pension/post-employment (nonoperating)	Include in expense	Include in revenue	Primary reserve ratio (expense) Net income ratio (revenue)
Pension-related changes other than net periodic pension and post-employment benefit costs		Include in revenue	Net income ratio
Change in value of charitable gift annuities (typically in nonoperating)	Include in expense	Include in revenue	Primary reserve ratio (expense)* Net income ratio (revenue)
Change in value of interest rate swap agreements (nonoperating)	Include in expense	Include in revenue	Primary reserve ratio (expense) Net income ratio (revenue)
Other nonoperating items	Include in expense	Include in revenue	Primary reserve ratio (expense) Net income ratio (revenue)

More on gains and losses

		Non-Operating and Net Investment losses	Non-operating Revenue and Other Gains
Investments:			
FFE: Amount appropriated for spending	3,250,000		
FFE: Net investment return	3,500,000		
Net investment gain or (loss)	6,750,000	-	6,750,000
Defined benefit plan activity:			
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
Non-operating gains (describe on the lines below):			
Gain 1	1,000,000	-	1,000,000
Gain 2	2,000,000	-	2,000,000
Non-operating losses (describe on the lines below):			
Changes in value of split interest agreements	(82,000)	(82,000)	-
Other losses	(71,000)	(71,000)	-
TOTALS		(653,000)	12,450,000

eZ-Audit Templates

Primary Reserve Ratio

Total Expenses and Losses

28	Total expenses without donor restrictions	31,450,000
29	Non-operating and net investment loss	653,000
30	Other components of net periodic pension costs	500,000
31	Change in value of split interest agreements	82,000
32	Other losses	71,000
33	Net investment losses	0
34	Pension related changes other than net periodic costs	0

Net Income Ratio

Total Revenues and Gains

42	Total operating revenue and other additions (gains)	32,000,000
43	Investment return appropriated for spending	3,250,000
44	Non-operating revenue and other gains	12,450,000

More on gains and losses

		Non-Operating and Net Investment losses	Non-operating Revenue and Other Gains
Investments:			
FFE: Amount appropriated for spending	3,250,000		
FFE: Net investment return	(4,000,000)		
Net investment gain or (loss)	(750,000)	(750,000)	-
Defined benefit plan activity:			
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)	-
Non-operating gains (describe on the lines below):			
Gain 1	1,000,000	-	1,000,000
Gain 2	2,000,000	-	2,000,000
Non-operating losses (describe on the lines below):			
Changes in value of split interest agreements	(82,000)	(82,000)	-
Other losses	(71,000)	(71,000)	-
TOTALS		(4,103,000)	3,000,000

eZ-Audit Templates

Primary Reserve Ratio

Total Expenses and Losses

28	Total expenses without donor restrictions	31,450,000
29	Non-operating and net investment loss	4,103,000
30	Other components of net periodic pension costs	500,000
31	Change in value of split interest agreements	82,000
32	Other losses	71,000
33	Net investment losses	750,000
34	Pension related changes other than net periodic costs	2,700,000

Net Income Ratio

Total Revenues and Gains

42	Total operating revenue and other additions (gains)	32,000,000
43	Investment return appropriated for spending	3,250,000
44	Non-operating revenue and other gains	3,000,000

Audit considerations

- Presentation Considerations
- Financial Statements and Reports
- Dating of Reports

Where should the Financial Responsibility Information be included?

Types of Financial Statements	Things to consider
General Purpose or 'Short-Form' Financial Statements	<ul style="list-style-type: none">▪ Would need to include supplemental schedule and additional non-GAAP detail▪ Will typical readers understand?▪ Will it 'clutter' the statements?▪ Timing considerations
Uniform Guidance Financial Statements, submitted to Federal Audit Clearinghouse	<ul style="list-style-type: none">▪ Add supplemental schedule and pertinent financial responsibility notes to the financial statements.▪ Single audit statements have previously been submitted to ED with eZ-Audit filing▪ Available to the public
Third set of Financial Statement – specifically for ED	<ul style="list-style-type: none">▪ Too many sets of financials?▪ Additional costs?▪ Financial statement just for ED, not publicly available

Example: F R Notes to the financial statements

Supplemental Disclosures – US Department of Education Fiscal Year Ended June 30, 2020

Net Assets

1	Net assets with donor restrictions: restricted in perpetuity	\$ 39,779,987
2	Other net assets with donor restrictions (not perpetually restricted):	
a	Annuities with donor restrictions	\$ -
b	Term endowments	\$ 949,935
c	Life income funds (trusts)	\$ 810,395
d	Total annuities, term endowments and life income funds with donor restrictions	<u>\$ 1,760,330</u>

Example

Property, Plant and Equipment, net

3	Pre-implementation property, plant and equipment, net (PP&E, net)	
a	Ending balance of last financial statements submitted to the Department of Education (June 30, 2019 financial statement)	\$ 52,132,271
b	Less subsequent depreciation and disposals	(2,132,279)
c	Balance Pre-implementation property, plant and equipment, net	<u>49,999,992</u>
4	Debt Financed Post-implementation property, plant and equipment, net	
	Long-lived assets acquired with debt subsequent to June 30, 2019:	
a	Equipment	450,000
b	Land Improvements	-
c	Building	-
d	Total property, plant and equipment, net acquired with debt exceed	<u>450,000</u>
5	Construction in progress - acquired subsequent to June 30, 2019	3,000,000
6	Post-implementation property, plant and equipment, net, acquired without debt:	
a	Long-lived assets acquired without use of debt subsequent to June 30, 2019	2,150,020
7	Total Property, Plant and Equipment, net - June 30, 2020	<u>\$ 55,600,012</u>

Example

12 Terms of current year debt and line of credit for CIP additions:

	Issue Date	Maturity Date	Nature of Capitalized Amounts	Amount Capitalized
a	Sep 25, 2019	Sep 25, 2024 5 year term (from original maturity)	Equipment	\$ 450,000
b	Dec 15, 2019	Aug 31, 2020 9 month term	Construction in Progress	\$3,000,000

Example

Lease right-of-use assets and liabilities

13	Lease right-of-use assets	
	Right of use assets as of balance sheet date June 20, 2020	\$ 1,459,158
14	Lease right-of-use assets - Pre-Implementation	
	Right of use assets as of balance sheet date June 20, 2020 excluding leases entered into before Dec 15, 2018 (grandfather option of leases not chosen)	\$ -
15	Lease right-of-use assets - Post-implementation	
	Right of use assets as of balance sheet date June 20, 2020 excluding leases entered into on or after Dec 15, 2018	\$ -
16	Lease right-of-use liability	
	Lease liabilities as of balance sheet dated June 20, 2020	\$ 1,565,848
17	Lease right-of-use liability - Pre-implementation	
	Lease liabilities as of balance sheet dated June 20, 2020 excluding leases entered into before Dec 15, 2018 (grandfathering of leases not chosen)	\$ -
18	Lease right-of-use liability - Post-implementation	
	Lease liabilities as of balance sheet date June 20, 2020 excluding leases entered into on or after Dec 15, 2018	\$ -

Unsecured related party receivables

19	Secured and unsecured related party receivables	\$ -
20	Unsecured related party receivables	\$ -

Reporting to DOE

- Normally due to Federal Audit Clearinghouse and DOE's eZ-Audit system by 9-months after end of fiscal year
- This year, due to COVID-19 pandemic – deadline has been extended for 3 additional months
- What “version” of your financial statements will you attach? Or...how many versions will your auditor issue – 2, 3, or more?
 - General purpose (“short-form” or “basic financials”)
 - Single Audit / Uniform Guidance – previously, this was commonly known as the “long-form” (with or without DOE supplemental schedule?)
 - Specialized for DOE (is this the only place your DOE supplemental schedule will appear, and with or without Single Audit/Uniform Guidance reporting?)

What will the supplemental schedule look like?

- Not one required or prescribed format
- Flexibility
- General recommendation – try to mirror the inputs into eZ-Audit, as this could result in fewer questions or uncertainty from the DOE
- May need to add an additional footnote in the version of your financial statements that includes the supplemental schedule
 - Amounts in supplemental schedule need to be referenced back to the financial statements and/or notes – NOT the notes to the supplemental schedule
- What have we seen so far?
 - Some examples...

Example 1 (5 pages)

Primary Reserve Ratio:

Expendable Net Assets	\$	79,059,823	
Total Expense	\$	156,362,386	
			0.5056

Equity Ratio:

Modified Net Assets	\$	144,967,860	
Modified Assets	\$	243,489,774	
			0.5954

Net Income Ratio:

Change in Net Assets Without Donor Restrictions	\$	(15,566,600)	
Total Revenues Without Donor Restrictions	\$	140,795,786	
			(0.1106)

Primary Reserve	0.5056	3.0000	40 %	1.2000
Equity	0.5954	3.0000	40	1.2000
Net Income	(0.1106)	(1.0000)	20	(0.2000)
Composite Score				2.2

See accompanying independent auditors' report.

See notes to schedules of financial responsibility composite ratio scores.

Example 1

Location in financial statements or related notes	Financial element	GAAP financial statement line item or disclosure	Amount used as ratio input
<i>Primary Reserve Ratio: Expendable Net Assets</i>			
Statement of Financial Position	Net assets without donor restrictions	\$126,618,207	126,618,207
Statement of Financial Position	Net assets with donor restrictions	18,511,304	18,511,304
Note 16, Related Parties	Unsecured related party receivable	161,651	161,651
Statement of Financial position	Total land, buildings and equipment, net (includes construction in progress)	132,479,529	-
Note 5, Land, Buildings, and Equipment	Land, buildings and equipment, net pre-implementation	-	121,301,601
Note 5, Land, Buildings, and Equipment	Land, buildings and equipment, net post-implementation with outstanding debt for original purchase	-	694,041
Note 5, Land, Buildings, and Equipment	Land, buildings and equipment, net post-implementation without outstanding debt for original purchase	-	2,384,864
Note 5, Land, Buildings, and Equipment	Construction in progress post-implementation with long term related debt	-	6,867,973
Note 5, Land, Buildings, and Equipment	Construction in progress post-implementation without long term related debt	-	1,230,050
NA	Lease right-of-use asset, net	-	-
NA	Lease right-of-use asset, pre-implementation	-	-

Location in financial statements or related notes	Financial element	GAAP financial statement line item or disclosure	Amount used as ratio input
<i>Primary Reserve Ratio: Expendable Net Assets</i>			
Statement of Financial Position	Net assets without donor restrictions	\$126,618,207	126,618,207
Statement of Financial Position	Net assets with donor restrictions	18,511,304	18,511,304
Note 16, Related Parties	Unsecured related party receivable	161,651	161,651
Statement of Financial position	Total land, buildings and equipment, net (includes construction in progress)	132,479,529	-
Note 5, Land, Buildings, and Equipment	Land, buildings and equipment, net pre-implementation	-	121,301,601
Note 5, Land, Buildings, and Equipment	Land, buildings and equipment, net post-implementation with outstanding debt for original purchase	-	694,041
Note 5, Land, Buildings, and Equipment	Land, buildings and equipment, net post-implementation without outstanding debt for original purchase	-	2,384,864
Note 5, Land, Buildings, and Equipment	Construction in progress post-implementation with long term related debt	-	6,867,973
Note 5, Land, Buildings, and Equipment	Construction in progress post-implementation without long term related debt	-	1,230,050
NA	Lease right-of-use asset, net	-	-
NA	Lease right-of-use asset, pre-implementation	-	-

Example 1

Location in financial statements or related notes	Financial element	GAAP financial statement line item or disclosure	Amount used as ratio input
NA	Post-implementation right-of-use asset liability	\$-	-
NA	Annuities with donor restrictions	-	-
NA	Term endowments with donor restrictions	-	-
NA	Life income funds with donor restrictions	-	-
Statement of Financial Position	Net assets with donor restrictions: restricted in perpetuity	13,707,432	-
Note 8, Net Assets with Donor Restrictions	Net assets with donor restrictions - restricted in perpetuity	-	10,043,332
Note 8, Net Assets with Donor Restrictions	Beneficial Interest in trusts with donor restrictions	-	3,004,100
Primary Reserve Ratio: Expenses and Losses			
Statement of Activities and Changes in Net Assets	Total expenses without donor restrictions – taken directly from Statement of Activities and Change in Net Assets	\$156,382,386	156,382,386
NA	Non-operating and net investment (loss)	-	-
NA	Net investment losses	-	-
NA	Pension-related changes other than net periodic costs	-	-

Location in financial statements or related notes	Financial element	GAAP financial statement line item or disclosure	Amount used as ratio input
Equity Ratio: Modified Net Assets			
Statement of Financial Position	Net assets without donor restrictions	\$126,618,207	126,618,207
Statement of Financial Position	Net assets with donor restrictions	18,511,304	18,511,304
NA	Intangible assets	-	-
Note 18, Related Parties	Unsecured related party receivable	161,651	161,651
Equity Ratio: Modified Assets			
Statement of Financial Position	Total assets	\$243,651,425	243,651,425
NA	Lease right-of-use asset pre-implementation	-	-
NA	Pre-implementation right-of-use asset liability	-	-
NA	Intangible assets	-	-
Note 18, Related Parties	Unsecured related party receivable	161,651	161,651

Location in financial statements or related notes	Financial element	GAAP financial statement line item or disclosure	Amount used as ratio input
Net Income Ratio			
Statement of Activities	Change in net assets without donor restrictions	\$(15,566,600)	(15,566,600)
Statement of Activities	Total revenue, gains, and other support without donor restrictions	140,830,196	140,830,196
Statement of Activities	Unrealized losses on investments, net	(34,410)	(34,410)

See accompanying independent auditors' report.

Example 2

Ratio Element	Reference to Financial Statements and/or Notes	Element Amount
Primary Reserve Ratio		
<u>Expendable Net Assets:</u>		
Net assets without donor restrictions	Statement of Financial Position	\$ 83,196,992
Net assets with donor restrictions	Statement of Financial Position	116,493,450
Annuities with donor restrictions	Not applicable	-
Term endowments with donor restrictions	Not applicable	-
Life Income funds with donor restrictions	Not applicable	-
Secured and unsecured related party receivable	Not applicable	-
Unsecured related party receivable	Not applicable	-
Grant advance liability	Note disclosure 17	3,668,200
<u>Property, plant and equipment, net (Includes construction in progress)</u>		
Property, plant and equipment pre-implementation	Note disclosure 4	52,614,929
Property, plant and equipment post-implementation with outstanding debt for original purchase	Not applicable	-
Property, plant and equipment post-implementation without outstanding debt for original purchase	Note disclosure 18	3,471,095
Construction in progress acquired subsequent to June 30, 2019	Note disclosure 18	2,984,818
<u>Lease right-of-use asset, net</u>		
Lease right-of-use asset, pre-implementation	Not applicable	-
Lease right-of-use asset, post-implementation	Not applicable	-
<u>Long-term debt - for long term purposes</u>		
Long-term debt - for long term purposes pre-implementation	Note disclosure 18	16,089,118
Long-term debt - for long term purposes post-implementation	Note disclosure 18	2,756,573
Line of credit for construction in progress	Not applicable	-
<u>Lease right-of-use asset liability</u>		
Pre-implementation right-of-use asset liability	Statement of Financial Position	-
Post-implementation right-of-use asset liability		-
<u>Net assets with donor restrictions: restricted in perpetuity</u>	Note disclosure 9	103,050,596

Example 2

Total expenses and losses without donor restrictions

Total operating expenses without donor restriction	Statement of Activities	36,551,940
Total non-operating losses without donor restrictions	Not applicable	-
Pension-related changes other than net periodic costs	Not applicable	-
Net investment loss	Not applicable	-

Equity Ratio

Modified net assets

Net assets without donor restrictions	Statement of Financial Position	\$ 83,196,992
Net assets with donor restrictions	Statement of Financial Position	116,493,450
Intangible assets	Not applicable	-
Secured and unsecured related party receivables	Not applicable	-
Unsecured related party receivables	Not applicable	-
Grant advance liability	Note disclosure 17	3,668,200

Modified assets

Total assets	Statement of Financial Position	236,094,942
Lease right-of-use asset pre-implementation	Not applicable	-
Pre-implementation right-of-use asset liability	Not applicable	-
Intangible assets	Not applicable	-
Secured and unsecured related party receivable	Not applicable	-
Unsecured related party receivable	Not applicable	-

Net Income Ratio

Change in net assets without donor restrictions, taken directly from the audited financial statements	Statement of Activities	2,035,235
Total revenue (which includes net assets released from restriction) and total gains without donor restrictions	Note disclosure 18	38,587,175



Questions?

DEANDORTON

Thank you

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