

**Case 17-6**  
**CoolNewSchool**

DasGute, a not-for-profit (NFP) organization located in Frankfurt, Germany, directly solicited CoolSchool, an NFP university located in Westport, CT, to enter into an agreement to establish a branch campus of CoolSchool in Frankfurt called CoolNewSchool. CoolNewSchool is not a separate legal entity and will operate as a degree-granting branch campus of CoolSchool in Frankfurt with the intent to provide students the same level of undergraduate education that it provides to students enrolled at its main campus in Westport. DasGute has entered into similar agreements with other U.S. universities in fulfillment of its mission to develop human resources through high-quality education and research in Frankfurt.

The boards of directors for both DasGute and CoolSchool require that CoolNewSchool prepare stand-alone financial statements in accordance with U.S. GAAP to demonstrate that revenue and expenses of CoolNewSchool have been generated and incurred in accordance with the operating budgets described below.

Eddie V., the new controller of CoolNewSchool isn't sure how to account for its formation under U.S. GAAP but has knowledge of NFP accounting principles, specifically whether an agreement should be accounted for as an exchange transaction or a contribution within the stand-alone financial statements.

**Case Facts**

*Responsibilities of CoolSchool*

The agreement requires that CoolSchool be responsible for the following activities: (1) hiring and terminating of personnel (including the dean, who will function as the CEO of CoolNewSchool); (2) recruiting, admitting, and enrolling students; (3) designing and delivering the academic curriculum; (4) establishing and implementing operational policies and procedures (including compensation for employees and tuition rates for students); and (5) authorizing expenditures once a budget is approved (see budget discussion below).

*Responsibilities of DasGute*

The agreement requires that DasGute be responsible to (1) construct, own, furnish, and maintain the site; (2) bear the costs of the joint advisory board; and (3) fund all necessary expenditures for CoolNewSchool, as stipulated by the annual budget.

*Shared Responsibilities of CoolSchool and DasGute*

A nine-member joint advisory board will be established, consisting of three appointed members by CoolSchool, three appointed members by DasGute, and three jointly appointed members. The joint advisory board does not have decision-making authority but will provide guidance on CoolNewSchool's operations and final approval of the annual budget.

*Operating Budget*

Each year, CoolNewSchool will develop an operating budget that is subject to approval by the joint advisory board. If an agreement is not reached on a proposed budget, the operating budget for the fiscal year in question will be based on the previous year's budget. Any unresolved issue, whether related to the budget or any other matter, will be settled by arbitration.

- Once the annual budget has been approved, CoolSchool has full expenditure authority for CoolNewSchool's operating expenses. DasGute will reimburse CoolSchool for all expenditures incurred in accordance with the annual budget. In addition, DasGute will pay an annual management fee to CoolSchool.
- While CoolSchool is responsible for tuition billing, DasGute is required to fund any shortfall between the tuition rates established for CoolNewSchool and the actual amounts paid by the students, to cover the annual budgeted operating expenses.

**Required:**

1. Determine whether CoolNewSchool represents an extension of DasGute or CoolSchool by identifying which entity exercises control of CoolNewSchool (analogous to the idea of control if consolidated financial statements were required) and from whose perspective (DasGute or CoolSchool) the controlling entity's agreement should be analyzed as either an exchange transaction or a contribution.
2. Does the agreement represent an exchange transaction (and therefore all tuition amounts should be recorded as "Tuition Revenue") or a contribution (and therefore the amounts received from DasGute in the form of tuition subsidies should be recorded as "Contribution Revenue") in CoolNewSchool's stand-alone financial statements?