

UConn HEALTH

POLICY NUMBER 2002-29

February 25, 2002

**POLICY: REVENUE RECOGNITION
(RESEARCH/SPONSORED PROGRAMS) PURPOSE:**

Based on a review of the GASB Standards regarding revenue recognition for Governmental Funds we believe the following pronouncements address how we should recognize research revenue for reporting purposes in the UConn Health. In reviewing these pronouncements we assume the following definitions would apply in our interpretation of these standards.

Definitions:

- Sponsored agreements would define grants and entitlements
- Recognized revenue would be considered *measurable* if we are able to assess financial value based on productivity as set forth in the agreement with the sponsor.
- Revenue would be *available* if we have *constructive receipt* of the funds from which we would recognize revenue. *Constructive receipt* refers to our possession of the funds in question.
- A *deferred revenue* account refers to an account that places constructive revenue receipts in liability account controls until such time that an expenditure amount or other measurable factor is achieved.
- A *modified accrual basis* would defer revenue until a measurable factor other than expenditures is met at which point either all or part of the deferred revenue is realized and *susceptible to accrual*.

Guidance:

Statement No. 33 of the Governmental Accounting Standards Board, "Accounting and Financial Reporting for Nonexchange Transactions" states the following on page 9 under Recognition Requirements:

21. "... recipients should recognize receivables and revenues, when all applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met should be reported ...as deferred revenues by recipients...."

POLICY STATEMENT:

Full Accrual

- As the recipient of funds, we must comply with prescribed regulations as stipulated in sponsored agreements. A large number of our sponsored agreements are reimbursement-type” or
- “expenditure-driven” grant programs (i.e. expenditures are the prime factor for generating revenue). In these sponsored agreements revenue is recognized to the amount of expenditures.

Modified Accrual

- A small number of sponsored agreements have prescribed regulations that stipulate a factor other than expenditures for revenue generation. The agreements dictate when measurable events occur such that revenue could be recognized based on the agreed upon method of valuation. In the case of clinical trials, a patient factor (i.e. number of patients recruited into the trial) may be the determinant for revenue recognition. Revenues would be recognized when they are both constructively received and measurable. It is likely that revenues generated from these agreements will not, on a periodic basis, match expenditures. In some cases constructive receipts may exceed expenditures, while in other cases receipts may lag behind.
- If constructive receipt of revenue is advanced to the recipient prior to meeting a measurable factor, receipt of such revenue is recorded as a liability in a deferred revenue account control until the measurable factor, as stipulated in the agreement, is reached. Adjustments for revenue recognition would follow on a monthly basis.
- Where constructive receipts are received in advance of expenditures and the only stipulation in the sponsored agreement is a return of any cash balance to the sponsor upon final project completion, a deferral status on revenue is appropriate until such time as expenditures are incurred. At this point revenue is measurable and would be recognized to the amount of expenditures. Adjustments for revenue recognition would follow on a monthly basis.
- To defer revenue recognition, constructive receipts are credited to a liability account control #24XX. Throughout the cycle of the sponsored agreement, program expenditures are debited to account control #95XX. A journal entry based on expenditures or other measurable factor stipulated in the sponsored agreement will be posted in FRS to debit the liability (reduce the deferred revenue) and credit the fund addition (recognize the revenue).

Cash Basis

- Revenues would be considered 'cash basis' if the following conditions exist: a) we have constructive receipt of the funds, b) there is no measurable factor in the agreement with the sponsor and the sponsor, and c) there is no stipulation in the agreement regarding the return of unspent funds to the sponsor at the termination of the agreement.
- In these cases we record revenues when received as a fund addition (account control #4210).

Dan Upton (signed)
Chief Financial Officer

4/10/02
Date

Richard Berlin, MD (signed)
Associate Dean for Research/Planning & Coordination

4/8/02
Date

Peter Deckers, MD (signed)
Executive Vice President for Health Affairs

4/10/02
Date

Replaces: NEW POLICY