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Revenue Recognition - Special Revenue Types [1]

In Brief

- At CU, the following revenue types require special processing: Auxiliary and Self-Funded, Fundraising Event, Gift, and Sponsored Project revenues
- Top areas of concern are: correctly distinguishing between these special revenue types, and following the appropriate fund accounting and other policies/procedures.

Quick Look

Procedural Statement - *effective date: 03/01/2018*

Introduction

The following revenue types require appropriate fund accounting and other specialized processing.

Auxiliary and Self-Funded Revenues

Auxiliary and self-funded revenues are funds received by the University that are not classified as sponsored project, gift/gift in kind, or fundraising event. All auxiliary and self-funded revenues must be classified as Operating Revenues and must be recorded, under the accrual basis of accounting, when the goods or services are provided.

The campus controller's offices are responsible for setting forth procedures for processing auxiliary and self-funded revenue. These procedures, at a minimum, must require that all such revenue be deposited with the University Treasury and accounted for in an appropriate auxiliary/self-funded Fund.

Fundraising Event, Gift, and Gifts-in-Kind Revenues

Revenues raised through campus-sponsored fundraising must be processed in accordance with procedures for gift revenues and gift in kind transactions.

Gift revenues are classified as Non-operating Revenues and must be recorded under the accrual basis of accounting as prescribed by GASB No. 33.

All gift revenues must be processed according to the Accounting Handbook procedures on Gift Revenues & Recognition. Non-cash gifts must be processed according to the Accounting Handbook procedures on Gifts-in-Kind.

Sponsored Project Revenues

All sponsored project revenues must be processed through the campus sponsored project office, deposited with the University Treasury, and accounted for in the sponsored projects restricted Fund.

Criteria - Sponsored project revenues arise from sponsored project awards from an external sponsor who both restricts the use of funds or property and stipulates conditions with which the University must comply.

Organizational units should forward awards to their campus sponsored project office for determination as to whether or not the award is a sponsored project. The campus sponsored project office makes the determination using the criteria outlined in this procedural statement and consulting with the supporting foundation, as necessary.

Characteristics - The following considerations are typical of sponsored projects:

- The award is a grant, contract, or other agreement from a governmental entity.
- The proposal responds to a Request for Application (RFA), Request for Proposal (RFP), or other formal solicitation, and the project is initiated by notice of award. (Exception: Certain RFPs issued by private charitable foundations may not qualify as sponsored projects.)
- The award includes terms that bind the University to a line of scholarly or scientific inquiry.
- The Statement of Work specifies programmatic objectives mutually agreed upon by the University and the sponsor, which are to be accomplished within a specific period of time or within a detailed budget framework.
- The sponsor is entitled to receive specific deliverables, such as a detailed technical report of research results, milestone reports, or a required report of allowable expenditures. (Exception: Certain reporting requirements of private charitable foundations that are stewardship-oriented or accountability-oriented may not qualify as sponsored projects.)
- The award requires separate accounting procedures and detailed financial reports.
- The award is expenditure driven, i.e., the sponsor requires the return of unexpended funds or only reimburses for incurred costs. (Exception: Fixed-price contracts may qualify as sponsored projects.)
- The award provides for compliance audits by, or on behalf of, the sponsor; these may or may not include a financial audit.
- The award is for a project requiring compliance oversight including, but not limited to:

human subjects, animal use, biohazards, or bio-safety.
- The award terms include publication or data restrictions or monitoring.
- The sponsor requests intellectual property rights or controls the disposition of capital equipment.
- The award is by a sponsor who has licensing rights to inventions from the same lab/researcher benefiting from the award.
- The sponsor designates a sponsor employee (agent) as project technical monitor as opposed to designating a contact person to improve communications.
- The award is for a sub-award project under a federal award.
- The award requires a matching or cost-sharing commitment on the part of the University.
- The award generates program income to a federal award.

Recognition Basis

The revenue recognition of sponsored projects is dependent on several variables and requires individual analysis in order to make certain key determinations. The Analysis of Sponsored Project Revenues offers guidelines for deciding how these transactions should be reported on the University's financial statements. The Analysis is composed of four steps:

Step 1 - D**etermine if the activity results in an exchange transaction, exchange-like transaction, or non-exchange transaction.** This step focuses on what type of reporting is mandated, what the exchange is, who the owner is, and who receives the benefit. At the University, the latter characteristic is particularly crucial in determining how to classify fellowships.

- Exchange transactions occur when each party gives and receives essentially equal values. An example is when the University receives funding to develop a computer module.
- Exchange-like transactions are similar because the parties can give or receive value, but it may not be equal, or the direct benefit of the exchange is not exclusive to the parties. For example, the University may receive a grant or contract to provide training for nurses.
- Non-exchange transactions occur when the University receives value without directly giving equal value in return. The most common example of a non-exchange transaction is not a sponsored project, but a gift.

Step 2 - Determine when revenue should be recognized. This step evaluates the impact that eligibility requirements have on the timing of revenue recognition for each type of transaction. Until the eligibility requirements are met, the sponsor does not have a liability, the recipient does not have a receivable, and the recognition of expenses or revenues for resources transmitted in advance should be deferred. There are three eligibility requirements, which, if applicable, must be met before revenue can be recognized:

- *Time Requirements:* The sponsor specifies the period when the resources are required to be used, sold, disbursed, or consumed, or when use is first permitted.
- *Reimbursements:* The sponsor offers resources on a reimbursement (expenditure-driven) basis.

- *Contingencies:* The sponsor's offer is contingent upon a specified action of the University and/or specific characteristics of the recipient.

Step 3 - Determine if revenue is operating or non-operating. This step evaluates whether or not the transaction is mission related. Once the revenue can be recognized, the next step is to determine if it is Operating Revenue or Non-operating Revenue:

- *Exchange transactions and exchange-like transactions* are usually Operating Revenue. They may be Non-operating Revenue if the sponsored project is not related to the mission of the institution; however, this situation is not typical for sponsored projects.
- *Non-exchange transactions* are always considered Non-operating Revenue.

Step 4 - Determine if resulting net position is restricted or unrestricted. The step considers eligibility requirements and purpose restrictions as they affect the classification of net assets (if any result from the sponsored project):

- Restricted Net Position should be recorded if purpose restrictions exist.
- Unrestricted Net Position should be recorded if purpose restrictions do **not** exist.

Revision Log

Questions?

Questions about these procedures should be directed to the appropriate campus controller [2], who will consult with the Associate Vice President & University Controller, as appropriate.

Exceptions

Unless approved by the Associate Vice President & University Controller, there are no exceptions to this procedural statement. Requests for exceptions must be submitted through the appropriate campus controller's office [2].

Questions & Feedback

For questions or feedback contact

Groups audience:
Controller
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