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| <b>Subject: Net Asset Classification</b> | Author: Anne Rademaker                 |
| Effective Date: June 2007                | Last Review Date:                      |
| Last Revision:                           | Revised By:                            |
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| Approved By: Controller's Office         | Page 1 of 2                            |

### **Background:**

The Statement of Net Assets (SNA) is a part of the University's basic financial statements. The section of the SNA comparable to a for-profit corporation's equity section is known as net assets. Net assets represent the cumulative effects of revenues, expenses, gains, and losses. Net assets also may be mathematically represented as equal to total assets less total liabilities. In years prior to 2001-02, the term "fund balance" was used.

### **Definitions:**

Per GASB Statement No. 34 (paragraphs 30-37), net assets are presented on the face of the financial statements using the following four required categories:

- **Invested in Plant, Net of Related Debt.** Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Unspent debt proceeds are included in Restricted – Expendable until spent for construction.
- **Restricted – Nonexpendable.** Net assets are classified as restricted only when third parties have imposed restrictions on the use of the net assets. Restricted – Nonexpendable includes items such as the historical cost of the University's true endowments which corpus must be maintained inviolate and in perpetuity and the market value appreciation associated with those true endowments.
- **Restricted – Expendable.** Use of these funds must be restricted by third parties versus designated by management for a particular purpose. For the University, these net assets arise from items such as gifts, student loan funds, grants and contracts, and debt retirement. Also, as a result of certain bond indenture covenants, certain reserves must be established. These balances are included in Restricted – Expendable until such time as the requirement to maintain balances expires.
- **Unrestricted.** Net assets arising from all other sources such as general funds, auxiliary funds, and most reserves for renewals.

Additional detail is permissible for the two restricted categories, but is not permissible for unrestricted net assets. The University may, at its option, provide more detail regarding

management's designation of unrestricted net assets in either the Management's Discussion and Analysis or in the Notes to the Financial Statements.

**Process:**

The revenues and expenses are closed to the net asset account (account 310000) of each program or grant. Generally, the fund code of the program or grant determines the net asset category.

**Accounting Entries:**

Entries are made systematically by PeopleSoft in Period 999 of each fiscal year. No manual entries to the net asset accounts should be made, except under extreme circumstances and when approved by the Controller.

**Applicability**

This policy is applicable to those entities governed by the Governmental Accounting Standards Board. These primarily include:

- University of Louisville
- University of Louisville Research Foundation Inc.
- University of Louisville Athletic Association Inc.
- University of Louisville Medical School Fund Inc.

This policy does not apply to the University of Louisville Foundation Inc. or any of its subsidiaries.