



Parting with Perkins: New Guidance for Your Institution

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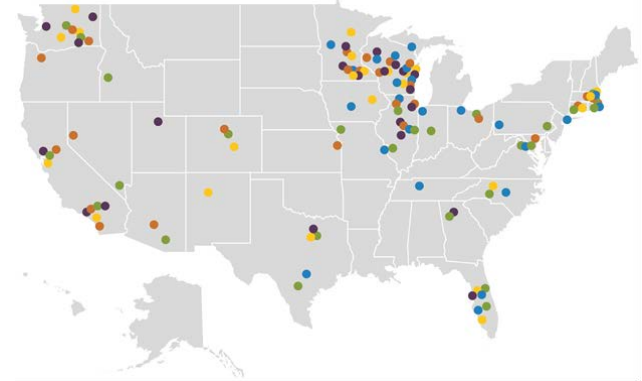
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About CLA

- **A professional services firm with three distinct business lines**
 - Wealth Advisory
 - Outsourcing
 - Audit, Tax, and Consulting
- **More than 7,400 employees**
- **More than 120 locations across the country**
- **Serving Higher Education institutions for more than 50 years**



Speaker Introduction



Brenda Scherer, CPA

National Director of Student Financial Aid

Brenda has over 15 years of experience in auditing colleges and universities, including extensive experience in audits of federal grant programs, among them student financial aid. She has served as audit manager for both public and private higher education institutions. Brenda oversees CLA's student financial aid administration outsourcing division.

Speaker Introduction



Aaron Crall, CPA

Principal – Higher Education

Aaron leads CLA's higher education practice in Florida. Aaron serves many public and for-profit colleges & universities but focuses primarily on private nonprofit institutions.

Agenda

- **Background of the Perkins Loan Program**
- **Next Steps: Service Loans or Liquidate?**
- **Closing out Perkins Loan Program**
- **Financial Reporting for Perkins Close-out**



Learning Objectives

- **At the end of this session, you will be able to:**
 - Explain the process of assigning loans to the Department of Education
 - Review different close-out options to determine what may be the best fit for your institution
 - Determine how to reflect the ending of the Perkins loan program in your financial statements
 - Determine what your institution should be doing now to prepare for the ending of the Perkins program





Background of the Federal Perkins Loan Revolving Fund

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Background

Revolving loan program

As dollars are collected from former students, used to make new loans

Serves students with financial need who qualified for lower interest loans



Funded with contributions from federal government and matched by institutional dollars

Proportion has varied from 90/10 split to 75/25 split

FCC: Federal Capital Contribution

ICC: Institutional Capital Contribution



Background Continued

Established in 1957

No new federal contributions since
1990's

Some institutions voluntarily put
additional funds into pool over years





Expiration of the Perkins Loan Program

- Congress did not renew after September 30, 2017
- No new loans
- As loans are repaid, federal portion should be returned to the Department of Education

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Posted Date: July 11, 2018

Author: Federal Student Aid

Subject: Perkins Loan Program – Federal Perkins Loan Revolving Fund Distribution of Assets and Timelines for 2018–19

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Section 466(a) of the Higher Education Act of 1965, as amended, requires a capital distribution (Distribution of Assets) of the balance of an institution's Perkins Loan Revolving Fund (Perkins Fund). The Distribution of Assets from the Perkins Loan Revolving Fund process replaces the existing Excess Liquid Capital process as part of the wind-down of the Federal Perkins Loan Program.



Poll Question

- **Is your institution currently in the close out process?**





Next Steps: Service Loans or Liquidate?

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Next Steps: Service Loans or Liquidate

Option 1: Continue to service loans and assign defaulted loans



Advantages

- Retain ICC
- Interest earnings



Disadvantages

- Administrative burden (cost and knowledge needed to administer program)
- Poor cohort rate (if applicable)

Option 2: Liquidate the portfolio.



Advantages

Reduces administrative burden



Disadvantages

- Forfeit ICC
- Cannot liquidate all loans



When Should an Institution Liquidate?

Must liquidate portfolio and program fund when:

- Voluntarily withdraws from Perkins Loan Program
- Has had its eligibility to participate in program terminated by ED
- Has not been approved by ED for continued participation during recertification process
- Is closing
- **No legislation exists requiring schools to liquidate unless under above situations**



Example of Assigning Loans vs. Keeping Loans

	6/30/2018
Cash on Hand	\$100,000
Outstanding Loans	1,000,000
Federal Capital Contribution (FCC)	700,000
Institutional Capital Contribution (ICC)	85,000
FCC/FCC+ICC	700,000/ (700,000+85,000) = 89%



Example of Assigning Loans vs. Keeping Loans

	6/30/2018	Assigning Loans
Cash on Hand	\$100,000	\$100,000
Outstanding Loans	1,000,000	0
Federal Capital Contribution (FCC)	700,000	700,000
Institutional Capital Contribution (ICC)	85,000	85,000
FCC/FCC+ICC	89%	89%
Cash on Hand Returned to ED		89,000
Loans Assigned to ED		1,000,000
Cash Kept by Institution		11,000



Example of Assigning Loans vs. Keeping Loans

	6/30/2018	Keeping Loans
Cash on Hand	\$100,000	\$1,100,000
Outstanding Loans	1,000,000	0
Federal Capital Contribution (FCC)	700,000	700,000
Institutional Capital Contribution (ICC)	85,000	85,000
FCC/FCC+ICC	89%	89%
Cash on Hand Returned to ED		979,000
Loans Assigned to ED		0
Cash Kept by Institution		121,000



Example of Assigning Loans vs. Keeping Loans

	Assigning Loans	Keeping Loans
Cash on Hand	\$100,000	\$1,100,000
Outstanding Loans	0	0
Federal Capital Contribution (FCC)	700,000	700,000
Institutional Capital Contribution (ICC)	85,000	85,000
FCC/FCC+ICC	89%	89%
Cash on Hand Returned to DOE	89,000	979,000
Loans Assigned to DOE	1,000,000	0
Cash Kept by Institution	11,000	121,000



Actions to Take to Prepare for Close-Out

All should be taking following actions whether plan to close out now or if will wait until loans are collected:

- Clean up your portfolio
- Identify all loans and compare to the NSLDS listing
- Segregate loans into three categories
 - Not yet in repayment
 - In repayment and in current status
 - Defaulted

Loan Not in Repayment

Unknown collection history

Will take longest to collect

Generally most recent, so promissory notes should be easily accessible

Because no repayment history, easiest to assign to ED



Loans in Repayment and In Current Status

If good repayment history, good candidates to consider for purchase

Compare 5% interest that will be earned compared to costs to administer portfolio

If plan on purchasing these loans, no further action is necessary

If plan on assigning, start gathering data (covered later)



Loans in Default

Track down borrowers

If deceased, those loans become liability of ED

Start assigning these loans to ED

- Defaulted loans can be assigned at any time
- Do not need to be in close-out procedure to assign defaulted loan



Poll Question

- **Has your institution begun cleaning up their Perkins portfolio?**





Closing out the Perkins Loan Program

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Closing out the Perkins Loan Program

Notify ED of
intent to
liquidate (via
eCB system)

Notify
borrowers

Assign all loans
to ED (via PLAS
system) or
purchase loans

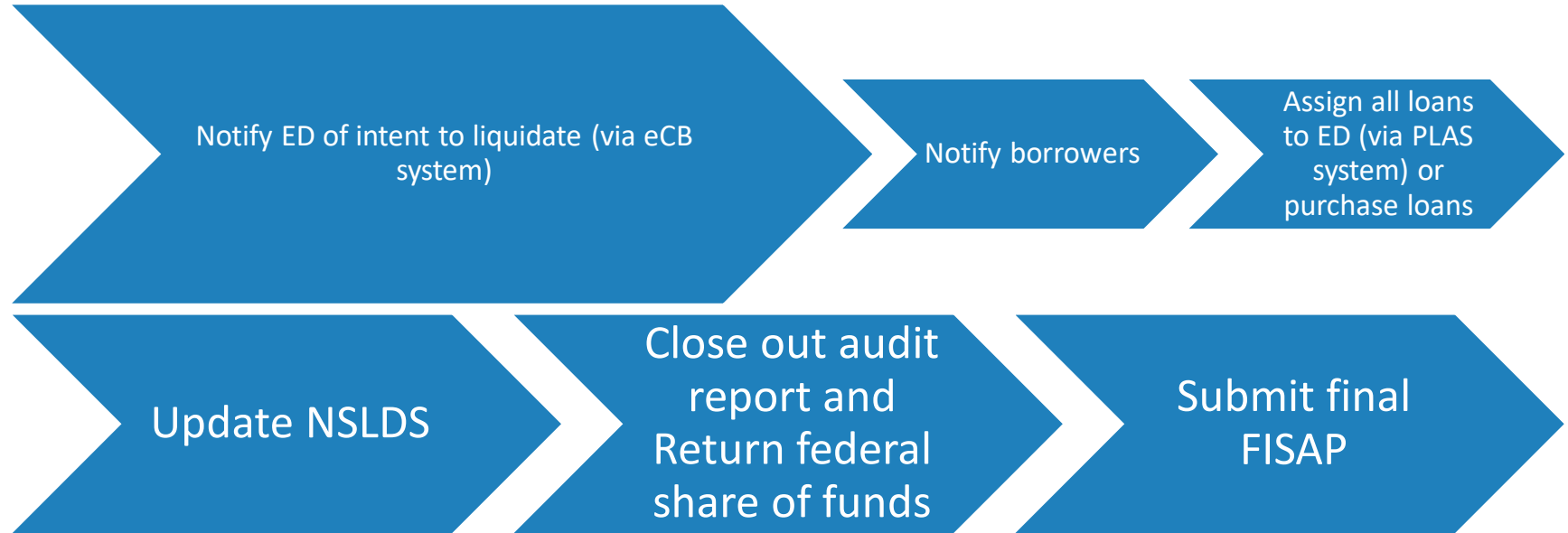
Update NSLDS

Close out audit
report and
Return federal
share of funds

Submit final
FISAP




Closing out the Perkins Loan Program



Notify ED of Intent to Liquidate

Notify ED of intent to liquidate

- eCampus-Based (eCB) System
- Designed to guide institution through liquidation and close-out process

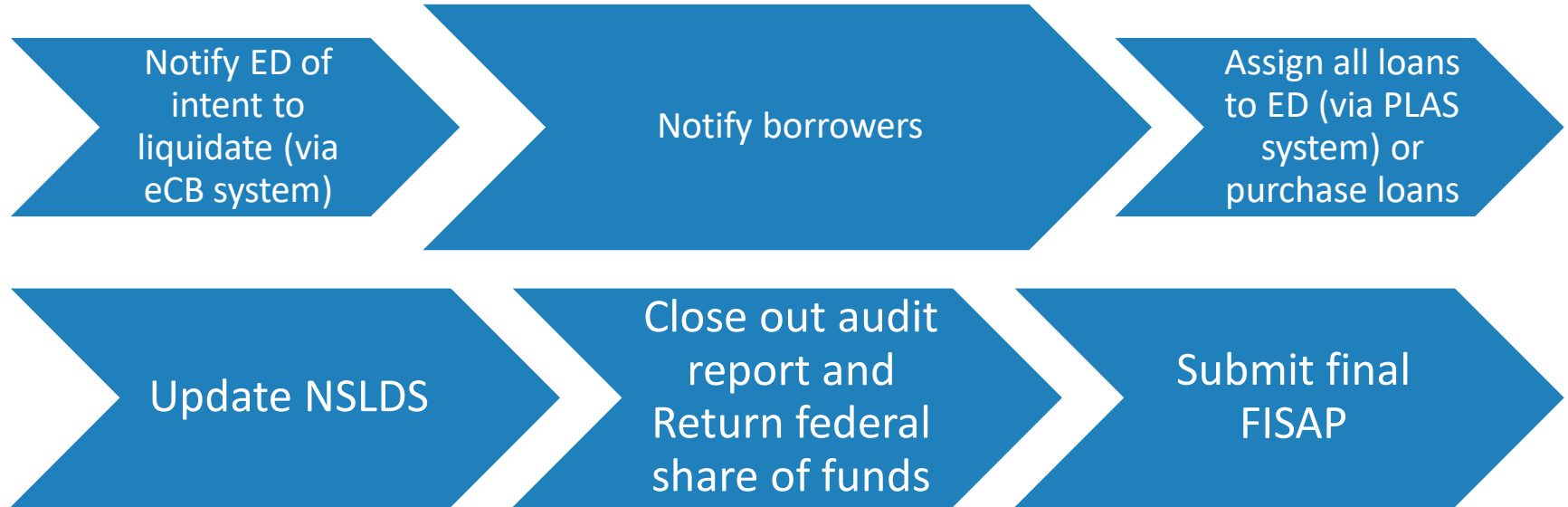


Once ED is notified, they will monitor institution's progress



Note: Checking the box on the FISAP is not sufficient notification

Closing out the Perkins Loan Program

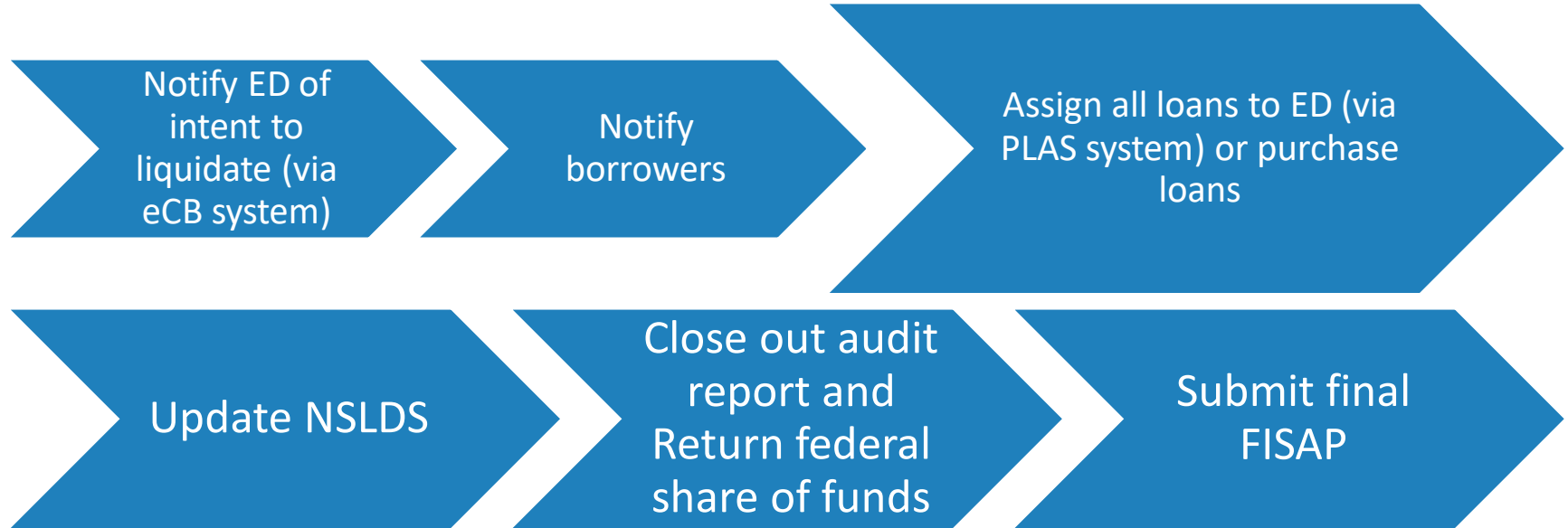


Notify Borrowers

- **School must notify borrowers by mail at least 30 days before assignment of loans**
- **Template of sample notification letter is included in liquidation guide**



Closing out the Perkins Loan Program



Perkins Loan Assignment System (PLAS)

- Submit assignments electronically

Users' guide

- <https://fsapartners.ed.gov/knowledge-center/library/electronic-announcements/2019-05-03/campus-based-subject-updated-federal-perkins-loan-assignment-and-liquidation-guide-now-available>



Assigning Loans

PLAS

Create a manifest of loans to assign and attach documents electronically

Manual

Can still use the Perkins Loan Program Assignment Form (OMB Form 1845-0048) which can be found on the IFAP website



Information to Enter into PLAS

- **Borrower's name and social security number**
- **Loan type (note "P" for Perkins Loans)**
- **Interest rate**
- **Total amount outstanding**
- **Date of first disbursement**



Information to Enter into PLAS (Cont'd)

Date of 1st disbursement must match date initially reported to the National Student Loan Data System (NSLDS)

Separate supporting documentation must be included for each loan, even when borrower has more than one loan to assign

Loans less than \$25 may not be assigned.

Legal action taken against borrower - litigation must be completed before assigned.



Attachments

- **Original or Certified True Copy Promissory Note with signatures**
 - Even if attached electronically, must still mail the promissory note to ECSI
 - If a school used electronic signatures, the school's most recent audit must verify the extent to which your school's electronic signature process meets the Department's standards
 - If the original promissory note is no longer available and only a photocopy exists, the photocopy maybe submitted with a statement certifying the copy – see requirements in the liquidation guide



Attachments (Cont'd)

- **Complete repayment history**
- **Judgement information from any legal actions (if applicable)**
- **Bankruptcy information (if applicable)**
 - Pending bankruptcy petition must be resolved before assigned



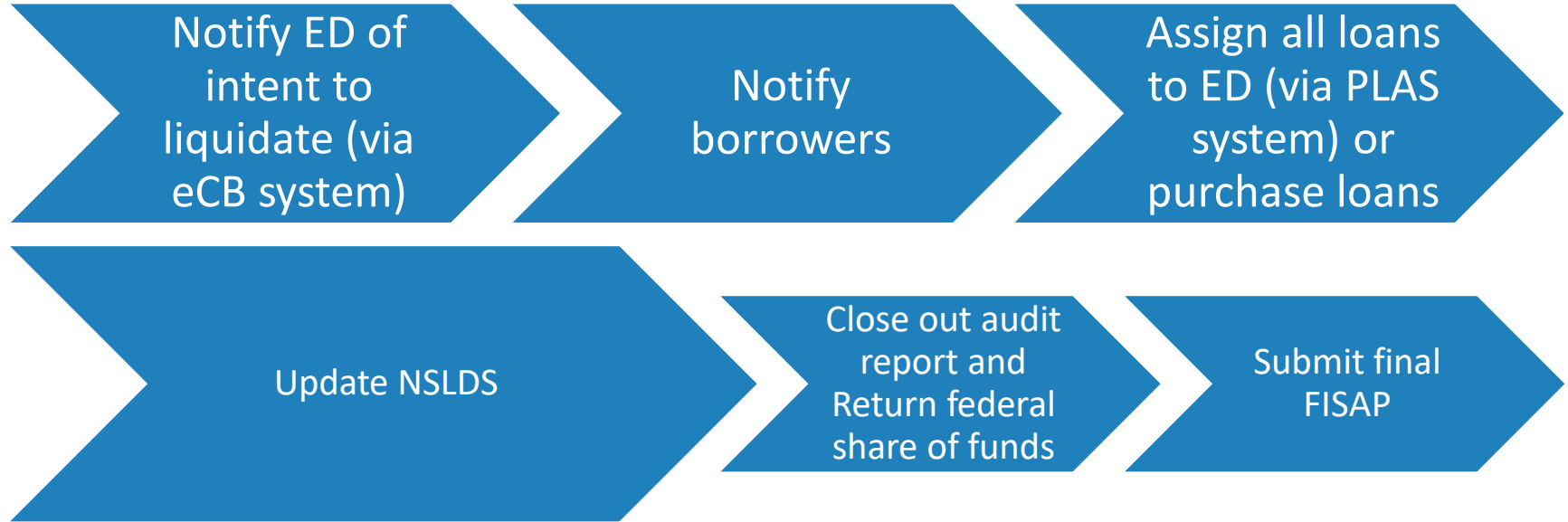
Assignment Process

Once submitted,
ECSI will either
accept or reject
loan

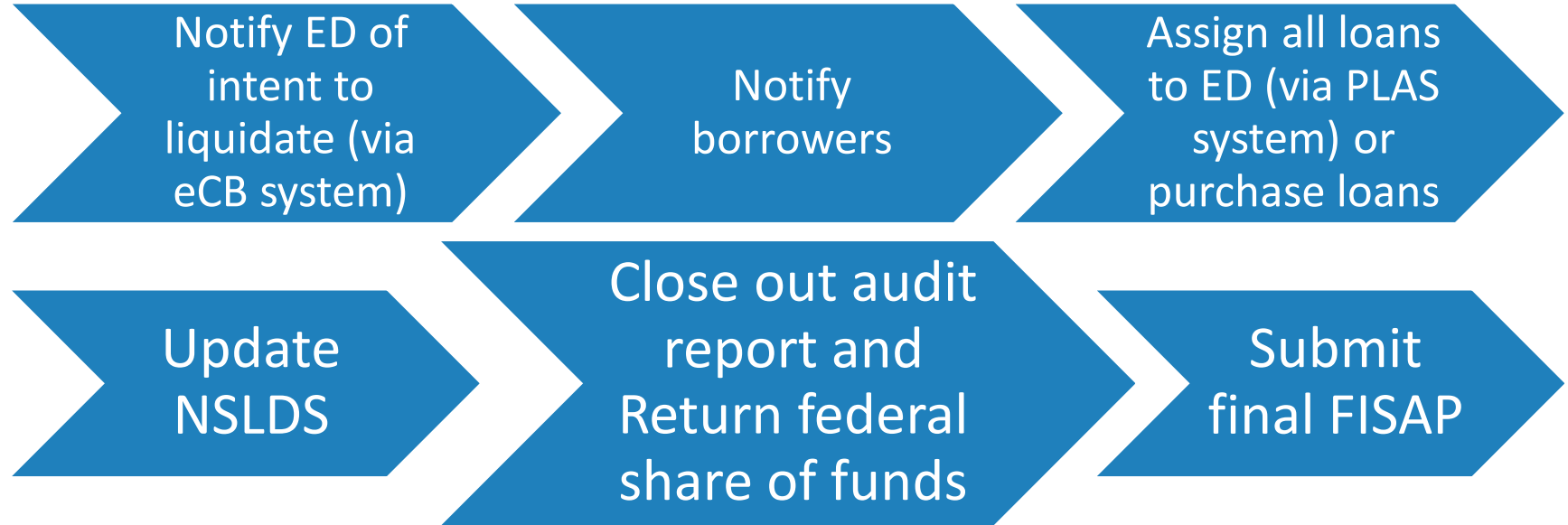
If rejected, can
remedy
information and
resubmit

If can't remedy
information, loan
must be purchased
by institution

Closing out the Perkins Loan Program



Closing out the Perkins Loan Program



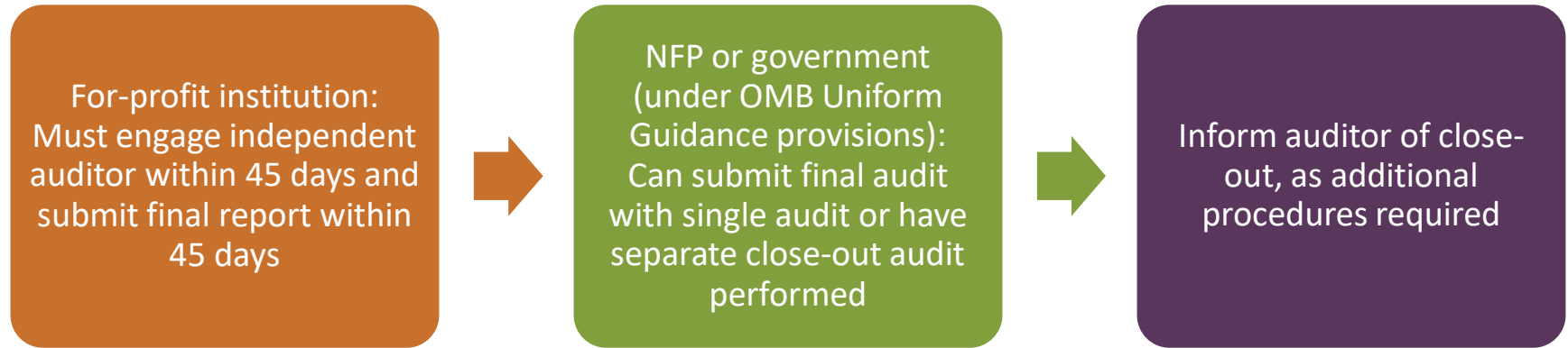
Close-out Audit Report

General Rule: Must submit close-out audit within 45 days of terminating the school's participation

Clock starts once communicated intention to close out to ED and all outstanding loans have been fully retired, assigned and accepted by ED or purchased by institution



Close-out Audit Report (Cont'd)



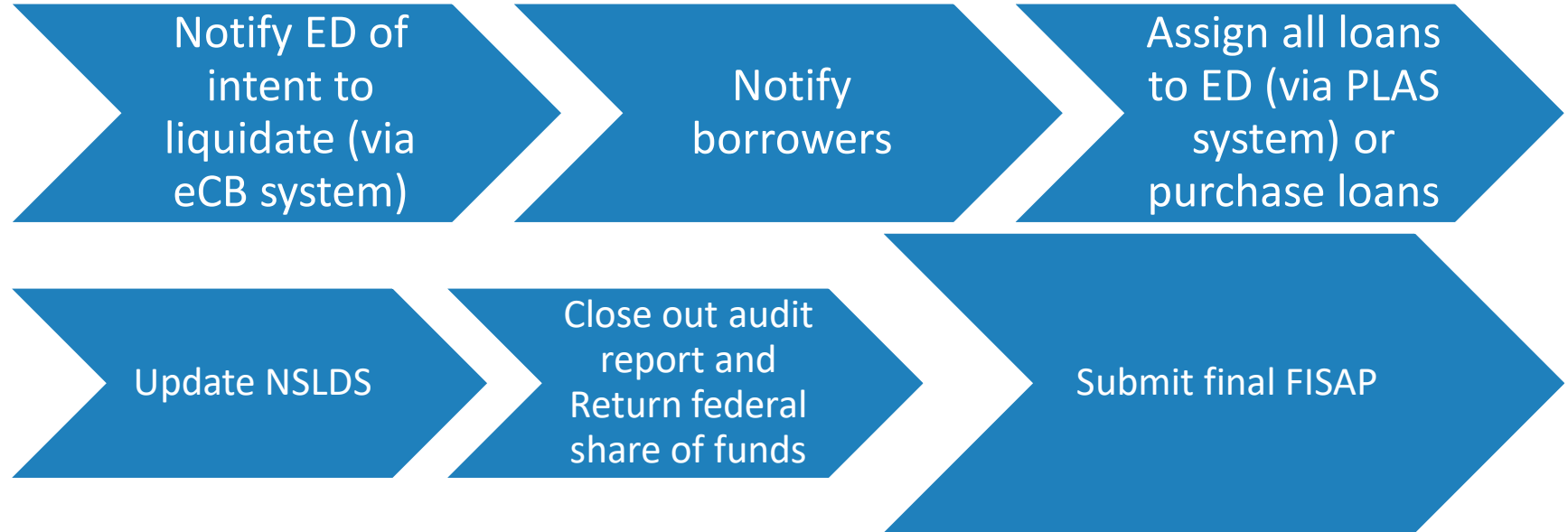
Calculation of Federal Portion

Amount of Cash to return to ED:

Federal Capital Contribution
Federal Capital Contribution +
Institutional Capital Contribution

Federal Capital Contribution
(FCC) and the Institutional
Capital Contribution (ICC) come
from Part III on the FISAP

Closing out the Perkins Loan Program



Poll Question

- **When do you think your institution will start the close out procedures?**
 - A. Within 1 year
 - B. Within 2-5 years
 - C. 5+ years





Financial Reporting for Perkins Close-out

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Financial Reporting – Prior to Program Ending

FCC: Per FARM, NACUBO's position is that
FCC = liability (refundable advance)

- Private institutions report liability.
- Varied practice with public institutions
 - GASB informally:
 - Liability OR
 - Restricted Net Position



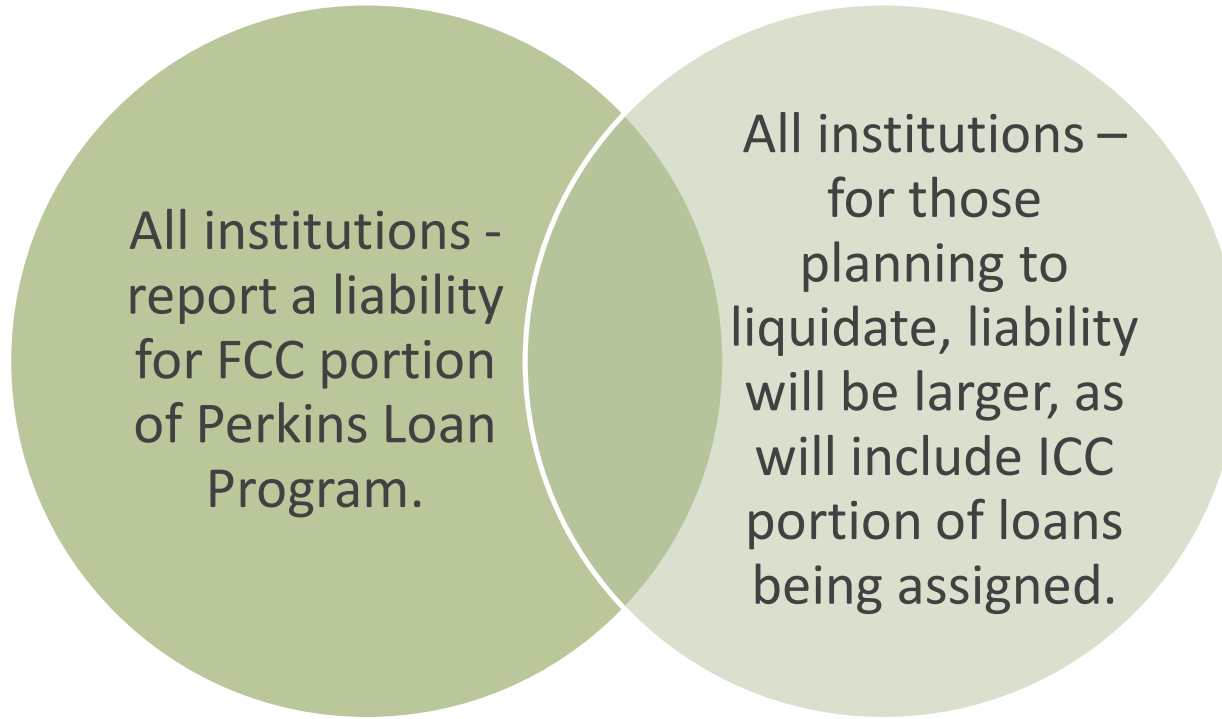
Financial Reporting – Prior to Program Ending

FARM: If GASB institution is reporting FCC as restricted net position:

“After a nonexchange transaction has been recognized in the financial statements, it may become apparent that (a) the eligibility requirements are not longer met (the transaction was recognized as a government-mandated or voluntary nonexchange transaction) or (b) the recipient will not comply with the purpose restrictions within the specified time limit. In these circumstances, if it is probable that the provider will not provide the resources or will require the recipient to return all or part of the resources already received, the recipient should recognize a decrease in assets (or an increase in liabilities) and an expense . . . for the amount the provider is expected to cancel or reclaim.



Financial Reporting - Now



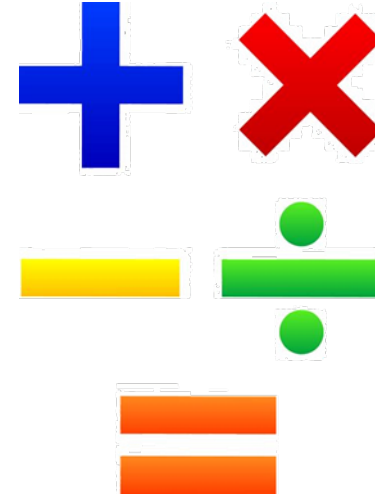
Financial Reporting – Now

- **For those that did not previously report a liability, NACUBO and CLA believe best presentation is non-operating expense**



Financial Reporting – Liability to ED

- **Calculating FCC portion of the fund**
 - Take FCC and ICC from FISAP
 - ◇ FCC: Line 27 less line 28
 - ◇ ICC: Line 29.3 less line 30.3
 - Calculate FCC % of total
 - Multiple FCC % fund's total assets
- **For those liquidating**
 - ICC portion will also be turned over to ED
 - Best estimate of the cash and loan receivables that will assigned to ED



Financial Reporting – Repayment ELC to ED

ELC: Excess Liquid Capital

For ICC:

DR Institutional Cash	\$500
CR Perkins Cash	\$500
DR Restricted Net Position	\$500
CR Unrestricted Net Position	\$500

For FCC:

DR ED Liability	\$500
CR Perkins Cash	\$500



Financial Reporting – Purchase Loans Not Accepted by ED

- **When not accepted by ED – institution will have to “purchase” loans, including accrued interest**

DR: Liability	\$ 51,000
DR: Accrued Interest Income(loss on purchase)	\$ 12,000
CR: Interest Income (ICC Portion)	\$ 1,800
CR: Cash	\$ 61,200



Resources

- **NACUBO Advisory Guidance Perkins Loan Program Close-Out**

[https://www.nacubo.org/-/media/Nacubo/Documents/BusinessPolicyAreas/Perkins Advisory Guidance for web.ashx?la=en&hash=EA1D6701A25178542CE43C1798B6DB239E542E69](https://www.nacubo.org/-/media/Nacubo/Documents/BusinessPolicyAreas/Perkins_Advisory_Guidance_for_web.ashx?la=en&hash=EA1D6701A25178542CE43C1798B6DB239E542E69)

- **2018-2019 Federal Perkins Loan Revolving Fund distribution of Assets and Timelines**

<https://fsapartners.ed.gov/knowledge-center/library/electronic-announcements/2018-07-11/campus-based-subject-perkins-loan-program-federal-perkins-loan-revolving-fund-distribution-assets-and-timelines-2018-19>



Resources

- **Wind-Down of the Perkins Loan Program
(EA published October 2, 2015)**
- **Perkins Wind-Down Questions and Answers
(EA published June 5, 2015)**
- **Wind-Down of the Perkins Loan Program
(DCL GEN-15-03, published January 30, 2015)**





Questions?

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Thank you!

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