



## National Federation of Municipal Analysts

### *Recommended Best Practices in Disclosure for Private College and University Transactions*

The National Federation of Municipal Analysts (NFMA) is an organization of over 1,000 members, primarily research analysts, who evaluate credit and other risks of municipal securities. These individuals represent, among others, mutual funds, insurance companies, broker/dealers, bond insurers, and rating agencies.

One of the main initiatives of the NFMA is to promote timely and complete disclosure of the financial and operating information needed to assess the credit quality and risk of a municipal debt issue. The NFMA's efforts have ranged from global disclosure-related issues to more detailed, sector-specific work such as these Recommended Best Practices in Disclosure. For further information on the NFMA's continuing work in the area of disclosure, please see the "Disclosure Guidelines" and "Position Statements" pages of the organization's web site at [www.nfma.org](http://www.nfma.org).

In order to develop our Recommended Best Practices in Disclosure, diverse groups of NFMA analysts are working with other, non-analyst market professionals to develop "best practices" guidelines for certain market sectors. These Recommended Best Practices include descriptions of the sector-specific financial and operating information needed to help analysts do their jobs. The NFMA believes that the best practice in disclosure will always be the one that provides a steady flow of timely information from borrowers to the market. Initial drafts of our Recommended Best Practices in Disclosure were widely circulated, and an industry comment period was used to seek input from interested parties. Subsequent to the comment period, the papers were revised. For certain sectors, Comment and Response papers were drafted; these papers were available on the NFMA web site, providing additional information on the comments received.

Following is the most recent version of the Recommended Best Practices in Disclosure for this sector. This document is not intended to supplant the Amendments to SEC Rule 15c2-12, but to be used in conjunction with the guidance provided in those amendments. It is important to note that the NFMA's disclosure efforts are a continuing process. These guidelines are not static documents, and will be revisited and changed as market conditions warrant. We encourage interested parties to submit comments at any time to [lgood@nfma.org](mailto:lgood@nfma.org) so that they can be considered in the development of future versions of these Recommended Best Practices in Disclosure.

*The NFMA Recommended Best Practices in Disclosure are not intended to be "one size fits all" recommendations, and all the information requested may not apply to every transaction in the sector. We encourage the providers of information to indicate when a specific item requested in the Recommended Best Practices is not applicable to a specific transaction.*

## **BACKGROUND**

The NFMA Higher Education Disclosure Subcommittee was formed to write Recommended Best Practices in Disclosure for Private College and University Transactions. This paper is intended to cover transactions by private colleges and universities and not public higher education institutions. Members of the subcommittee included buy and sell-side analysts, insurance company analysts, rating agency representatives, and issuer representatives.

## **GOALS**

The goals of these Recommended Best Practices are as follows:

### **1) Improve the timeliness, thoroughness, and accuracy of both primary market and secondary market disclosure in the Private Higher Education sector.**

In an era of both increased market access by private universities and increasing capital needs, issuers need to be aware that accuracy, timeliness, and thoroughness in reporting are critical for investors and potential investors attempting to assess the institution's relative creditworthiness.

### **2) Improve the consistency of higher education audits post FASB 116 & 117.**

We believe a level of standardization in financial reporting will allow auditors to make financial reports and audits much more meaningful to the investment community. Analysts would like to work with issuers and auditors to make disclosure as painless as possible, and the audit more user-friendly.

### **3) Improve the means of dissemination of financial information to make it easier for institutions to provide, and for investors and potential investors to access information.**

Finding information at the institution can be challenging since colleges and universities have many departments which each may have a piece of the total information being sought. Private colleges and universities should consider designating an investor contact to handle inquiries about disclosure. Usually the Vice President of Finance or a person in that office fills this role. In addition, we recommend that the institution designate an area of its web site where continuing disclosure information is provided.

## **CONCLUSION**

The following recommendations have been developed as a response to the three goals discussed above, and as a way of helping issuers hit a firm target of disclosure based on investor needs. The specific recommendations directly address the timeliness and content of disclosures that municipal market participants have identified as important in this sector.

In summary, the goal of the Higher Education Disclosure Subcommittee is to make private college and university financial disclosure more standardized, useful and timesaving for the issuers, as well as more meaningful and accurate for investors and potential investors.

The Recommended Best Practices that follow are divided into two sections: primary market disclosure, and secondary market disclosure.

## **RECOMMENDED CONTENT OF PRIMARY MARKET DISCLOSURE FOR PRIVATE COLLEGE & UNIVERSITY TRANSACTIONS**

In addition to the specifics outlined below, institutions should be aware of the following:

- Information should be as current as possible when issuing bonds, including unaudited financials for the current fiscal year if the previous fiscal year's audit is over 12 months old.
- Accurate enrollment characteristics, which are key drivers of future credit quality, must be easily available.
- Issuers should be consistent with quantitative data being released to all venues, including that data released on the institution's web site.
- Data should be defined consistently over time and any changes in definitions or classifications should be clearly highlighted.
- All financial statements submitted should include an income statement, cash-flow statement and balance sheet.
- Annual audited financial statements for the college or university should include related footnotes and a complete set of comparable audited financial statements for the prior year.
- If there is debt outstanding that is not a general obligation, supplemental financials concerning repayment of the debt needs to be included.

### **DESCRIPTION OF THE INSTITUTION**

1. Brief history of the institution, including information on various sites, if applicable.
2. Mission of college/university—its "niche"—summary of degree programs offered.
3. Description of physical plant, size of campus and current or planned major construction projects and improvements, on all different campus sites.

### **MANAGEMENT**

1. History.
2. Location and affiliations with groups.
3. Principal administrators and board of trustees
  - a. Brief professional background of key administrators, and term of office, years of service;
  - b. Appointment process, governing powers;
  - c. Names, address, phone and fax number, and e-mail for investor contact.

### **FACULTY AND STAFF**

1. Number of full-time and part-time faculty, five-year trend, average age, number and percent tenured.
2. Number of other college staff.
3. Comment on any current labor issues, if material.

4. Retirement plan status—both faculty and staff.

## **DEGREES AND PROGRAMS**

1. Degrees and programs offered and enrollment concentrations. Discuss significant changes to programs offered over the last several years.
2. Continuing education and distance learning program, if offered, and impact on institution's finances.
3. Affiliations with corporations or other major users of university programs.

## **TUITION AND FINANCIAL AID**

1. Tuition, room and board and fees, including policies. Five-year trend. Note any planned increases.
2. Financial aid programs and policies. Break out institutional student aid and median grant levels. Include percent of students receiving financial aid by type of student (undergraduate, graduate, professional), type of aid offered, and default rate of student loans.

## **ENROLLMENT AND MARKETING**

1. Head count and FTE—five-year trend (historic and pro forma). Break down by undergraduate, graduate/professional and continuing education students. Include average age of student body, if available.
2. Acceptance rate—five-year trend (freshmen and transfers).
3. Matriculation and graduation rates (freshmen).
4. Retention rate (freshmen)—five-year trend.
5. Average ACT and/or SAT scores—five-year trend.
6. Enrollment management goals.
7. Geographic concentrations of students.
8. Main schools in competitive group and listed tuition.

## **ENDOWMENT**

1. Size of endowment, currently held investments by percent of portfolio (cost and market value). Use asset allocation as reported in the NACUBO endowment study, if possible. Break out expendable and permanent endowment.
2. Endowment management and spending policies.
3. Detail of major fund drives in process or planned, including alumni giving.
4. Foundation involvement.
5. Goal for endowment.

## **INVESTMENTS**

1. General investment policy for endowment and other funds. Include asset allocation targets and investment goals. Discuss any concentration of over 10% of portfolio.

2. Discussion of investment management policies (self-directed or out-sourced).
3. Include 1, 3, 5, and 10-year return on investment portfolio.

## **PLANT AND FACILITIES**

1. Current facilities, age of campus buildings, utility sources. Include parking availability if relevant to type of institution.
2. Status of campus technology—discuss need and upgrades, costs.
3. Student housing, on and off-campus, college-owned and privately run. Include percent of occupancy (five-year trend) and any relevant housing policies (e.g., requiring freshmen to live on campus).
4. Percent of students living on campus.
5. Outside student housing management, if relevant.
6. Property insurance, liability insurance, worker's compensation.

## **TERMS OF DEBT**

1. Amount, security and lien status:
  - a. Outstanding indebtedness, including lease and all contractual obligations, including the use of derivative products. Discuss security of debt obligations, and in the case of derivatives, the length of the agreement and potential termination payments.
  - b. Projected and planned indebtedness.
2. Capital plans for the next five years and expected funding mechanisms.
3. Long term debt applicable to plant.

## **BOND ISSUANCE PLAN** (This may be included in the body of the Official Statement)

1. Project description and timetable, including the following:
  - a. Source and use of funds, including source of equity contribution and timing of receipt.
  - b. If a refunding issue, reasons for refunding (economic, legal, etc.).
  - c. If reimbursing college/university for prior expenditures, or taking out construction loan, include explanation and status of construction.
2. Summary of Security. Refer to operative underlying document.
  - a. Pledged revenues.
  - b. Rate covenant.
  - c. Liquidity covenant.
  - d. Additional debt test.
  - e. Reserve fund requirements and funding provisions.
  - f. Redemption provisions, including extraordinary call features.
  - g. Legal features:
    - (i) Litigation risk—Pending proceedings that could affect the institution's ability to meet its obligations or trigger an extraordinary call;
    - (ii) Taxation risk—Covenant to maintain tax-exemption;

- (iii) Events of default and remedies;
    - (iv) Foreclosure proceedings and other significant bond covenants.
  - h. Crossover refundings—discuss if applicable.
  - i. Escrow arrangements, trustees and refunding timetable, if applicable.
- 3. Statement of sources and uses of funds.
- 4. Debt Service:
  - a. Debt service schedule, cumulative and by issue on a pro forma basis;
  - b. Debt service reserve requirement and balance for each issue;
  - c. Debt service coverage by issue and projected.
- 5. Debt Service Schedule and Projected Debt Service Coverage (list interest rate assumptions in footnote to the schedule), if not included previously.
- 6. Bond opinion and list of all legal documents with relevant opinions.
- 7. Continuing Disclosure statement.

## **FINANCIAL INFORMATION**

- 1. Audited financial statements—minimum of three years (summary of five), accompanied by auditor's management letters and management's responses.
- 2. Year-to-date financial statements compared with budget.
- 3. Budget summaries for most recent fiscal year and current full year projection.
- 4. Historical five-year trends of university financial aid by source (federal, state, university aid).
- 5. If separate enterprise fund for a project, list historical and projected financial statements, including debt service coverage, if relevant.
- 6. Off-balance-sheet housing and privatized operations.
- 7. Management discussion and analysis. Include discussion of impact of accounting changes.
- 8. Breakdown of realized and unrealized earnings by asset class.
- 9. Key components of unrestricted net assets, specifically (a) net investment in plant and (b) accumulated gains on true endowments.
- 10. Key components of net assets released from restriction, specifically quantifying releases
- 11. related to (a) construction or acquisition of fixed assets and (b) endowment spending policies.
- 12. Relevant disputes with your relevant federal agency concerning indirect cost recovery reimbursement.

## **RECOMMENDED CONTENT OF SECONDARY MARKET DISCLOSURE FOR PRIVATE COLLEGE & UNIVERSITY TRANSACTIONS**

The following recommendations have been developed to achieve the goals set forth above. In addition to the specifics outlined below, institutions should be aware of the following:

- Information should be provided in a timely manner by the college or university and should include the name of an appropriate contact person, telephone and fax number and e-mail address.

This would enable those interested to obtain further clarification on the information disclosed. Information posted on web sites with free access is highly recommended.

- Accurate enrollment characteristics, which are key drivers of future credit quality, should be readily available.
- Issuers should try to be consistent with quantitative data being released to all venues, including that data released on the institution's web site.
- Data should be defined consistently over time and any changes in definitions or classifications should be clearly highlighted.
- All financial statements submitted should include an income statement, cash-flow statement and balance sheet and related footnotes. A management discussion is also very helpful.

## **FINANCIAL INFORMATION**

1. Annual audited financial statements for the college or university and a complete set of comparable audited financial statements for the prior year should be made available within 120 days of fiscal year end. If there is debt that is not a general obligation, supplemental financials concerning repayment of this debt need to be included (e.g., private student housing debt, debt supported by auxiliary system revenues, etc.).
2. Management discussion of finances on an annual basis should include,:
  - a. Operating income/losses (operating revenues which exclude investment income);
  - b. Material changes in financial performance of the college or university;
  - c. Lines of credit, including amount outstanding, amount available, provider, and collateral pledged;
  - d. Any significant changes to current year's budget;
  - e. Significant changes in short or long-term debt;
  - f. Any plans for new projects or capital improvements using contributions, internal funds or debt;
  - g. Significant changes to enrollment management efforts. Address significant fluctuation of enrollment and increases in tuition, fees and room and board;
  - h. Senior management and board changes;
  - i. Statement that pertinent hazard and liability insurance policies are still in effect;
  - j. Significant changes in outstanding litigation, if deemed material.
3. Annual audit should contain statement or certification by college or university that they are in compliance with financial covenants required by bond documents or that the auditor opines to their compliance.
4. If available, interim financial statements shown against respective budget periods should be made available to investors.

## **OPERATING INFORMATION**

Operating Information for the period, including the following:

- a. Update on enrollment figures (FTE and head count).
- b. Applications, acceptances and enrollment of freshman and transfer students.
- c. Retention rate of freshman class.
- d. Average SAT/ACT scores of entering freshmen.

- e. In-state and out-of-state tuition (if applicable) with breakdown of tuition, fees, room and board.
- f. Occupancy of dormitories (if applicable for security of bond issue).
- g. Return on endowment and entire investment portfolio.
- h. Endowment spending policy—note changes.
- i. Asset allocation policy—note changes

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*NFMA constituent societies, individual members, or their firms may not agree with all provisions of these Recommended Best Practices. The NFMA is not a regulatory agency and compliance with the practices advocated herein does not constitute a “safe harbor” from any State or Federal rules or regulations. Nothing in this paper is to be construed as an offer or recommendation to buy or sell any security or class of securities.*

## Appendix A



### NFMA Recommended Guidelines on Operating Data

#### Private College & University Transactions

The Appendix contains *NFMA Recommended Guidelines on Operating Data for Private College & University Transactions* and is provided as an addendum to the *NFMA Recommended Best Practices in Disclosure for Private College & University Transactions* (“RBP”). These guidelines serve to summarize and conveniently tabulate certain key utilization statistics, operating data, and supplemental financial information set forth in the RBP for use in both primary and secondary market disclosure. This Appendix is not intended to be a “one size fits all” solution for providing this data consistent with the RBP. Issuers or obligors are encouraged to modify and supplement this Appendix in accordance with their own disclosure requirements and information profile. **To obtain more complete disclosure guidelines, issuers and obligors are urged to consult the *NFMA Recommended Best Practices in Disclosure Guidelines for Private College & University Transactions*.**



# NFMA Recommended Guidelines on Operating Data

## Private Colleges and Universities

### Part 1: Operating Data

Issuer Name					
Financial Officer Contact					
Telephone No.	(    )				
Fiscal Year End					
Website URL <i>(if available)</i>	<a href="http://www.">http://www.</a>				
	Last Five Years				
<b>Headcount</b>	FYE	FYE	FYE	FYE	FYE
Undergraduates					
Graduate students					
Total Headcount					
<b>Full-Time Equivalent</b>					
Undergraduates					
Graduate students					
Total FTE students					
<b>Applications and Enrollment Data</b>					
<b>Undergraduate Division</b>					
Applications Received					
Applications Accepted					
Enrolled					
Sophomore Retention Rate					
Median ACT/SAT Score					
<b>Transfer Students</b>					
Applications Received					
Applications Accepted					
Enrolled					
<b>Graduate School</b>					
Applications Received					
Applications Accepted					
Enrolled					



# NFMA Recommended Guidelines on Operating Data

## Private Colleges and Universities

### Part 2: Supplemental Financial Information

Last Five Fiscal Years

<b>Undergraduate Tuition, Room and Board (full year)</b>	FYE	FYE	FYE	FYE	FYE
Tuition					
Room & Board (if applicable)					
Fees (if applicable)					
Total Tuition, Room, Board and Fees					
<b>Graduate Tuition (full year)</b>					
Tuition (flat rate - full school year)					
Tuition (per semester hour, if applicable)					
<b>Endowment Funding</b>					
Restricted Funds					
Unrestricted Funds					
Total Funds					