Accounts Receivable - UTDBP3113

Accounts receivable are any balances owed to the University of Texas at Dallas (University) from unaffiliated, external organizations or individuals in exchange for goods or services provided by the University. These balances represent uncollected revenue, deferred revenue, or deferred inflows to the University. This policy sets forth guidelines for the establishment and management of accounts receivable.

Policy Overview

Accounts receivable should be recorded when the associated revenue is earned, when the balance due is measurable, and when there is a reasonable expectation of collection. Accounts receivable should remain in an aging schedule until collected, or until there is no longer a reasonable expectation of recovery.

Accounts receivable and non-exchange transactions are presented separately on the University's financial statements net of allowances for doubtful accounts.

The provision of goods and services prior to receipt of full payment can be costly in financial terms, human resources expended in collection efforts, and in maintaining good customer relationships. Cash or credit card sales have the lowest risk and are the preferred method of receiving payment. In some cases, it may be in the University's best interest to allow external parties to purchase goods or services from the University prior to full payment. Only the Office of Financial Aid and the Office of Sponsored Programs are authorized to engage in such transactions without prior approval from the Office of Budget and Finance.

Extension of credit to a third party is defined as the provision of goods or services to organizations or individuals not affiliated with the University prior to the receipt of full payment. The decision to extend credit to a third party does not authorize giving, lending, or pledging the credit of the state to any person or entity.

The purpose of this policy is to:

- Establish standards by which credit is extended to external organizations or individuals
- Provide guidance to departments that extend credit
- Minimize the cost of collecting accounts receivable
- Maximize the University's cash flow
- Ensure accounts receivable balances are complete and reported accurately on the University's financial statements

Management of Accounts Receivable

Customers and Sponsors

Any extension of credit over $1,000 must be accompanied by a legal request for goods or services. The request will normally be in the form of a purchase order but more detailed contracts
may be warranted for large or complex orders.

Sponsored programs are centrally managed and contracts are generally required. The Office of Sponsored Projects (OSP) must approve all sponsored program agreements prior to the contract begin date. Per the University of Texas System Delegation of Authority Chart, only the OSP may bind the University by signing a sponsored program agreement. Sponsored invoicing and accounts receivable functions are managed by Accounting and Financial Reporting (AFR).

University departments providing goods or services to customers external to the University should assign a Receivables Coordinator (RC). The RC is responsible for the following actions.

- Conduct an appropriate credit review prior to doing business with external customers
- Ensure that no conflicts of interest exist between the University, the external customer, or its owners/managers/directors
- Invoice customers within 10 days of providing goods or services, or as detailed in the purchase order or contract
- Establish the shortest payment terms possible to maximize the University's cash position, generally no more than 30 days
- Collect all accounts receivable balances promptly
- Record all accounts receivable activity in the University's accounting system
- Reconcile aging report balances to the general ledger quarterly

Guidelines for the Provision of Goods or Services on a Credit Basis

The decision to allow external customers to purchase goods or services on a credit basis requires a progressive level of financial scrutiny based on the risk of non-payment. The following outline must be used as a guide and reviews performed prior to providing goods or services on credit.

- Large, domestic governmental agencies whose primary function is awarding funds for research require the lowest level of financial scrutiny. Examples include the National Science Foundation or the National Institutes of Health
- Small, domestic governments and large, domestic corporations will require a higher level of review
- Foreign governments and small corporations should have a thorough financial review to determine credit worthiness. These reviews must consist of enough information to satisfy the RC and AFR of the external customers' ability to pay for goods or services provided. Examples of acceptable review include: payment history with the University and the state of Texas, an external credit report, and/or business references

Organizations or individuals making a one-time purchase of goods or services may not transact with the University on a credit basis. Advanced payment must be secured prior to providing any goods or services. Examples of one-time purchases may include registration for summer camps or the sale of surplus property.

Invoicing

All invoicing activity must be performed within the University's accounting system. Exceptions
may be considered only when an alternate system provides significant capabilities required by the
department that are not available within the University's accounting system.

Invoices must be created with appropriate cost centers and accounts. Invoice payment terms
should be kept to the minimum possible, generally no more than 30 days. Additional information
related to the administration of external sales units can be found in the External Sales policy.

**Maintenance of Accounts Receivable**

RC's should review aging reports each month to ensure receivables are being collected in a timely
manner. Collection efforts are the responsibility of the RC and must begin no later than when an
invoice reaches 60 days past due.

If an invoice remains unpaid for 90 days, the RC must draft a Final Notice letter advising the
customer that:

- The balance must be paid within 30 days to avoid additional collection actions
- Legal action may be taken
- Credit privileges may be revoked

Consent from the appropriate department head and AFR must be obtained prior to delivery of the
Final Notice to the customer. If payment is not received within 30 days of the Final Notice, AFR
must be notified. The RC will work with AFR to determine further collections activities and the
write-off of uncollected balances. Additional collections actions include:

- Forward delinquent accounts to the University's collection agency
- Request for review by the University of Texas System, Office of General Counsel
- Provide information on delinquent accounts to credit rating agencies
- Placement of a state-wide warrant hold on payments to the external entity

Certain events may lead to the immediate removal of accounts receivable from the University's
accounting records although collection efforts may continue. These events are deemed to no
longer meet the criterion of having a reasonable expectation of collection.

- Notice of bankruptcy or a business is no longer in operation
- Notice from foreign governments or organizations that payments have been suspended for
  reasons other than nonperformance

In the absence of a legitimate dispute, credit privileges must be revoked immediately when
external organizations have not responded to a Final Notice or have had an uncollected balance
due to the University in excess of 120 days in the last two years.

The University's best interest should always be considered in transactions and communications
with external entities.

**Uncollectible Accounts Receivable**

An allowance for doubtful accounts receivable must be established by each department making
sales on a credit basis. The allowance will be recorded as part of the annual reporting process to
the cost center associated with the recognized revenue. In the event that a department is unable
to obtain sufficient information to establish an appropriate allowance, 5% of the total
departmental accounts receivable balance should be applied. If at any time an outstanding balance
due becomes uncollectable, the cost center or department associated with the recognized
revenue must absorb the write-off.

In the event the sale of goods or services on a credit basis is managed centrally, such as sponsored
programs, any necessary write-off due to inaccurate or incomplete credit analysis will be charged
to the associated central office. Accounts receivable not paid by a sponsor for other reasons, such
as disallowed costs, adjustments not made in a timely manner, transactions outside of the period
of performance, etc., will be charged to the department responsible for the sponsored agreement.
The University reserves the right to offset amounts due against payments owed to the external
organization or individual.

**Annual Certification**

During the annual reporting process, campus departments responsible for accounts receivable
must certify their balance in the general ledger and any uncollectable accounts receivable.

**Non-Exchange Transactions**

Non-exchange transactions can include cash, financial assets and capital assets. A transaction is
considered non-exchange when the University receives value without directly providing equal
value to the external entity. Value may be defined as general worth, measurable usefulness,
monetary worth, or importance.

External entities may establish eligibility requirements or conditions that must be met prior to
releasing resources to the University. Purpose restrictions are not eligibility requirements and do
not affect revenue recognition. The University must not record a non-exchange transaction until
all applicable eligibility requirements or conditions have been met. Eligibility requirements and
conditions may include:

- Recipient characteristics requirements defined by the external entity
- Time requirements
- Specific actions by the recipient as defined by the external entity

**Gift Pledges**

Gift pledges are considered voluntary non-exchange transactions. As part of the annual financial
reporting process, and on a quarterly basis, the Office of Development and Alumni Relations will
supply AFR with the final balance of outstanding pledges as of the end of the applicable reporting
period. Only gift pledges that meet the following criteria will be recorded to the general ledger:

- The original gift pledge is $10,000 or greater in value
- The gift pledge is classified as an operating gift or gift for capital acquisition
- All donor specified conditions have been met or the gift pledge is unconditional
- The gift pledge has been accepted by the University
- The gift pledge can be verified and the value is measurable
• There is a reasonable expectation of collection

Gift pledges will be recorded by AFR at the net present value of future scheduled payments net of a 5% allowance for doubtful pledges.

**Responsibilities**

**Receivables Coordinator**

Receivables Coordinators (RC's) are responsible for all invoicing, receivables maintenance, collection, and reconciliation activities. RC's act as the unit's liaison to AFR and are responsible for all actions resulting from communications with AFR.

The RC is responsible for maintaining records of credit analysis performed and approved for goods or services provided on a credit basis under this policy. All invoices, collection activity, payments and associated records must be maintained according to the University's records retention schedule.

Quarterly aging reports and annual accounts receivable balance certifications must be sent to AFR if the University's accounting system is not used. The standard aging categories listed below must be used for these accounts receivable.

- Future – Receivable where the due date has not yet passed
- Current – Receivable within the first 30 days of the due date
- 31-60 Days
- 61-90 Days
- 90-120 Days
- Over 121 Days

**Student Financial Services and Bursar**

Responsible for administering student related accounts receivable and collections in accordance with applicable federal and state regulations. The Director of Student Financial Services or his/her designee will act as the RC for student related accounts receivable.

**Office of Sponsored Projects**

Responsible for ensuring that sponsors, where goods or services are provided on a credit basis, have been adequately evaluated according to this policy and are determined to be credit worthy prior to execution of an agreement. The Director of OSP or his/her designee will act in collaboration with AFR as the RC for sponsored programs.

**Accounting and Financial Reporting**

AFR is responsible for sponsored invoicing, receivables maintenance, collections and reconciliation activities. The Manager of Sponsored Accounting and Accounts Receivable will act in collaboration with OSP as the RC for sponsored programs.

AFR is responsible for providing guidance, aging, and reconciliation processes for all campus users engaged in external sales and their RC's. AFR is responsible for recording material gift pledges.
AFR is responsible for ensuring compliance with this policy.

**Procedures for Accounts Receivable**

Specific procedures related to accounts receivable can be found in the Office of Budget and Finance frequently asked questions database (AskYODA) at Accounts Receivable.

**Who Should Know This Policy**

- Provost and Vice Presidents
- Deans
- Directors and Fiscal Officers
- Department Heads and Administrators
- Principal Investigators
- Office of Research
- Office of Budget and Finance

**Record Keeping**

The RC’s will maintain detailed records supporting the evaluation of credit worthiness of each external organization or individual considered for the extension of credit. These records will include the following:

- Credit history with the University or state of Texas, credit reports, and/or other information used to evaluate the external party’s credit worthiness where applicable
- Contact information of external organization or individual requesting goods or services on credit
  - Contact information must include the correct physical address of the external party
  - Post office box addresses must not be used
- Description and cost of the goods or services being provided

**Related Policies**

The University of Texas System, Delegations of Authority for the University of Texas at Dallas
Texas Administrative Code § 59.2
Texas Education Code § 51.010
Texas Governmental Chapter 2107
Texas Comptroller for Public Accounts, Accounting for Uncollectible Accounts – APS 027
Texas Comptroller of Public Accounts, Reporting of State Debt and Hold Offset Procedures – APS 028
GASB Statement 33, Accounting and Financial Reporting for Nonexchange Transactions
The University of Texas System, Policy for Accounting and Financial Reporting for Nonexchange Transactions – UTS142.2
Policy History

- Issued: 2019-07-22

Policy Links

- Permalink for this policy: https://policy.utdallas.edu/utdbp3113
- Link to PDF version: https://policy.utdallas.edu/utdbp3113/makepdf
- Link to printable version: https://policy.utdallas.edu/utdbp3113/makeprint