

Policy 2100

General Revenue Principles

Responsible Office	Finance	Effective Date	8/24/99
Responsible Official	Controller	Last Revision	5/1/06

Policy Sections	2
2100.1 General Overview	2
2100.2 Negotiation and Acceptance of Agreements.....	3
2100.3 Revenue Recognition Principles	3
2100.4 Financial Management of Accounts Receivable, Billing, Collecting, and Adjustments.....	3

Scope

This policy provides general principles and guidelines to promote proper accounting and effective financial management and control over revenues and related accounts receivable derived from external sources. The information contained in this document shall be used to develop more specific policies and procedures for the University's principal operating and gift revenues.

The scope of this policy excludes income and gains earned on the University's investment portfolios and internal revenues derived from the provision of internal services.

Policy Statement

University revenue is recorded on an accrual basis at net realizable value in accordance with Generally Accepted Accounting Principles (GAAP). All departments, business support centers, and institutional offices that collect and process revenue on behalf of the University must ensure that such revenues are received on a timely basis and are accurately recorded in the University's accounting system in the period in which it is earned. Departments, business support centers, and institutional offices must also maintain appropriate internal controls and sound financial business practices for the recognition and billing of revenue, the collection of cash receipts, and the management of accounts receivable. All agreements that bind the University to perform services, provide goods, or employ assets in a revenue-generating capacity must be properly authorized by University officials with the authority to do so.

Reason for the Policy

Effective revenue financial management and control is a critical component of the University's business processes because it serves to safeguards against risk of financial loss and properly recognize revenue in conformity with GAAP. Specific topics encompassed in this policy include the negotiation of revenue related agreements, the recognition of revenue in accordance with generally accepted accounting principles and other regulatory standards and the maintenance of adequate control over revenue and the management of accounts receivable.

Definitions

Accrual basis accounting

An accounting method that recognizes revenue when it is earned, not when the cash is received; similarly, the accrual basis of accounting requires that expenses be recorded when they are incurred, not when the cash is disbursed.

Agreement

For purposes of this policy, an agreement is an understanding between the University and an outside party that

binds the University either to provide goods or services or to employ assets or other resources in a certain manner, the anticipated end result of which is an increase in revenue. Examples of such agreements include, sponsored research agreements, loans, service contracts, property rentals, and restricted gifts.

Net realizable value

Estimated net value of an asset after reductions for allowances for uncollectible amounts, provisions for contractual adjustments, and discounts recorded to reflect the net present value of long-term receivables.

Revenue

Increases in, or enhancements of, assets resulting from: (1) delivery or production of goods, (2) rendering of services, (3) receipt of unconditional contributions from donors, (4) employment of certain assets (e.g. student loans), and (5) other revenue-generating activities. In general, a reimbursement of an individual expense item (e.g. telephone tolls) does not constitute revenue in accordance with generally accepted accounting principles.

Responsible Official

A senior member of management who serves as the owner of institutional and division business processes is responsible for ensuring the effective implementation of this policy in his/her assigned area of responsibility.

Policy Sections

2100.1 General Overview

The University has six principal operating revenue streams, which are as follows:

- tuition and fees;
- grant and contract income;
- medical services income;
- investment income;
- contributions;
- income from other sources.

Each of the above-named revenue streams is a component of one of the University's major business processes. As such, the management of each revenue stream shall be distributed among the University officials responsible for the corresponding business process. In general, various officials shall be assigned one or more responsibilities as they relate to his or her position, job functions and skill level.

Please note that certain aspects of this policy do not apply to investment income, such as Section 2100.4.

Distribution of Responsibility

1. Each revenue stream shall be under the direct control of the Responsible Official assigned to the corresponding business process. Such Responsible Official shall monitor the effective implementation of this policy for areas under his/her purview.
2. Each Responsible Official must ensure that billing, accounting, and collecting processes are in place over assigned revenue activity. Segregation of duties and controls must be considered. Such administrator shall employ appropriate monitoring mechanisms to ensure the completeness and accuracy of revenue recognized and the timely billing and collection of accounts receivable. Whenever possible, performance benchmarks shall be used to further advance these financial management objectives.
3. The administrator shall assign an appropriate level of staff to promote efficiency of operations, including the timely collection of receivables on behalf of the University. (see section 2100.4.i.).

2100.2 Negotiation and Acceptance of Agreements

All revenue agreements must be appropriately authorized before any commitment, formal or otherwise, is made on the University's behalf. Such agreements may require approval or review by the General Counsel's Office or other University officials. Departments are advised to refer to "*Related Information*" section in this policy for a list of individual topic-related policies for specific negotiation and approval requirements governing revenue agreements.

2100.3 Revenue Recognition Principles

Revenue, as previously defined, must be recognized in the University's accounting system in the period in which it is earned, but no less frequently than monthly. The accrual basis of accounting shall be the method used in all material cases. Accrual basis accounting is an accounting method that recognizes revenue in the period in which it is earned, not when the cash is received.

Revenue and related accounts receivable should be recorded in the University's accounting system. In addition, accounts should be established for allowances for uncollectible accounts, provisions for contractual adjustments, and discounts where necessary.

2100.4 Financial Management of Accounts Receivable, Billing, Collecting, and Adjustments

The following general guidelines must be followed for all revenue streams (including those not enumerated in Section 2100.1) and by all departments, business support centers, and institutional offices that collect and process revenue on behalf of the University.

- a. Billings shall be performed in a timely manner, as is appropriate for each individual revenue stream.
- b. Duties related to the preparation of bills, the collection of cash, the posting of cash receipts, approval of write-offs, and the monitoring of accounts receivable should be segregated among multiple individuals to provide for adequate internal control.
- c. The depositing and recording of cash and checks collected from external customers, sponsors, and donors, must conform to Policy [2801](#) Depositing and Recording University Funds. Whenever possible, lockbox arrangements should be used to promote the timely deposit and efficient processing of revenue and other cash receipts.
- d. The University accepts credit cards for payment of gifts, application fees, health care services and a variety of other revenue generating activities at the University. Approval for use of credit cards must be coordinated and set up with the bank by the Cash Manager in the Controller's Office. The department initiating the credit card activity is responsible for reconciling credit card activity processed in the general ledger to statements from the credit card vendor.
- e. Detailed accounts receivable subledgers shall be reconciled to general ledger summary account balances no less frequently than monthly. Reconciling items should be resolved within 30 days following the completion of such reconciliation.
- f. Accounts receivable shall be aged and analyzed for collectibility to determine its net realizable value. The frequency of this analysis should be determined in consultation with the Controller's Office based on the materiality of the activity and other relevant factors. All material adjustments to provisions for uncollectible accounts and other contractual allowances should be recorded in the University's accounting system no less frequently than quarterly.
- g. Write-offs of accounts receivable balances must be properly authorized as set forth in individual policies governing each type of revenue. Proper accounts receivable management includes periodic analyses of older receivable balances and the write off of balances where amounts are determined to be uncollectible.

- h. Revenue, billing and collection activities must be conducted in a manner that conforms to all regulatory requirements applicable to the University's revenue streams as well as terms and conditions set forth in specific revenue agreements.
- i. Collection Agency: It may be necessary to outsource part of the collection process when internal efforts are not sufficient or when it is more efficient to do so. Agreements with collection agencies should be reviewed and approved by the General Counsel's Office. Due diligence reviews of credit agencies should include a financial assessment and references. The Controller is available to assist in the evaluation of credit procedures and due diligence reviews.

Departments, business support centers and institutional offices should refer to individual topic-related policies for further guidance in those specific areas (see "*Related Information*").

Related Information

Policy [2200](#) Gifts to the University

Policy [2801](#) Depositing and Recording University Funds

Contacts

Subject	Contact	Phone
Collection activities	General Counsel's Office	432-4949
Agreement review	General Counsel's Office	432-4949
Medical school revenue	YSM Financial Operations	785-4449
Interpretation of policy	Associate Controller	432-5527

Roles and Responsibilities

Individual Departments, Business Support Centers, and Institutional Offices

Offices that generate and/or collect revenues on behalf of the University are directly responsible for ensuring compliance with all sections of this policy. Such offices shall also work with the Controller's Office to develop and maintain additional revenue policies that are specific to their revenue streams.

Controller's Office

Establish guidelines regarding the engagement of external collection agencies; provides guidance regarding general revenue principles and establish an accounting policy for the receipt of revenue; and monitor compliance with the requirements set forth in this policy.

General Counsel's Office

Review contracts with external collection agencies; provide guidance regarding the negotiation and acceptance of collection agreements; and provide guidance regarding applicable federal and state regulations.

Vice President for Finance and Administration

Authorize or delegate authority to review and approve agreements within each institutional revenue stream.

Revision History

Policy first issued on 8/24/99.

The official version of this information will only be maintained in an on-line web format. Any and all printed copies of this material are dated as of the print date. Please make certain to review the material on-line prior to placing reliance on a dated printed version.