Chapter 16

Accounting for Colleges and Universities
Learning Objectives

After studying Chapter 16, you should be able to:

 Distinguish between GAAP for public and private colleges and universities (C&U)
 Describe financial reporting for public and private C&U
Learning Objectives (Cont’d)

Discuss accounting and reporting issues for all C&U, such as accounting for:

- Assets, liabilities, and net assets
- Revenues and expenses
- Cash flows

Journalize transactions for private C&U

Prepare financial statements for public and private C&U
Learning Objectives (Cont’d)

Discuss managerial, auditing, and reporting issues, such as:

- Performance measures
- Auditing
- Federal financial assistance
-Related entities
GAAP for Colleges and Universities

Public C&U

GASBS 35 (1999)

GASBS 34 as special-purpose governments

AICPA AAG—State and Local Governments

Private C&U

SFAS Nos. 116 and 117 (1993)

AICPA AAG—Not-for-Profit Organizations
Financial Statements for a Public C&U

- Statement of net assets (see Ill. 16-1), classifying net assets into:
  - Invested in capital assets, net of related debt
  - Restricted
  - Unrestricted

- Statement of revenues, expenses and changes in net assets (see Ill. 16-2)

- Statement of cash flows (see Ill. 16-3)
Financial Statements for a *Private C&U*

- Statement of financial position (see Ill. 16-4), classifying net assets into:
  - Unrestricted
  - Temporarily restricted
  - Permanently restricted
- Statement of activities (see Ill. 16-5)
- Statement of cash flows (see Ill. 16-6)
Assets

- Assets available for all purposes of the C&U at the discretion of the governing board are *unrestricted*, and arise from:
  - Instructional, research, and public service programs
  - Auxiliary activities, such as residence halls, food service, athletic programs, and stores

- Assets that are not available for current operating purposes due to limitations placed on them by parties external to the C&U are *restricted* or *limited as to use*
Assets—Investments

- Investments are reported at fair value as of the end of the reporting period.

- Any unrealized gains or losses arising from fair value reporting are shown on the operating statement (statement of activities or statement of revenues, expenses, and changes in fund net assets).
Loan Assets

- Assets loaned to students, faculty, and staff
- Provided by gifts, grants, investment income, and transfers from other funds
- Loan activities are on a self-sustaining basis—revolving basis, i.e., repayment of loans and interest received are available for lending to others
- Interest income on loans and temporary investments is expected to offset the cost of administration of loan activities and the loss from uncollectible loans
Assets—Capital

- Long-lived assets, such as land, buildings, and equipment, are carried at cost or fair value for donated assets.
- Long-lived assets are capitalized.
- With the exception of inexhaustible assets, such as land, capitalized assets are depreciated.
- Public C&U report infrastructure and can use the “modified approach,” rather than depreciation for certain eligible infrastructure assets (see Chapter 7).
Collections held by museums and libraries of colleges and universities do not have to be recognized as assets (and consequently depreciated) if they are:

- Held for public exhibition
- Protected and preserved
- Subject to a policy that requires proceeds from sales to be used to acquire other similar assets
Endowment—the donor has stipulated that the principal of his/her gift is not expendable as of the reporting date. However, the gift can be invested for the purpose of producing income. Generally, there are two forms of endowment:

- Permanent—the principal must remain intact for perpetuity
- Term—the principal remains intact for a period of time
Endowment income may be unrestricted or restricted depending upon the donor’s conditions.

Endowment income is only added to the principal of the endowment if the provisions of the gift require it.

State institutional investment laws may supersede GAAP.
In maintaining the principal of the endowment certain concepts are used:

- Under a *total return* investment objective changes in fair value of the portfolio as well as income are considered part of the return on the investment portfolio.

- *Spending rate* is the proportion of total return that may prudently be used by an institution for current purposes.
Restricted Net Assets—Split-interest Agreements

- The C&U shares the interest and/or investment with the donor, examples include charitable lead and remainder trusts.

- Annuity agreements are gifts in which donors require a *stipulated amount* of money returned to them or other beneficiary each year. At some point in time (e.g., death) the C&U owns the assets and income.

- Pooled life income agreements require that *total income* earned on the donor’s pro rata share of donated assets be returned to the donor or other beneficiary.
Internal Revenue Code provisions may apply to these contributions.

Split-interest agreements should be carefully drawn with attention given to the definition of income, allocation of expenses, etc.

Liabilities for annuity payments are calculated using actuarial and present value concepts.
Revenue Classifications

- Tuition and fees
- Federal, state, and local appropriations
- Private gifts
- Grants and contracts
- Investment income
- Sales and services of educational activities
- Sales and services of auxiliary activities
- Other sources
Revenues—Tuition & Fees

- Record Tuition & Fees at gross amount
- Report Tuition & Fees net of estimated uncollectible amounts
  - For public C&U a contra-revenue account is allowable for recording and reporting estimated uncollectible amounts
  - For private C&U revenue should be directly adjusted for uncollectible amounts
- Tuition & Fees should also be reported net of tuition discounts and scholarships
Revenues—Nonexchange Transactions

- Nonreciprocal transactions in which the donor does not receive “quid pro quo” are called *nonexchange* transactions (e.g., gifts and grants)

- These gifts are considered increases to:
  - Temporarily restricted net assets for a private C&U
  - Restricted net assets for a public C&U
Grants may be *exchange transactions* if the grantor receives direct benefits in the form of something of value in exchange for the grant.

E.g., if a university tests a product under a federal contract, but the government retains the patent (or rights) to use the product.

Many C&U treat research grants as *exchange transactions* because the grantor expects performance and a report on how the funds were used.
For private C&U, contributed services are reported as contributions and expenses if they

- Would need to be purchased by the organization
- Require specialized skills
- Are provided by professionals with those skills
- Can be measured and are material

(Note: GASB has no provision for contributed services)
Current Operating Expenses

- Recognized on the accrual basis

- May be classified by:
  - Program functions
  - Organization units
  - Projects
  - Object classes
Functional Classification of Expenditures

- Instruction
- Research
- Public service
- Academic support
- Student services
- Institutional support
- Operation and maintenance of plant
- Scholarships and fellowships
Performance Measures

Decision makers monitor the performance of C&U

- Internal management (administrators)
- Oversight bodies (governing boards, accrediting agencies)
- Funding sources (governments, donors, grantors, investors)
- Constituents (students, faculty, alumni)
Nonfinancial Performance Measures

C&U are encouraged to provide qualitative measures that help assess accomplishments:

- Outputs, e.g., faculty productivity, number of graduates, job placements
- Outcomes, e.g., increased knowledge of students, satisfaction of alumni, value added to students in the areas of skills and knowledge
Financial Performance Measures

Financial measures used to evaluate viability, return and leverage:

- Expendable resources to debt
- Unrestricted resources to operations
- Expendable resources to total net assets
- Total resources per full-time equivalent student
- Maximum debt service coverage
Auditing Issues in C&U

- C&U that expend more than $500,000 of federal awards a year are subject to a Single Audit.

- Auditors will use generally accepted auditing standards, government auditing standards (yellow book), and OMB Circular A-133.

- Auditors must be sure the C&U has complied with the cost principles in OMB Circular A-21 and the cost and administrative principles in OMB Circular A-110.
Related Entities

- C&U may have institutionally related foundations for fund-raising, alumni relations, or management of assets

- In general, related entities should either be disclosed in the notes to the financial statements or reported as component entities, depending on the degree of control and economic interest
GASB Component Units

- GASB requires public universities* to report affiliated organizations as component units if these criteria are met:
  - The economic resources received or held are almost entirely for the direct benefit of the university
  - The university is entitled to access those resources
  - The economic resources are significant to the university

- Discrete presentation is required; i.e., a separate column on the face of the financial statements

*The GASB requirement does not apply exclusively to universities.
Concluding Comments

- Public colleges and universities follow GASB guidance
- Private colleges and universities follow FASB guidance
- Colleges and universities receive a substantial amount of federal funds leading to Single Audits
- Under GASB standards public C&U are required to bring affiliated fundraising, medical, research, and athletic foundations and organizations into their financial reports

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