

# Accounting and Reporting Financial Aid as a Discount to Tuition and Other Fee Revenues

Advisory 2021-XX, A Revision of NACUBO Advisories 1997-01 and 2000-05

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### Reasons for Issuing New Guidance

#### Why is NACUBO consolidating the Advisories for calculating the tuition discount?

This new and proposed NACUBO Advisory consolidates and updates the guidance applicable to both independent and public institutions. This proposed guidance attempts to concisely define institutional financial aid provided to students, known as the scholarship allowance or discount. The proposal also advises that public and independent institutions use the same methodology for deriving the discount amount that is reported or disclosed in general purpose audited financial statements.

#### *Background:*

Following the issuance by the Financial Accounting Standards Board (FASB) of Statement of Financial Accounting Standards (SFAS) 116 and, and issuance by the Governmental Accounting Standards Board (GASB) of Statements of Governmental Accounting Standards (SGAS) 34 and 35, NACUBO issued two advisory reports, 1997-01<sup>1</sup> and 2000-05<sup>2</sup> in January 1997 and September 2000, respectively. The two advisories provided guidance on how to calculate and report the scholarship discount under those reporting standards.

Because the requirements of the two standards were similar, the content of the latter Advisory, 2000-05, *Accounting and Reporting Scholarship Discounts and Allowances to Tuition and Other Fee Revenues by Public Institutions of Higher Education*, was very similar to the one issued three years earlier for independent institutions. However, concerned that public institutions would not have data in sufficient detail to differentiate institutional aid (the discount) attributable to student fees (tuition, housing and dining), and institutional aid in excess of student fees reported as an expense, the latter Advisory (2000-05) included an “Alternate Method” for calculating the amount of aid reported as a reduction of revenue and the amount of aid reported as an expense.

**Due to many factors listed below, NACUBO is revisiting the suitability of the Alternate Method and has rescinded its support for the Alternate Method in this new Advisory.**

NACUBO is sharing this Advisory as an “exposure draft”, to collect feedback from institutions regarding the consequences of this change.

#### Who will be affected by the revised guidance?

Because the new Advisory is essentially a consolidation of the guidance in the earlier versions, independent colleges and universities will not be affected. However, as described in the next section, public institutions that are using the Alternate Method would have to adopt a new method for calculating the discount – by specifically applying institutional aid against the published price(s) for tuition and fees, or room, board and other items. NACUBO is interested in how burdensome this will be and how material the differences are between the Alternate Method and actual amounts of

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<sup>1</sup> AR 1991-01 *Accounting and Reporting Scholarship Allowances to Tuition and Other Fee Revenues by Higher Education*

<sup>2</sup> AR 2000-05 *Accounting and Reporting Scholarship Discounts and Allowances to Tuition and Other Fee Revenues by Public Institutions of Higher Education*

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institutional aid provided to students that result in discounts against gross revenue (tuition and fees, room and board, and other).

### What is changing and why?

Over the years, some public institutions going through ERP implementations reported that the Alternate Method calculation understated the amount of institutional aid reported as a discount against tuition and fees and housing and dining revenue and overstated the scholarship expense.<sup>3</sup> Also, when the amount of the discount is derived using the Alternate Method and then prorated between tuition and residential revenues, any understated discount attributable to tuition is further exacerbated and discounts reported against room and board are overstated. NACUBO believes that the Alternate Method inaccurately portrays how well institutions are meeting their mission to provide access to education, and impedes comparability of the tuition discount across institutions when different methods are used.

For these reasons and those listed below (*Why a calculation based on specific identification is preferred section*), this proposed Advisory stipulates that assessing, quantifying, and reporting institutional aid (discount) should involve a methodology based on the specific identification of aid and application to students' accounts. As such the alternate method of using a combination of non-exchange sources of revenues, student related cash flows, potential institutional sources of aid, institutional loan programs, and funds disbursed to students to calculate and allocate broad estimates of scholarship expense and discounts is no longer acceptable.

### *Why a calculation based on specific identification is preferred*

- **NACUBO Tuition Discounting Study** - Public institutions have expressed interest in participating in the study. However, using the Alternate Method to calculate the discount does not produce the information required to participate in the study.
- **Integrated Postsecondary Education Data System (IPEDS)** - The National Center for Education Statistics (NCES) has expanded the required financial aid information provided in the Finance section of the IPEDS. Specifically, new fields have been added to collect additional detail on discounts and allowances by grant type (discounts from Pell [applicable to public institutions], other federal grants, state government, local government, endowments and gifts, and other institution sources).<sup>4</sup> Because the Alternate Method to calculate the discount includes campus-based loans, direct lending, and third-party payments – all of which are explicitly excluded from the IPEDS survey, the proposed new information in the survey will not agree with the discount shown on the annual financial statements when calculated using the Alternate Method.
- **Rating agencies** – have expressed a preference for actual aid information.
- **GASB Revenue and Expense Recognition** – Proposed changes to recognizing revenues and expenses may fundamentally change how discounts and aid expenses are measured or

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<sup>3</sup> See the section below describing the issues with the Alternate Method.

<sup>4</sup> OMB Document No. 1850-0582 v.24, Appendix A - IPEDS 2019-20 through 2021-22 Proposed Changes, p. A-11;  
<https://www.regulations.gov/document?D=ED-2019-ICCD-0028-0005>

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incorporated within revenue or expenses, respectively. As a result, public institutions should consider an accurate representation of scholarship expense and awarded financial aid that results in reduced revenue from tuition and fees.

- ***Student Information Systems*** - Most student finance systems in use today have features that match financial aid to the student charges to which it applies. Further, the source of refunds in excess of student charges can also be identified and institutional researchers and financial aid offices report the actual tuition and residential discount amounts to IPEDS – these reported amounts will always differ from the calculations using the Alternate Method – leading to questions as to why the financial statement amounts are different than amounts reported elsewhere.

### Issues with the Alternate Method in NACUBO Advisory Report 2000-05

The Alternate Method derives the discount amount by calculating the amount reported as student aid expense (scholarship expense per FARM chapter 700) and subtracting the result from *total institutional aid* to arrive at the discount. Because *total institutional aid* is derived based on a scholarship expense calculation that includes all possible disbursements to students and considers campus provided student loans, direct lending cash flows, and other items that by nature would not be considered a discount, the methodology is compromised. Further, for financial accounting and reporting, estimates should not be used (unless part of GAAP guidance for measurement) when actual information is available.

#### Expense calculation issues:

The calculation of student aid expense treats all student refund sources equally – institutional grants, non-monetary institutional waivers, partial withdrawal refunds, Pell grants and other federal and state aid programs, external grants, loans, and third-party payments. Not all of these items would be classified as expenses. Because the Alternate Method “backs into” the discount, by subtracting “a derived expense” from the total aid, an overstated expense estimate will understate the discount.

#### Aid (discount) calculation distortion:

The already understated discount is then not properly attributed to student charges by type. Meaning there is no ordering principle when applying institutional aid to the various student charges. When an ordering principle is considered (for example, applying aid first to tuition and fees followed by housing, board, and other), more aid is absorbed by tuition and fees. Most students, except for those with the highest need (or Division I athletes), do not receive aid for room and board. Consequently, when aid is attributable to all charges and then allocated between tuition and fees and room and board on a pro-rata basis, the discount attributable to non-tuition items is misleading.

Some argue that an arbitrary ordering principle (e.g. institutional aid is applied before all other aid and always applied first to tuition and fees), is just as problematic as treating all payment sources equally. However, such rules are based on institutional policy and likely consider access, equity, institutional mission, students’ living needs, and so forth. Nevertheless, there is no longer a need to compromise on the accuracy of the tuition discount /expense calculation by choosing between two imperfect methods. Today’s student information systems are quite adept at matching student aid with student charges -

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based on ordering rules for applying aid that are grounded in institutional policy – and then associating aid with the academic term and applicable additional charges and adjustments. Therefore, it's reasonable to expect that the amount of institutional aid that is used to generate a disbursement to the student (and reported as student aid expense) can be reported from the student information system.

### Questions for Respondents

NACUBO invites comments on the new Advisory, particularly on the issues and questions below. Comments are requested from those who agree with the new Advisory as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the contents of the Advisory are asked to describe their suggested alternatives, supported by specific reasoning. Please send your comments by April 30, 2021 to HEAccountants@nacubo.org.

### Elimination of the Alternate Method

1. Are the issues resulting from the use of the Alternate Method described clearly? If not, how could the explanation be improved?
2. Does your institution's student information system align financial aid with specific charges and academic terms? If not, does your institution have an "ordering principle" in which aid is applied, either formally during the financial aid packaging process, or informally, based on policies and procedures?
3. Are you currently using the Alternate Method to calculate the tuition discount? If yes, what steps will you have to take to convert to a calculation based on specific identification?
4. Would you be willing to participate in a field test, to calculate the discount using both methods and compare the results?

### Consolidated advisory guidance

5. Is the proposed guidance sufficiently clear, so that one Advisory Report can be used by the sector?

### Examples replaced by summaries of aid and reporting methods

6. The new Advisory eliminates the twenty-plus examples in the previous versions and summarizes the different types of aid and how it is reported. Do you prefer the summarized information, or would examples be useful? If examples are preferred, please suggest scenarios to include.

### Other comments

7. Please share any other comments or feedback on the new Advisory.

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### Proposed New Advisory

#### Introduction

This Advisory – which supersedes NACUBO Advisories 1997-01 and 2000-05 – provides guidance on reporting student financial aid as a discount to revenue or as student aid expense.

#### The Essentials of Financial Aid

All higher education institutions must sign a program participation agreement with the Department of Education (ED) to participate in federal financial aid programs authorized under Title IV of the HEA. Federal laws are implemented through regulations. As dictated by Congress, the Cost of Attendance (COA) is a federally required disclosure for colleges and universities. The COA estimates the comprehensive costs for a student to attend a given institution and includes tuition and fees, books and supplies, room and board, transportation, and personal expenses. Colleges adjust the COA yearly to reflect changes to these costs. The cost of attendance is defined in section 472 of the Higher Education Act of 1965 [20 USC 1087II].

A student begins the financial aid process by filling out a Free Application for Federal Student Aid (FAFSA) to determine their eligibility to receive federal aid, including grants and loans. The FAFSA collects information related to a family's ability to pay for college—based on income, assets, family size and family members in college. A federal formula is applied to the collected information to determine the student's expected family contribution (EFC). The FAFSA is filed with The Department of Education (ED). ED determines eligibility for Title IV aid such as Pell, SEOG, and direct lending. **While the title of the form suggests that it only applies to federal aid, many states and institutions use the form to determine eligibility for aid that they too may offer.**

Students who are also veterans of the wars in Iraq and Afghanistan are eligible to receive additional federal funds under the Post 9/11 GI Bill. This program is administered by the Department of Veterans Affairs (VA) and is separate from Title IV federal student aid administered by ED. Eligibility is based on service in the armed forces, not need.

#### Forms of Financial Aid

In higher education there are essentially three types of aid:

1. **Third Party Payments / Grants**, whether from federal, state, local or private sources, comes to the institution on behalf of a designated student. The role of the institution is to disburse the funds to the student by directly paying the student or by crediting the student's account (a student account receivable is created when a student invoice is generated for tuition).
  - a. Pell Grants are need-based grants provided to undergraduate students and are considered the foundation of federal financial aid.
  - b. Other examples of third-party payments are the Direct Loan program from the Department of Education, Direct PLUS loans, and Post 9/11 GI Bill. State grant programs (for example, the Tuition Assistance Program in NY), that resemble the federal Pell Grant program.

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2. **Campus-based federal aid** is provided to the institution by the federal government or some state governments. The institution determines the students that will receive the aid and the dollar amount of the aid. Several examples include:
  - a. The Perkins Loan Program, dollars are in a revolving loan fund, with a required federal and institutional contribution that formed the original fund. This program is currently being wound down, fund reconciliations are completed annually, and all funds will eventually be returned to the Department of Education (federal contribution) or the institution (institutional contribution).
  - b. Supplemental Educational Opportunity Grants (SEOG) assist students who with exceptional financial need.
  - c. Federal Work Study helps students earn money through a part-time campus- based work program. Funds received are grant revenue and compensation payments made to students in exchange for work are an expense.
  
3. **Institutional aid for students** that is generated through gifts, endowments, or reserves. Donors either provide unrestricted gifts for general institutional support, gifts for specified academic scholarships, or gifts that the institution is to maintain in perpetuity for specific academic scholarships. Each year institutions determine available resources for student aid and select student recipients.

### Awarding Financial Aid

Once a need for financial aid has been verified and the student is accepted at the university, the institution creates a financial aid package for the student. For students who are Pell Grant, Direct Loan, or GI Bill recipients, although a federal formula determines the award amount, the award amount varies by institution because a component of the federal formula is the cost of attendance. The remainder of the financial aid package is determined after all federal award amounts are known. The remaining pieces of the package can include state, local, or institutional scholarships, loans, and work-study. Financial aid packages are developed using the same process for students who do not receive federal aid.

In situations where the amount of an institutional scholarship exceeds billable tuition, the amount exceeding billable tuition is charged as a reduction to room and board amounts charged to the student. As a practical matter, institutions typically have a policy on the application of aid and such determinations are reflected in student acceptance and or award agreement communications. In some circumstances, the amount of aid awarded may exceed tuition and fees, housing, meals, and other charges. In such circumstances, the excess of aid over tuition and fees and institutional housing and meals is reported as an expense.

### FASB and GASB differences

Governmental grants and/or other programs intended to help students defray their educational expenses are handled in accordance with guidance issued by FASB for independent institutions and by GASB for public institutions.

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For independent institutions, FASB considers Pell Grants and funds borrowed under the Direct Loan Program to be third-party payments made on behalf of a specific student. However, for public institutions, GASB classifies Pell Grants as current restricted grant revenue. Thus, in public institutions the amount of a Pell Grant used to satisfy a student's fee and charges is a scholarship allowance (discount).

Both FASB and GASB consider funds borrowed under the Direct Loan Program to be third-party payments made on behalf of a specific student. As such, institutions report no grant revenue, grant expense, or a scholarship allowance for these programs, but rather report these amounts as agency transactions in the Statement of Financial Position. GASB institutions also report direct lending activities on the Statement of Cash Flows, because of direct cash flow reporting requirements required by GASB.

Regardless of whether student aid programs are governmental, private, or derived from institutional sources of support, there are a couple of foundational rules. First, when an institution makes a decision about the student recipient of aid and the amount, the aid reduces tuition and fees or room, board and other and is considered a discount and recorded as a contra-revenue entry. Second, when aid exceeds charges for tuition and fees, room and board, or other on a student's account, the excess provided to the student is a scholarship / student aid type of expense.

### Recording Financial Assistance

Financial assistance is recorded as either a discount (a contra-revenue entry) or an expense and presented in the financial statements as follows.

Category	FASB/GASB Reporting	Financial Statement Line Item
Discount (Contra-revenue)	FASB: After implementation of ASU 2014-9 (Topic 606 Revenue Recognition)	Does not appear on statement of activities – can be disclosed in the notes
	FASB: before implementation of ASU 2014-9 (Topic 606 Revenue Recognition)	Appears below [or parenthetically along-side] tuition and fees (and auxiliary revenues (if applicable) as “tuition discount” or “scholarship discount”
	GASB	Appears below {or parenthetically along-side] tuition and (and auxiliary revenues (if applicable) as “tuition discount” or “scholarship discount”
Expenses	FASB and GASB:	
	If <b>not</b> in exchange for services, (after all forms of aid are distributed, residual aid in excess of charges)	Natural classification: Student aid Functional classification: Scholarships and fellowships (if material); otherwise, instruction or student services

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Category	FASB/GASB Reporting	Financial Statement Line Item
	If in exchange for services	Natural classification: Compensation Functional classification: based on the employee's classification receiving the benefit

Description of Aid / Funding source / purpose	FASB Reporting	GASB Reporting
Institutional aid funded by contributions for scholarships – covers a portion of tuition and fees	Tuition discount	Tuition discount
Institutional aid funded by endowment spending distribution – covers a portion of tuition and fees	Tuition discount	Tuition discount
Institutional aid funded by general revenues, reduces the amount of tuition and fees charged to the student	Tuition discount	Tuition discount
Institutional aid from any source <u>paid out to the student</u> to cover living expenses.	Functional classification: Scholarships and fellowships Natural classification: Student aid expense	Functional classification: Scholarships and fellowships Natural classification: Student aid expense
Federal SEOG aid covering a portion of tuition and fees	Tuition discount	Tuition discount
SEOG covering tuition and fees and a portion of housing	Tuition discount and auxiliary discount	Tuition discount and auxiliary discount
Federal Pell grant applied to student tuition and fee charges	Reduces student accounts receivable (a third-party payment (also known as an agency transaction) that has no effect on revenue or expense)	Tuition discount
Reduced room and board expenses for residential assistants <i>required</i> to live on campus	Functional classification: Student services Natural classification: Compensation expense	Functional classification: Student services Natural classification: Compensation expense

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Description of Aid / Funding source / purpose	FASB Reporting	GASB Reporting
Reduced charge for tuition and fees for employee or employee's dependents	Functional classification: Based on the classification of the employee's salary Natural classification: Compensation (employee benefit expense)	Functional classification: Based on the classification of the employee's salary Natural classification: Compensation (employee benefit expense)

### Campus operations / Internal Considerations

Although financial assistance may be considered an expense internally, the chart above represents how financial assistance is captured in general purpose external financial statements. For example, an athletic scholarship may be charged to the athletic department as an expense, but for GAAP it is recorded as a contra-revenue item that reduces tuition and fees, room and board, or other, depending on the amount of aid. For external financial reporting, the aid is a discount.