



# **SARA Participation and Federal Financial Responsibility Composite Scores**

**Monday, June 23, 2025**



**National Council for  
State Authorization  
Reciprocity Agreements**

**MHEC • NEBHE • SREB • WICHE**

**Jared B. Abdirkin**  
**Director, Institutional Engagement and Initiatives**  
**NC-SARA**



# Webinar Guidance

- Please use the “Question & Answer” feature for questions.
  - *We will pause at a few points to address questions*
- The Closed Caption option is available.
- This webinar will be recorded.
- This presentation and other resources referenced will be posted on the NC-SARA website

# Agenda

## Today's Topics

- **Federal Financial Responsibility Composite Scores and SARA Policy**
- **Composite Score Basics**
- **Composite Score Considerations**
- **Your Questions**



**National Council for  
State Authorization  
Reciprocity Agreements**

MHEC • NEBHE • SREB • WICHE

# Federal Financial Responsibility Composite Scores (FFRCS) & SARA Policy

## 2.5 Functional responsibilities of SARA states

c. For independent institutions, the state accepts an institutional federal financial responsibility composite score of 1.5 as indicative of sufficient minimum financial stability to qualify for participation in SARA. An institution's financial status must be evaluated using the most recent composite score provided in writing by the U.S. Department of Education (ED), whether published online or provided in written form to the institution by a responsible Department of Education official. For institutions with a composite score between 1.0 and 1.5, the state shall consider additional information regarding financial stability provided by the institution. The state may, at its discretion, determine if there is sufficient evidence of financial stability to justify the institution's participation in SARA. The state shall not permit an institution with a composite score below 1.0 to participate in SARA. For institutions owned or controlled by another entity (i.e., a parent entity), the relevant composite score will be the composite score of the parent entity, as identified by the U.S. Department of Education. SARA states are to monitor the U.S. Department of Education's periodic publication of composite scores, review the scores assigned to the institutions they have approved to participate in SARA, determine whether those scores meet SARA requirements, and within 90 days of notification take appropriate action regarding the SARA participation of those institutions. If the newly published composite score falls below 1.0 and the institution is unable to provide documentation from ED of a more recent calculated score of 1.0 or above, the state must act within 90 days of notification to remove the institution from SARA participation.



# Federal Financial Responsibility Composite Scores (FFRCS) & SARA Policy

## 2.5.c. (continued)

In the event that an institution does not participate in federal Title IV financial aid programs and therefore has no ED-calculated composite score for Title IV purposes, the state must calculate, or have calculated by a certified, independent accountant acceptable to the state, a comparable score based on the institution's most recent audited financial statements and using the methodology prescribed by the U.S. Department of Education. See NC-SARA website (<https://nc-sara.org/sarapolicy-manual>).

Alternately, the state may require institutions lacking a composite score calculated by the U.S. Department of Education to provide such calculation either as a part of the institution's most recent audited financial statements or as separately calculated and certified by a certified, independent accountant acceptable to the state. The state will then use such calculated scores to determine whether the institution meets SARA eligibility requirements regarding financial responsibility. In either case, the state is to use the Department-provided calculation methodology that matches the institution's sector, whether for-profit or not-for-profit.



# SARA Policy & FFRCS

- A score is not “lacking” as long as it is the most recently published calculation or otherwise provided directly by ED
- For a Title IV participating institution, the latest score needs to be provided directly by ED (publicly posted report or directly communicated in writing)
- Institutions can contact ED directly:
  - [FSAFinancialAnalysisDivision@ed.gov](mailto:FSAFinancialAnalysisDivision@ed.gov)
- SARA Policy Manual:
  - <https://nc-sara.org/resources/guides>

# SARA Policy Modification Process

- Proposals this cycle are actively being considered
- Public comments open June 9 to July 7, share your thoughts on final proposals regarding this and all topics
- Expect any approved policy to go into effect no sooner than late 2025 or early 2026
- SARA Policy Modification Process:  
<https://nc-sara.org/participate-sara-policy-modifications>



# *Dave McClintock, CPA*

*Dave McClintock, CPA, is the Managing Director of McClintock & Associates, a firm founded by his father, Bruce McClintock, fifty years ago. McClintock & Associates is fully dedicated to higher education and proactive compliance support. With extensive experience advising on some of the largest mergers and acquisitions in the sector, he is a trusted compliance expert known for his solution-minded approach. He has a particular expertise in projecting same-day balance sheets and composite score calculations — critical tools for investors and institutions navigating change. He is frequently requested to present at industry conferences on a wide variety of topics and was just elected to the CECU Board.*

*Dave brings a practical, forward-thinking mindset to every engagement. He leads a team that emphasizes year-round planning and client collaboration, helping a variety of institutions stay ahead of regulatory challenges and build strong futures for their students, graduates and employees. McClintock & Associates expertise is reflected by the number of organizations who select members of the team to speak at events nationwide.*



# *Tom Wilson, CPA*

*Tom Wilson, CPA, is a Senior Manager within our Audit Department and specializes in financial statement audits. With over 26 years of experience in public accounting, with the last 16 years at McClintock & Associates Tom brings deep expertise in the unique financial reporting requirements of post-secondary education industry. Since joining the firm, Tom has worked extensively with the U.S. Department of Education's Financial Responsibility Standards, including the Composite Score Ratio. He has led and supervised numerous audit engagements involving Composite Score calculations and has also consulted with clients on forecasting and scenario analysis related to institutional financial health and compliance.*

*A Certified Public Accountant and member of both the AICPA and PICPA, Tom has presented on this topic internally and is passionate about helping institutions understand and prepare for the financial responsibility regulations.*





**MCCLINTOCK**  
**& ASSOCIATES**

**A HIGHER GRADE OF ACCOUNTANTS**

# SARA Participation and Federal Financial Responsibility Composite Scores

Dave McClintock – Managing Partner  
Tom Wilson - Senior Manager

# Disclaimer

- The content of this presentation contains general information and does not constitute accounting, financial, legal or regulatory advice. No one should act, or refrain from acting, upon the information in this presentation without consulting with a qualified and individualized professional advisor or legal counsel.
- The information contained within this presentation is subject to change due to pending guidance, changes, and/or clarifications of accounting and regulatory standards from the Department of Education and/or other regulatory bodies.

# Agenda

## Composite Score Ratio Basics

- Overview
- Components

## Other Composite Score Considerations

- Pre/Post-Implementation
- Negative Impacts
- Intangible Assets
- Related Party
- Projections

# Composite Score Ratio Overview

# Composite Score - Overview

- U.S Department of Education's primary method for evaluating the financial health of an institution
- Calculated annually based on the audited financial statements
- Potential score ranging from (1.0) to 3.0 (rounded to one decimal place, so 1.45 rounds to 1.5)
  - (1.0) to 0.9 – Failing Composite Score
  - 1.0 to 1.4 – Considered “In the Zone”
  - 1.5 to 3.0 – Passing Composite Score

# Composite Score - Overview

- Three Component Ratios, each component includes:
  - Strength Factor
  - Weighted %
- Component Ratio x Strength Factor x Weighted % = Component Score

# Composite Score - Overview

## Strength Factor

- Reflects institution's relative strength or weakness in a fundamental element of financial health, as measured by the ratios
- Reflects the extent to which an institution has the financial resources to
  - 1) Replace existing technology with newer technology;
  - 2) Replace physical capital that wears out over time;
  - 3) Recruit, retain and retrain faculty and staff; and
  - 4) Develop new programs

# Composite Score - Overview

Weighted Percentage

- Reflects the relative importance that each component has for an institution

# Composite Score Ratio Components

# Composite Score – Components

Three Component Ratios:

- Primary Reserve Ratio
- Equity Ratio
- Net Income Ratio

# Primary Reserve Ratio

# Primary Reserve Ratio

ED's Purpose: Measures an institution's viability and liquidity

	Nonprofit	For-Profit
Ratio Components	$\frac{\text{Expendable Net Assets}}{\text{Total Expense and Losses without Donor Restrictions}}$	$\frac{\text{Adjusted Equity}}{\text{Total Expense and Losses}}$
Strength Factor	10	20
Weighted Percentage	40%	30%
Maximum Weighted Score	1.2	0.9
Minimum Weighted Score	(0.4)	(0.3)

# Primary Reserve Ratio

<b>Expendable Net Assets / Adjusted Equity</b>	
Total Equity / Net Assets (adjusted for certain restrictions)	\$ 0
Less goodwill and other intangible assets	0
Less unsecured related party receivables	0
Less pre-implementation right-of-use assets	0
Less post-implementation right-of-use assets	0
Less property, plant and equipment (PP&E), net	0
Plus allowable pre-implementation debt (capped by pre-implementation PP&E)	0
Plus allowable post-implementation debt (capped by post-implementation PP&E purchased with debt)	0
Plus pre-implementation lease liabilities	0
Plus post-implementation lease liabilities (capped at post-implementation right-of-use assets)	0
Plus post-employment and defined benefit pension liabilities	<u>0</u>
<b>Total Expendable Net Assets / Adjusted Equity</b>	<b>\$ <u>0</u></b>

# Primary Reserve Ratio

## Net Assets (Adjusted for Certain Restrictions)

- Total Net Assets with and without donor restrictions
- Less net assets with donor restrictions: restricted in perpetuity
- Less annuities, term endowments, and life income funds with donor restrictions

# Primary Reserve Ratio

Total Expenses and Losses (for nonprofits w/o Restrictions)

Excludes:

- Income tax expense (for-profits only)
- Discontinued operation
- Losses on investments
- Loss/Expense as a result of a change in accounting principle
- Post-employment and defined benefit pension plans and annuities

Includes:

- Nonservice component of net periodic pension and other post-employment plan expenses

# Key Benchmarks

## Primary Reserve Ratio Key Benchmarks (unweighted)

To achieve a Primary Reserve Ratio of	Expendable Net Assets / Adjusted Equity must be the following % of Total Expenses	
	Nonprofit	For-profit
3.0	30%	15%
1.5	15%	7.5%
1.0	10%	5.0%
0.0	0%	0%
(1.0)	(10%)	(5%)

Questions?

# Equity Ratio

# Equity Ratio

ED's Purpose: Measures an institution's capital resources and its ability to borrow

	Nonprofit	For-Profit
Ratio Components	$\frac{\text{Modified Net Assets}}{\text{Modified Assets}}$	$\frac{\text{Modified Equity}}{\text{Modified Assets}}$
Strength Factor	6	6
Weighted Percentage	40%	40%
Maximum Weighted Score	1.2	1.2
Minimum Weighted Score	(0.4)	(0.4)

# Equity Ratio

<b>Modified Net Assets / Modified Equity</b>	
Total Equity / Net Assets	\$ 0
Less goodwill and other intangible assets	0
Less unsecured related party receivables	0
Less pre-implementation right-of-use assets	0
Plus pre-implementation lease liabilities	0
<b>Total Modified Net Assets / Modified Equity</b>	<b>\$ <u>0</u></b>
<b>Modified Assets</b>	
Total Assets	0
Less goodwill and other intangible assets	0
Less unsecured related party receivables	0
Less pre-implementation right-of-use assets	<u>0</u>
<b>Total Modified Assets</b>	<b>\$ <u>0</u></b>

# Key Benchmarks

## Equity Ratio Key Benchmarks (unweighted)

To achieve an Equity Ratio of	Modified Net Assets / Modified Equity must be the following % of Modified Assets	
	Nonprofit	For-profit
3.0	50%	50%
1.5	25%	25%
1.0	16.67%	16.67%
0.0	0%	0%
(1.0)	(16.67%)	(16.67%)

Questions?

# Net Income Ratio

# Net Income Ratio

ED's Purpose: Measures an institution's profitability

	Nonprofit	For-Profit
Ratio Components	$\frac{\text{Changes in Net Assets w/o Donor Restrictions}}{\text{Total Revenues and Gains w/o Donor Restrictions}}$	$\frac{\text{Income Before Taxes}}{\text{Total Revenues and Gains}}$
Strength Factor	Changes in Net Asset >\$0, 1+(50xNet Income Ratio) Changes in Net Asset <\$0, 1+(25xNet Income Ratio) Changes in Net Asset = \$0, 1	1 + (33.3 x Net Income Ratio)
Weighted Percentage	20%	30%
Maximum Weighted Score	0.6	0.9
Minimum Weighted Score	(0.2)	(0.3)

# Net Income Ratio

Income Before Taxes / Changes in Net Assets w/o Donor Restrictions

Includes:

- All revenues, gains, expenses and losses
- Other Comprehensive Income (for-profit only)

Excludes:

- Income taxes (for-profit only)
- Discontinued operations
- Income/Loss as a result of a change in accounting principle

# Net Income Ratio

Total Revenues and Gains (for nonprofits w/o Restrictions)

Includes:

- Gains on Investments
- Other Comprehensive Income

Excludes:

- Income tax benefit (for-profit only)
- Discontinued operations
- Income as a result of a change in accounting principle

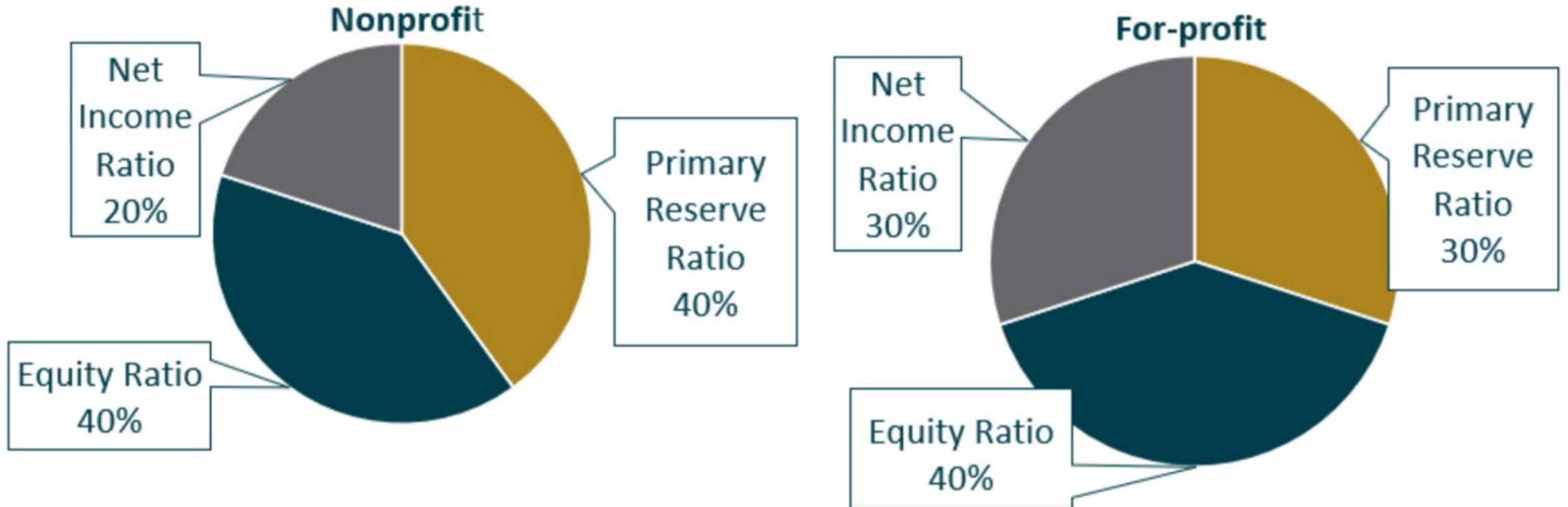
# Key Benchmarks

## Net Income Ratio Key Benchmarks (unweighted)

To achieve a Net Income Ratio of	Changes in Net Assets / Net Income must be the following % of Total Revenues	
	Nonprofit	For-profit
3.0	4%	6%
1.5	1%	1.5%
1.0	0%	0%
0.0	(4%)	(3%)
(1.0)	(8%)	(6%)

# Composite Score – Components

Three Component Ratios and Weighted Percentage:



Questions?

# Other Composite Score Considerations

# Pre/Post-Implementation Considerations

Property, Plant & Equipment and Debt

Pre-implementation

- PP&E - NBV in qualifying F/S submitted prior to July 1, 2020
  - Reduced by subsequent depreciation and disposals
- Debt - Outstanding principal in qualifying F/S submitted prior to July 1, 2020
  - Principal balance (excludes the off-set of any deferred financing costs)
  - Reduced by subsequent principal payment
  - If refinanced, crucial to not exceed remaining outstanding principal balance

# Pre/Post-Implementation Considerations

Property, Plant & Equipment and Debt (continued)

Post-implementation

- PP&E acquired after qualifying F/S submitted prior to July 1, 2020
  - PP&E with outstanding debt for original purchase
  - PP&E without outstanding debt for original purchase
- Debt obtained after qualifying F/S submitted prior to July 1, 2020
  - Qualified long-term debt for purchase of PP&E (includes Line of Credit for Construction in Process)
  - Long-term debt not used for purchase of PP&E

# Pre/Post-Implementation Considerations

## Leases

### Pre-implementation Leases

- Leases entered into on, or before December 15, 2018

### Post-implementation Leases

- Leases entered into after December 15, 2018

# Negative Impact Considerations

The following is a list of common items that have a negative impact on the composite score ratio:

- Intangible Assets
- Unsecured related-party receivables
- PP&E not financed with debt
- New leases
- New leases w/ TIA
- Amending Pre-Implementation Leases
- Operating Loss
- Distributions

# Intangible Asset Considerations

## Acquisition-related Intangible Assets:

- Goodwill
- Trade Name
- Accreditation
- Student Base

## Other Intangible Assets:

- Internally-Developed Software
- Curriculum Development Costs
- Deferred Tax Asset\*

# Related Party Considerations

Appendix A to Subpart L of Part 668 – Ratio Methodology for Propriety Institutions includes an “Example” of the Financial responsibility Supplemental Schedule

- References “Secured and Unsecured related party receivables and/or other related party assets”
- The eZ-Audit input screen includes similar wording
- However, the specific wording in the Federal Student Aid Handbook and as included in Section 668.172 **Financial Ratios** (c) **Excluded Items**, (3) “Excludes all unsecured or uncollateralized related-party receivables”, with no mention of “Other Related Party Assets”

# Related Party Considerations

Secured RP Receivables:

- Recommend having formal signed Security Agreement
  - Specifically identifying the asset(s) and amount(s) being secured
  - Specifically identifying the assets being used to secure (the more liquid the asset, the better)
- Possibly perfecting Institution's interest with UCC filing

# Projection Considerations

## Common Issues and Considerations when projecting Composite Score

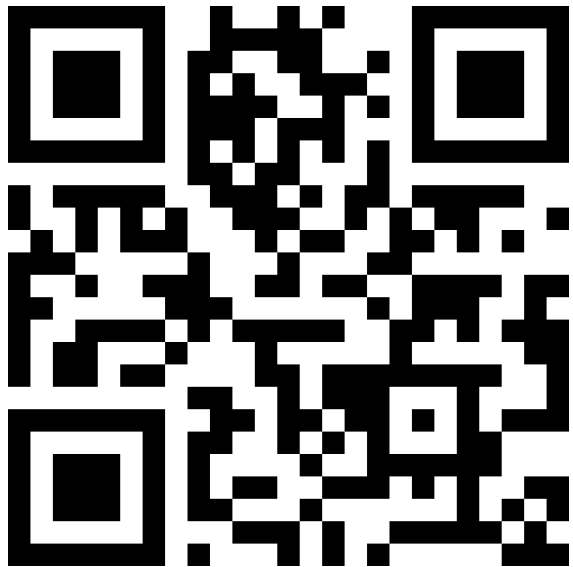
- Accuracy of financial forecasts/projections
- Ensuring Equity / Net Assets roll-forward from PY
- Not annualizing Revenue and Expenses
- Not factoring in changes to pre/post-implementation items
- Not included all intangible asset including Deferred Tax Asset\*
- Not excluding “restrictions” for various components (nonprofit only)

Questions?

# Thanks for Attending

## McClintock & Associates Resources

Schedule time to discuss  
Follow-up questions



Sign up for our newsletter  
(McClintock Minute)





**National Council for  
State Authorization  
Reciprocity Agreements**

MHEC • NEBHE • SREB • WICHE

# Thank You!

 [www.nc-sara.org](http://www.nc-sara.org)

 [info@nc-sara.org](mailto:info@nc-sara.org)

 <https://www.linkedin.com/company/nc-sara>