1 **Question:** How does the application of student loan funds to the student’s account affect the discount?

**Answer:** Although student loans (whether an institutional loan program or federal direct loans) are a form of aid, students must repay loans. Loan funds belong to the student and as such are a form of payment from the student on their account. Consequently, loans are not included when evaluating aid awarded to students for the purpose of estimating the discount.

*NACUBO’s Advisory Report 2023-01* (AR 2023-01 or “the Advisory”) includes a conceptual description of what a “discount” is. Additionally, the discount for public institutions is defined as amounts awarded by institutions to students that reduce their out-of-pocket costs for tuition and fees and/or auxiliary services. Because GASB considers Pell Grants to be institutional revenue, in substance, Pell Grants are aid awarded by institutions to students, i.e., institutional aid. The offset for Pell Grant amounts that are applied as payments to student account balances is a tuition discount (consistent with footnote 41 of GASB Statement 34). (Note: when Pell Grant amounts are disbursed to students—because there is no account balance for application—the offset is a scholarship expense.)

2 **Question:** I read the Advisory as NACUBO asking schools to modify their student information systems (SIS) to apply payments in a specific order to capture data for the scholarship allowance calculation. I later heard that it is acceptable for the data for the calculation to come out of the student information system, but the calculation itself can occur outside of the SIS. Is that correct?

**Answer:** Yes, the calculation can occur “outside” of the SIS. For example, in Method A (page 11), the institution’s policy is to award aid to cover tuition and fees. Students with high need may have tuition and fees covered and some or all of their room and board charges reduced by aid. The extract from the SIS includes total charges for tuition and fees (T&F), total charges for auxiliary services, and the total aid amount. Aid is allocated to T&F first, with any remaining aid applied to auxiliary charges, if any. The allocation of aid to charges (for the academic term) determines the “discount” for the associated charge. Aid in excess of charges is a scholarship expense, signified by negative remaining T&F in the table below. The logic is presented below:

<table>
<thead>
<tr>
<th>Student</th>
<th>Aid awarded</th>
<th>T&amp;F Charges</th>
<th>Allocate aid to T&amp;F</th>
<th>Remaining T&amp;F</th>
<th>Auxiliary charges</th>
<th>Allocate aid to Auxiliaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>3,098</td>
<td>3,655</td>
<td>3,098</td>
<td>557</td>
<td>-</td>
<td>N/A</td>
</tr>
<tr>
<td>149</td>
<td>10,186</td>
<td>10,162</td>
<td>10,186</td>
<td>(24)</td>
<td>-</td>
<td>N/A</td>
</tr>
</tbody>
</table>

| T&F discount | 13,254 |
| Scholarship expense | 24 |
3 **Question:** When academic terms—such as summer sessions—cross over fiscal year ends, how is the discount calculated when there is unearned summer revenue or apportionment of summer revenue?

**Answer:** Because the discount is a reduction of T&F and/or auxiliary revenue, and institutions must already allocate summer revenues between fiscal years, the most straightforward method involves allocating the discount in the same proportions as the underlying revenues. Essentially, there are three steps in this process:

1. Determine the allocation of T&F and auxiliary revenues between fiscal years.
2. Calculate the discount for the entire summer term using your chosen methodology.
3. Allocate the total discount among revenue types and fiscal years.

A simple example of this approach is shown below:

<table>
<thead>
<tr>
<th>[1] Total summer term revenues</th>
<th>T&amp;F</th>
<th>Aux</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summer revenues allocated to:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiscal year X1</td>
<td>12,300,000</td>
<td>A</td>
<td>600,000</td>
</tr>
<tr>
<td>Fiscal year X2</td>
<td>7,700,000</td>
<td>B</td>
<td>400,000</td>
</tr>
<tr>
<td></td>
<td>20,000,000</td>
<td>C</td>
<td>1,000,000</td>
</tr>
</tbody>
</table>

| Percentage allocated to:      |       |     |   |
| Fiscal year X1                | 61.5% | D = A/C | 60.0% |
| Fiscal year X2                | 38.5% | E = B/C | 40.0% |

| [2] Total summer term discount | F | 75,000 | 11,325,000 |
| [3] Allocated to:              |   |       |           |
| Fiscal year X1                | 6,918,750 | G = F * D | 45,000 | 6,963,750 |
| Fiscal year X2                | 4,331,250 | H = F * E | 30,000 | 4,361,250 |
|                               | 11,250,000 |   | 75,000 | 11,325,000 |

4 **Question:** If a student does not live on campus, and between his Pell and institutional aid, it pays for all of his T&F with excess financial aid being disbursed to the student (“refunded”), then the amount of the disbursement would be considered an expense and not a tuition discount?

**Answer:** Yes. In general, excess institutional aid disbursed to students should be treated as an expense. NACUBO Advisory Report 2000-05 contains many examples of types of transactions that are common in higher education, starting on page 10. These examples provide a good background on the logic behind allocating institutional aid between revenues and scholarship expense.
4a **Question:** Here is an actual example of a student’s charges and institutional aid. Have we calculated the discount and expense correctly?

<table>
<thead>
<tr>
<th>Charges</th>
<th>Institutional aid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition and fees</td>
<td>$ 6,013</td>
</tr>
<tr>
<td>Room and board</td>
<td>$ 5,109</td>
</tr>
<tr>
<td>Pell grant</td>
<td>$ 2,473</td>
</tr>
<tr>
<td>Institutional scholarship</td>
<td>$ 3,750</td>
</tr>
<tr>
<td>Semester total</td>
<td>$ 11,122</td>
</tr>
<tr>
<td></td>
<td>$ 6,223</td>
</tr>
<tr>
<td>Tuition discount</td>
<td>$ 6,013</td>
</tr>
<tr>
<td>Auxiliary discount</td>
<td>$ 120</td>
</tr>
<tr>
<td>Scholarship expense</td>
<td>$ 0</td>
</tr>
</tbody>
</table>

**Answer:** Yes, assuming that the institution awards aid to tuition and fees before awarding aid to room and board. Pages 7-8 of the Advisory discuss the importance of an ordering principle or policy or rule by institutions for awarding institutional aid. Consequently, if some or all of the institutional scholarship was required to be used for room and board, that portion of the scholarship would be an auxiliary discount. The remainder of the scholarship would then be allocated to T&F.

For example, if $2,000 of the institutional scholarship was required to be used for room and board:

- Tuition discount - $4,223
- Auxiliary discount - $2,000
- Expense - $0

This points out the importance of understanding how institutional aid is applied to student accounts.

**NOTE:** In general, excess aid should be treated as an expense; in this example, institutional aid (scholarship) does not exceed student charges, so there is no expense reported.

5 **Question:** If a university is still using an ancient SIS, is there a way to tweak the alternate method to generate a more accurate discount?

**Answer:** As AR 2023-01 points out, one of the major concerns with the alternate method is that it uses all disbursements to students as an input (all disbursements are treated as aid; however, it’s possible that a disbursement results from a loan or an overpayment by the student). Any tweaks to the alternate method would need to overcome those concerns. Method C in the Advisory was developed to provide an
example of a methodology using institution-level data. In other words, to some extent, Method C makes these tweaks to the alternate method by excluding disbursements to students from the calculation. Rather, it allocates institutional aid to the applicable revenue items, irrespective of whether individual students received refunds of excess financial aid.

6 **Question:** When does NACUBO recommend that institutions implement this change to the discounting methodology?

**Answer:** NACUBO recommends that institutions implement the Advisory’s guidance as soon as practicable, but no later than fiscal year 2025.

7 **Question:** How should we report the methodology change in the year we implement the Advisory?

**Answer:** This change in methodology is a change in estimate. Accordingly, the change is applied prospectively. There is no restatement of prior periods or adjustment to beginning net position. The institution should make the following note disclosures required by GASB Statement No. 100, *Accounting Changes and Error Corrections*:

- The nature of the change in accounting estimate, including identification of the financial statement line items (excluding totals and subtotals) affected.
- The reason for the change in measurement methodology, including an explanation of why the new measurement methodology is preferable.

8 **Question:** Does NACUBO have any scripts or other tools to help in extracting student data from an SIS?

**Answer:** George Mason University has developed an SQL script they use with Banner. They have generously provided a generic version of that script (located at https://www.nacubo.org/-/media/Documents/Accounting/APC/Tuition-discounting-SQL---Banner.ashx?la=en&hash=3348620EC8E0CCE68F7A2802FFC9BABF77E981C7) for others to modify and use on their campuses.

To date, we do not have similar scripts for other student information systems.

9 **Question:** Why does it matter whether amounts are over- or under-allocated among revenues and expense?

**Answer:** There are two points to consider here. First is the “pure” accounting perspective. The discount is an estimate, and as better information becomes available to use as an input to make that estimate, that information should be used.
From this perspective, it’s not so much that we are concerned about over- or under-allocation, it’s that we are fine-tuning the estimate.

The second perspective relates to how the financial statements tell the institution’s “story.” By following the guidance in the Advisory, institutions provide users of the financial statements with a more accurate picture of how it is using its financial aid dollars to provide assistance to students.

Additionally, GASB’s current revenue and expense project is focusing on revenue accurately reflecting the nature of contractual agreements with customers.

10 **Question:** What types of transactions are not considered to be institutional aid, and thus not included in the discount calculation?

**Answer:** The definition of discount used in the Advisory refers to (a) institutional funds awarded to students to (b) reduce their total out of pocket costs of attendance. Thus, if the funds come from an outside party—*and the institution has no administrative involvement other than applying the funds to the student’s account*—they are not institutional funds and are not included in the discount calculation.

*Note:* GASB has explicitly stated that Pell Grants applied to student accounts must be reported as a discount (see GASB Implementation Guide 2015-1, question 7.72.10). NACUBO has not issued guidance on forms of financial aid other than Pell Grants (with named student recipients) that may be considered a payment on a student’s account (a type of agency transaction).

Consequently, there may be inconsistency in practice among public institutions, but generally, transactions of this type include—

- Scholarships from third parties *when those parties select the recipients*. This includes scholarships from related foundations that are shown as discretely presented component units in the institution’s financial statements.

  *Note:* If the institution selects the recipients, even if the foundation holds the money until the institution requests it, the scholarship is institutional aid included in the discount calculation.

- Amounts billed directly to a student’s employer, for example, amounts paid by a local hospital for its employees enrolled in a nursing program at the institution.

- Amounts provided to students by state, local, or federal governmental entities as part of those entities’ educational assistance programs for their constituents. Examples include social and rehabilitation services agencies, the Veterans Administration, etc.
• Amounts provided to named students by private entities. Examples include civic organizations, clubs, and other types of non-profit entities.

Note: consistent with the answer to Question 1 (above), some funds for named students that are credited to a student’s account have the effect of pushing the student’s payment into the future, because they are loans in the student’s name. Consequently, the student’s total out of pocket costs are not reduced, they’re simply deferred because the student must repay the lender. Transactions of this type include—

• Federal student loans (Stafford, Parent PLUS, federal direct lending program, etc.).
• Student loans made from institutional funds. Even though institutional funds are used, the student’s total out of pocket costs are not reduced. If the student’s loan balance is subsequently written off or forgiven, T&F revenue is not affected.

11 **Question:** Does NACUBO have any examples of how the discount for specific types of transactions would be recorded?

**Answer:** Yes. See the examples on the following pages. Although the examples were originally presented in AR 2000-05, which is superseded by AR 2023-01, they are useful to illustrate the concepts institutions should consider when developing their discounting methodology.
The example discounting methodologies in Advisory Report 2023-01 utilize data aggregated by term or by fiscal year. It is very likely impractical to accumulate the discount based on individual transactions, as shown below. However, these transaction examples are useful to illustrate the concepts institutions should consider when developing their discounting methodology.

Example 1
A student’s tuition of $5,000 is waived due to attendance in a special grant-funded class. The $15,000 grant is awarded to the institution.

Entries:

1. Record receipt of grant
   
<table>
<thead>
<tr>
<th>Entry</th>
<th>Description</th>
<th>Grant rev.</th>
<th>T&amp;F rev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>15,000</td>
<td>15,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Grant revenue</td>
<td></td>
<td>15,000</td>
<td></td>
</tr>
</tbody>
</table>

2. Record tuition charged for the class
   
<table>
<thead>
<tr>
<th>Entry</th>
<th>Description</th>
<th>Grant rev.</th>
<th>T&amp;F rev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student accounts receivable</td>
<td>5,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition revenue</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
</tr>
</tbody>
</table>

3. Record tuition waiver
   
<table>
<thead>
<tr>
<th>Entry</th>
<th>Description</th>
<th>Grant rev.</th>
<th>T&amp;F rev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scholarship allowance</td>
<td>5,000</td>
<td>(5,000)</td>
<td></td>
</tr>
<tr>
<td>Student A/R</td>
<td>5,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Example 2
A student’s tuition of $500 is waived under a program providing waivers to full-time employees of the state government and public universities. Another student, who is an employee of the institution, receives the same waiver.

1. Record tuition charged for the class
   
<table>
<thead>
<tr>
<th>Entry</th>
<th>Description</th>
<th>Grant rev.</th>
<th>T&amp;F rev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student A/R</td>
<td>1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>T&amp;F revenue</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>

2. Record tuition waiver for the non-employee student
   
<table>
<thead>
<tr>
<th>Entry</th>
<th>Description</th>
<th>Grant rev.</th>
<th>T&amp;F rev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scholarship allowance</td>
<td>500</td>
<td>(500)</td>
<td></td>
</tr>
<tr>
<td>Student A/R</td>
<td>500</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. Record tuition waiver for the employee student
   
<table>
<thead>
<tr>
<th>Entry</th>
<th>Description</th>
<th>Grant rev.</th>
<th>T&amp;F rev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit expense</td>
<td>500</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>Student A/R</td>
<td>500</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

1 This is a contra-revenue account, which is reported in the financial statements as a reduction of tuition revenue.
The employee student receives the waiver only because she is employed by the institution. Thus, her waiver is reported as part of employee benefit expense.

Example 3
A student is awarded a scholarship from unrestricted institutional funds. The scholarship covers 60% of the student’s T&F charges.

1. **Record the student’s T&F charges**
   - Student A/R 10,000
   - T&F revenue 10,000

2. **Record the scholarship**
   - Scholarship allowance 6,000
   - Student A/R 6,000

Example 4
A student is awarded a scholarship from unrestricted institutional funds. The scholarship covers T&F, institutional housing, and half the cost of a meal plan.

1. **Record the student’s charges**
   - Student A/R 14,000
     - T&F revenue 10,000
     - Housing revenue 3,000
     - Meal plan revenue 1,000

2. **Record the scholarship**
   - Scholarship allowance – T&F 10,000
   - Scholarship allowance – aux. 3,500
   - Student A/R 13,500

Example 5
A music student is awarded a scholarship from unrestricted institutional funds. The scholarship covers half of the student’s tuition; the student is expected to participate in music productions, but the scholarship cannot be canceled if the student does not participate.

1. **Record the student’s charges**
   - Student A/R 10,000
     - T&F revenue 10,000

2. **Record the scholarship**
   - Scholarship allowance 5,000
   - Student A/R 5,000
Example 6
A student athlete is awarded a scholarship for tuition, housing, meals, and books ($500). The bookstore operation is outsourced to a third party. The student lives in institutional housing and purchases a meal plan.

1. *Record the student’s charges*  
   **Student A/R** 14,000  
   T&F revenue 10,000 10,000  
   Housing revenue 3,000 3,000  
   Meal plan revenue 1,000 1,000

2. *Record the scholarship*  
   Scholarship allowance – T&F 10,000 (10,000)  
   Scholarship allowance – aux. 4,000 (4,000)  
   Financial aid expense (books) 500  
   **Student A/R** 14,500

3. *Record excess financial aid disbursed to student*  
   **Student A/R** 500  
   **Cash** 500

This third entry provides the books portion of the scholarship in cash. Because the bookstore operation is outsourced, the institution does not record any revenue relating to this portion of the scholarship.

Example 7
Same facts as Example 6, except that the student lives off-campus and does not purchase a meal plan.

1. *Record the student’s charges*  
   **Student A/R** 10,000  
   T&F revenue 10,000 10,000

2. *Record the scholarship*  
   Scholarship allowance – T&F 10,000 (10,000)  
   Financial aid expense 4,500  
   **Student A/R** 14,500

3. *Record excess financial aid disbursed to student*  
   **Student A/R** 4,500  
   **Cash** 4,500
Example 8
A student is awarded a scholarship by the local Rotary Club. The club selects the recipient of the scholarship, which covers tuition, and sends the scholarship money to the institution on behalf of the student.

1. Record the student’s charges
   Student A/R 10,000
   T&F revenue 10,000 10,000

2. Record receipt of scholarship from Rotary Club
   Cash 10,000
   Student A/R 10,000

Because the institution was not involved in the selection process, the scholarship is a third-party payment, not an award of institutional aid. Thus, there is no tuition discount relating to this transaction.

Example 9
Same facts as Example 8, except the institution selects the recipient.

1. Record the student’s charges
   Student A/R 10,000
   T&F revenue 10,000 10,000

2. Record receipt of scholarship from Rotary Club
   Cash 10,000
   Scholarship allowance 10,000 (10,000)
   Gift revenue 10,000 10,000
   Student A/R 10,000

When the institution has administrative involvement (e.g., selecting the recipient, monitoring academic progress, etc.), receipt of the money from the outside party is reported as revenue. The use of that money to reduce the student’s accounts receivable balance is reported as a T&F discount.