

This document reflects the result of analyses, discussions and review by UCOP staff and PricewaterhouseCoopers (PwC) to date. The document is subject to change pending additional discussions with PwC; however, it represents the best information available to date.

University of California GASB 35 Financial Statement Presentation

Issues Resolution Memo No. 151

(Re-issued March 31, 2002)

Changes in Accounting and Reporting Required for Scholarship Allowances

Define Issues

The University must develop a methodology to determine the applicable financial aid support to be applied as scholarship allowances and student aid expenses in order to account for and report revenues net of discounts as required by GASB Statement No. 34.

Background

During 1999, the Government Accounting Standards Board (GASB) introduced GASB Statements 34 and 35. These Statements substantially revised the standards for external financial reporting by public institutions. The new reporting standards are required for the fiscal year beginning July 1, 2001, with comparative information for the prior year.

According to the new standards, the separately issued financial statements of public colleges and universities must include:

- Management's Discussion and Analysis (MD&A)
- Statement of Net Assets
- Statement of Revenues, Expenditures and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements

Financial statements must be prepared in accordance with GAAP (generally accepted accounting principles) and are subject to audit under GAAS (generally accepted auditing standards).

The University receives payments for the stated charges associated with tuition and fees, room and board, and other student-related fees in a variety of ways:

- Cash—student cash payments.

- Loans—include federal direct loan programs (e.g., William D. Ford Direct Lending, Perkins, Stafford) or campus-based loan programs where the loan programs pay directly to the University.
- Third Party—Non-University scholarship and financial aid programs where payments are paid directly by a third party to the University.
- Financial Aid—UC scholarship and financial aid program where payments are made directly to the University.
- Waivers—reduction or forgiveness of fees. Section III of the University’s Accounting Manual Chapter S-772-33, *Student Fees: Exemptions, Waivers, and Special Provisions* defines waivers as follows:

III.A. Types of Fees Waived

As provided in the Standing Orders of The Regents, waivers are granted to students who are, in principle, subject to fees but who, by specific University action, are exempt from the payment of fees. The Standing Orders provide for the waiver of three kinds of student fees:

- 1) Nonresident Tuition Fees, which may be waived for specific types of students;
- 2) Application Fees, which may be waived for those students formally admitted to the Educational Opportunity Program; and
- 3) Educational Fees, which may be partially waived for salaried student assistants. [These costs are charged to fund sources paying the salaries, thus should not be considered as part of scholarship allowance.]

In addition, although students attending the University of California under the EAP are liable for all fees, EAP scholarship assistance may be provided to some students for partial payment of their fees.

A scholarship allowance is the difference between the stated charge for goods and services provided by the University and the amount that is paid by the student, as well as third parties making payments on behalf of the student. As such, scholarship allowances may apply only to financial aid and waivers.

GASB Statement No. 34 prescribes that revenues should be reported net of discounts and allowance. Therefore, tuition and fees, auxiliary enterprises (e.g., room and board), and other revenue (e.g., recreational center, communications) should be reduced by the amount of scholarship allowances

Authoritative Guidance

GASB Statement No. 34 states:

Paragraph 100—The operating statement for proprietary funds is the statement of revenues, expenses and changes in net assets. Revenues should be reported by major source⁴¹ and should identify revenues used as security for revenue bonds.

Footnote 41—Revenues should be reported net of discounts and allowances with the discount or allowance amount parenthetically disclosed on the face of the statement or in a note to the financial statements. Alternatively, revenues may be reported gross with the related discounts and allowances reported directly beneath the revenue amount.

Recommended Approach

- Campuses will use the data available in their student accounts systems to calculate the scholarship allowance amount applicable to waivers and financial aid.
- Because the data available in student accounts systems can vary by campus, the University has developed two, equally acceptable alternatives for determining the scholarship allowance amount by revenue categories.
 - *Alternative 1—Short Form Method*

Under this method, the data elements necessary to calculate the scholarship allowance amount by revenue category can be directly identified in the student accounts system. Exhibit 1 provides an illustration of this method.
 - *Alternative 2—Long Form Method*

Under this method, the campuses must use summary data available in their student accounts systems to derive the scholarship allowance amount and allocate it to revenue categories. Exhibit 2 provides an illustration of this method.
- At the end of each fiscal year, campuses must record scholarship allowances in contra revenue accounts that map to one of the following account group codes, as appropriate (see Exhibit 1a of IRM 150):
 - 200500—Student Tuition & Fees—Contra—Student Financial Aid
 - 207330—Sales & Service—Contra—Auxiliary Enterprise Student Financial Aid
 - 208290—Other Sources—Contra—Student Financial Aid

- The journal entry to record scholarship allowances is:
 - Debit* Student Tuition & Fees–Contra–Student Financial Aid (must map to account group code 200500)
 - Debit* Sales & Service–Contra–Auxiliary Enterprise Student Financial Aid (must map to account group code 207330)
 - Debit* Other Sources–Contra–Student Financial Aid (must map to account group code 208290)
 - Credit* Student Financial Aid Expense (must use object code 7760)
- To facilitate reporting, UCOP established UAS code 780109—Scholarship Allowance to be used beginning fiscal year 2002–2003.

Next Steps—Required Actions

Responsibility (C, OP)	Required Completion Date	Action Item/Task
C	15-Oct-01	Calculate FY 2000-2001 Scholarship Allowance —Calculate the FY 2000-2001 scholarship allowance using one of the alternative methodologies provided in this IRM (see Exhibits 1 and 2) and report it to UCOP. <u>Campuses will not record the FY 2000-2001 scholarship allowance in their General Ledger since it only involves a reclassification.</u>
C	15-Oct-01	Submit FY 2000-2001 Scholarship Allowance Worksheet to UCOP —Submit the FY 2000-2001 scholarship allowance reclassification information to UCOP using the worksheet provided in Exhibit 3.
OP	30-Nov-01	Restate Prior Year Financial Statements —Use the scholarship allowance information (Exhibit 3) provided by the campuses to restate FY 2000-2001 Statement of Changes in Funds Balances and Statement of Current Funds Revenues, Expenditures and Other Changes into the new Statement of Revenues, Expenditures and Changes in Net Assets in order to prepare comparative statements for FY 2001-2002 Annual Report.
C	1-Mar-02	Incorporate Scholarship Allowance Entry in FY 2002 Annual Closing Process —Incorporate the scholarship allowance accounting entry into the campus fiscal closing schedule.
C	3-Aug-02	Calculate and Record the FY 2001-2002 Scholarship Allowance —Calculate and record the FY 2000-2001 scholarship allowance in appropriate contra revenue account that maps to account group code 200500, 207330, or 208290.

IRM 151—Exhibit 1

Short Form Method to Calculate the Scholarship Allowance Amount

	Waivers (A)		Financial Aid	Scholarship Allowance
Total Waivers and Financial Aid	\$ 4,100,000 (B)		\$ 15,000,000 (B)	
Less: Financial Aid Paid (in cash) to Student			3,000,000 (B)	
Less: Tuition & Fee Remission for Student Employees	2,000,000			
Less: Tuition & Fees				
Applied Tuition & Fees	1,950,000 (C)		8,200,000 (C)	\$ 10,150,000
Total Scholarship Allowance for Tuition & Fees				\$ 10,150,000
Fees Relating to Balance Sheet Amounts	100,000 (D)		600,000 (E)	
Less: Auxiliaries				
Housing				
Dining			2,000,000 (B)	2,000,000
Bookstore			1,000,000 (B)	1,000,000
Athletics				
Other				
Total Scholarship Allowance for Auxiliaries				\$ 3,000,000
Less: Other Revenue				
Communications				
Recreational Sports	50,000 (D)		200,000 (E)	250,000
Telephone				
Other				
Total Scholarship Allowance for Other Revenue				\$ 250,000
Undistributed Amount	<u>\$ -</u>		<u>\$ -</u>	
Total Scholarship Allowance				\$ 13,400,000

- (A) Waivers are defined as the University category of "Waivers" per S-772-33.
- (B) Information from the campus student accounts system.
- (C) Total Waivers or Financial Aid less the identified activities below.
- (D) Amount calculated by applying a campus-wide percentage to the Total Waiver amount.
- (E) Amount calculated by applying a campus-wide percentage to Total Aid less Financial Aid Cash Payments, less the Housing amount, less the Food Services amount.

IRM 151—Exhibit 2

Long Form Method to Calculate the Scholarship Allowance Amount—Part 1

Calculation of Refunds by Sources and Financial Aid as Applied to Fees

	Total Payments (A)	Percentage for Refund Allocation (B)	Less: Refunds (C)	Applied to Fees
Loans	\$ 40,000,000	67%	\$ (8,000,000)	\$ 32,000,000
Financial Aid	15,000,000	25%	(3,000,000)	12,000,000
Third Party	5,000,000	8%	(1,000,000)	4,000,000
Waivers	4,100,000			4,100,000
Cash	20,000,000			20,000,000
	<u>\$ 84,100,000</u>	<u>100%</u>	<u>\$ (12,000,000) (A)</u>	<u>\$ 72,100,000</u>

Distribution of Financial Aid to Fees

	Total Fees Paid (A)	Percentage	Financial Aid Applied to Fees (C)
Tuition & Fees	\$ 52,000,000	72%	\$ 8,640,000 (E)
Fees Relating to Balance Sheet	2,000,000	3%	360,000 (E)
Housing	13,100,000	18%	2,160,000 (E)
Communication	3,000,000	4%	480,000 (E)
Recreation Center	2,000,000	3%	360,000 (E)
	<u>\$ 72,100,000</u>	<u>100%</u>	<u>\$ 12,000,000 (E)</u>

Distribution of Waivers to Fees

	Waivers (D)	Percentage	Waivers Applied to Fees (C)
Tuition & Fees	\$ 52,000,000	93.0%	\$ 3,813,000 (E)
Fees Relating to Balance Sheet	2,000,000	3.5%	143,500 (E)
Recreation Center	2,000,000	3.5%	143,500 (E)
	<u>\$ 56,000,000</u>	<u>100.0%</u>	<u>\$ 4,100,000 (E)</u>

- (A) Information from the campus student accounts system.
- (B) Waivers and student cash payments are not sources for refunds.
- (C) Distribution based on percentages calculated in column to the left.
- (D) Waivers only applied to the stated fees for allocation.
- (E) Amount transferred to next page, Part 2 of Exhibit 2.

IRM 151—Exhibit 2

Long Form Method to Calculate the Scholarship Allowance Amount—Part 2

	Waivers (A)	Financial Aid	Scholarship Allowance (C)
Total Waivers and Financial Aid	\$ 4,100,000 (B)	\$ 12,000,000 (B)	
Less: Tuition & Fee Remission for Student Employees	2,000,000		
Less: Tuition & Fees			
Applied Tuition & Fees	1,813,000 (B)	8,640,000 (B)	\$ 10,453,000
Total Scholarship Allowance for Tuition & Fees			\$ 10,453,000
Fees Relating to Balance Sheet Amounts (Building-related fees)	143,500 (B)	360,000 (B)	
Less: Auxiliaries			
Housing			
Dining		2,160,000 (B)	2,160,000
Bookstore			-
Athletics			
Other			
Total Scholarship Allowance for Auxiliaries			\$ 2,160,000
Less: Other Revenue			
Communications		480,000 (B)	480,000
Recreational Sports	143,500 (B)	360,000 (B)	503,500
Telephone			
Other			
Total Scholarship Allowance for Other Revenue			\$ 983,500
Undistributed Amount	\$ -	\$ -	
Total Scholarship Allowance			\$ 13,596,500

- (A) Waivers are defined as the University category of "Waivers" per S-772-33.
- (B) Information from the previous page, Footnote (E) from Part 1 of Exhibit 2.
- (C) Waiver amount plus Financial Aid amount.

IRM 151—Exhibit 3

Scholarship Allowance Reclassification Summary for the Fiscal Year Ended June 30, 2001

Campus: _____

Method: _____ Short Form _____ Long Form

(Attach appropriate schedule per IRM No. 151)

Journal Entry	San Berkeley	San Francisco	Davis	Los Angeles	Riverside	San Diego	Santa Cruz	Santa Barbara	Irvine	Systemwide	Total
<i>Reclassify Scholarship Allowance</i>											
<i>Debit</i> Student Tuition & Fees-Contra-Student Financial Aid (AG 200500)											
<i>Debit</i> Sales & Service-Contra-Auxiliary Enterprise Student Financial Aid (AG 207330)											
<i>Debit</i> Other Sources-Contra-Student Financial Aid (AG 208290)											
<i>Credit</i> Student Financial Aid Expense (OC 7760)											

Note: These particular entries will not be recorded in campus General Ledgers, but will be used to accumulate the information needed to reclassify the June 30, 2001 financial statements in conjunction with the June 30, 2002 Annual Report.