

# New Related Party Disclosure Requirements for Higher Education Institutions

By Daniel M. Campbell, Partner

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## Key takeaways:

- The U.S. Department of Education (ED) has amended regulation [34 CFR § 668](#), which affects all private colleges and universities that receive Title IV funds. The amended regulations went into effect on July 1, 2024, and are effective for all audits issued on or after that date.
- The updated regulations include **expanded related party disclosure requirements** that extend beyond what is required under U.S. generally accepted accounting principles (GAAP).
- The updated regulation may affect auditors' determination of materiality.
- This article focuses on the disclosure of related party transactions as required by [34 CFR § 668.23\(d\)\(1\)](#). Additional information about the amended financial responsibility requirements is available [here](#).

## Amended Regulations Expand ED's Ability to Determine Financial Responsibility

The [amended regulations](#) that went into effect on July 1, 2024, are intended to strengthen ED's ability to determine financial responsibility and identify high-risk events promptly.

The changes relate to administrative capability, certification procedures, ability to benefit programs, and financial responsibility, which we summarize [in this article](#). They also include updated and expanded related party disclosure requirements, which we discuss below.

## Overview of the New Related Party Disclosure Requirements

As outlined in [34 CFR § 668.23\(d\)\(1\)](#):

- Financial statements submitted to ED **on or after July 1, 2024**, must include a detailed description of all related parties with a level of detail that would enable ED to readily identify the related party.
- These disclosure requirements **extend** beyond those in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 850, *Related Party Disclosures*, to include **all** related parties.<sup>1</sup>
- The information in the disclosure must include, but is not limited to, the name, location, and a description of the related entity, plus the nature and amount of **any** transactions between the related party and the institution, financial or otherwise, regardless of when they occurred.
- If there are no related party transactions during the audit fiscal year or related party outstanding balances reported in the financial statements, management must add a note to the financial statements to disclose this fact.

Note that the regulations use the terms "related parties" and "related entities" interchangeably.

Here is a summary of the key differences between the GAAP requirements for related party disclosures in ASC 850 and the amended ED requirements in [34 CFR § 668.23\(d\)\(1\)](#). Please refer to each source for the complete text and additional details.

Description	ASC 850	34 CFR § 668.23(d)(1)
When disclosure of a related party is required	“Financial statements shall include disclosures of material related party transactions, other than compensation arrangements, expense allowances, and other similar items in the ordinary course of business. However, disclosure of transactions that are eliminated in the preparation of consolidated or combined financial statements is not required in those statements.” (850-10-50-1)	“The disclosure requirements... extend beyond those of ASC 850 to include all related parties...”
Disclosure requirements when there are no related party transactions	Not required.	“If there are no related party transactions during the audited fiscal year or related party outstanding balances reported in the financial statements, then management must add a note to the financial statements to disclose this fact.”
What the disclosure must include	<p>“The disclosures shall include:</p> <ul style="list-style-type: none"> <li>a. The nature of the relationship(s) involved</li> <li>b. A description of the transactions and other information deemed necessary to understand the effects of the transactions on the financial statements</li> <li>c. The dollar amounts of transactions for each of the periods for which income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period</li> <li>d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement</li> <li>e. The information required by paragraph 740-10-50-17”</li> </ul> <p>(850-10-50-1)</p>	“Such information must include, but is not limited to, the name, location, and description of the related entity, including the nature and amount of any transaction between the related party and the institution, financial or otherwise, regardless of when it occurred...”

Description	ASC 850	34 CFR § 668.23(d)(1)
Whether the names of individuals or entities must be disclosed	“If necessary to the understanding of the relationship, the name of the related party shall be disclosed.” (850-10-50-3)	<p>“[The disclosure] must include, but is not limited to, the name, location and a description of the related entity...</p> <p>“Routine items such as meals provided to all board members during a working lunch would not be a related party transaction since the meals would be incidental to supporting a board meeting. Transactions with individual board members for other services provided to the institution or a related entity would be reportable.”</p>
Whether transactions can be aggregated	<p>“Notes or accounts receivable from officers, employees, or affiliated entities must be shown separately and not included under a general heading such as notes receivable or accounts receivable.” (850-10-50-2)</p> <p>“In some cases, aggregation of similar transactions by type of related party may be appropriate. Sometimes, the effect of the relationship between the parties may be so pervasive that disclosure of the relationship alone will be sufficient.” (850-10-50-3)</p>	Related party transaction disclosures must include a level of detail that would enable ED to readily identify the related party. The regulation does not include a provision that permits aggregation of transactions or exceptions to the disclosure requirements.

## Helpful Resources

The National Association of College and University Business Officers (NACUBO) [Advisory 24-01](#) (AR24-01) contains important links and discussion related to the amended regulations in 34 CFR § 668.23. The introduction supplies context on the amended regulations and pages 5 through 11 provide analysis specific to related party disclosures, including a sample disclosure and implementation considerations.

ED has provided these [Financial Responsibility Questions and Answers](#), which NACUBO provides further insight on in [this useful article](#). As the NACUBO article details:

- ED’s questions 13 through 20 reinforce foundational guidance in NACUBO’s [AR 24-01](#).
- Question 13 expands NACUBO’s understanding in AR 24-01 regarding operating transactions with financial institutions that are related parties. “The answer to question 13 amplifies ED’s desire for transaction information,” NACUBO notes.

In addition, the American Institute of Certified Public Accountants (AICPA) issued [Technical Question and Answer \(TQA\) 6960.13](#) with information for auditors on how to handle the related party disclosure requirements.<sup>2</sup> While AICPA membership is required to access the TQA, [this NACUBO article](#) provides a helpful overview.

In TQA 6960.13, the AICPA notes that legal and regulatory requirements can lower materiality thresholds used by auditors and offers two considerations for auditors:

- Provide the disclosures in an unaudited note to the audited financial statements, referencing its inclusion as a requirement of [34 CFR § 668.23](#).
- Provide the disclosures in a note to the audited financial statements. This would require the auditor to obtain sufficient evidence to provide reasonable assurance that all related party transactions have been disclosed.

ED has not stated whether either option would be acceptable.

### **Additional Considerations**

The expanded related party disclosure requirements in 34 CFR § 668.23(d)(1) create many challenges for the higher education community, including the following:

- ED may determine that institutions that do not comply are not financially responsible. This would result in the institution being required to annually obtain a letter of credit in favor of ED for a percentage of Federal Student Aid administered. Noncompliance may also prohibit the institution from participating in the National Council for State Authorization Reciprocity Agreements (NC-SARA).<sup>3</sup>
- Institutions that comply with the expanded regulations may violate Office of Management and Budget (OMB) guidelines on personally identifiable information. Disclosure of related party transactions would certainly put related contractors, donors, financial institutions, and service providers at a competitive disadvantage.
- Institutions will likely find it difficult and costly to implement financial reporting internal controls to capture and report every related party transaction.
- Auditors may be hard-pressed to develop procedures to provide reasonable assurance that related party transaction disclosures are complete and accurate.

If your institution receives Title IV funds, you should accumulate the related party data for compliance and documentation to support completeness. We recommend that you consult with your professional service providers and include your governing board in developing an institutional response.

Please [contact us](#) with any questions.

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<sup>1</sup> FASB is a private standard-setting body whose primary purpose is to establish and improve generally accepted accounting principles (GAAP) within the United States. These principles are published in the FASB Accounting Standards Codification (ASC). ASC 850, *Related Party Transactions*, provides the public with GAAP related to the disclosure of transactions with related parties. A searchable version of the codification is available online at [asc.fasb.org](http://asc.fasb.org).

<sup>2</sup> The AICPA is the national professional organization of CPAs in the United States.

<sup>3</sup> NC-SARA is a private 501(c)(3) nonprofit organization that helps expand students' access to educational opportunities and ensure more efficient, consistent, and effective regulation of distance education programs.

## About the Author

### **Daniel M. Campbell, Partner**

Higher Education Services Director

[dcampbell@capincrouse.com](mailto:dcampbell@capincrouse.com)

o 505.50.CAPIN ext. 1452

Dan has more than 40 years of public accounting experience leading audit engagements of nonprofit organizations and for-profit entities. Dan leads the firm's higher education practice segment, which includes more than 120 client relationships, and commits a significant portion of his professional time to board training, strategic planning initiatives, and accreditation support. He served on the Board of Trustees of Davis College for 25 years. Prior to joining the firm in 2006, Dan managed audits of financial institutions, construction contractors, and manufacturers.

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