

Contract and Grant Revenue Recognition Program Documentation

Purpose

To provide the background information and detailed GL program documentation related to the recognition of revenue on contract and grant centers.

Introduction and Background

Generally accepted accounting principles require that contract and grant revenue be recognized when earned, which is typically based on when expenses are incurred. In the early 1990s, after using a manual year-end process for several years, Vanderbilt implemented a month-end unbilled receivable program to recognize revenue and corresponding receivables for revenue earned but not yet billed to or received from the sponsor. At that time, the predominance of federal contracts and grants and many private awards were funded based on costs incurred.

During the FY 2007 financial close process, the Office of Financial Affairs (OFA) noted that FY 2007 revenues on contract and grant centers (and correspondingly, fund balances) were significantly higher than expected. Discussions with the Office of Contract and Grant Accounting (OCGA) and Department of Finance (DOF) revealed the cause to be a growing trend by sponsors, including federal agencies, to fund awards in advance of expenses. This indicated a need to review contract and grant centers for possible revenue deferrals.

OFA used Business Objects to manually identify potential centers and amounts to be deferred for FY 2007 and 2008. For federal awards, the conclusion was reached that revenues equal to net preliminary fund balances for Department of Defense and Health and Human Services should be deferred for external financial reporting. Non-federal awards with the potential for revenue deferral were reviewed by OCGA and DOF and a subset identified for deferral.

While the manual process worked for the short-term, the advance funding trend highlighted the need for an ongoing and timely process to defer contract and grant revenue that has been recorded but not yet earned. This process would complement the unbilled receivable program and provide a more accurate and comprehensive contract and grant revenue recognition framework regardless of sponsor funding trends. Ideally, the revenue deferrals would be developed in such a way that they could easily be incorporated not only in the annual external financial statements, but also in other critical financial reports, including monthly Medical Center financial reports and the quarterly statements of operations and designated funds distributed to the Board of Trust.

During FY09, work was performed by OFA, OCGA, DOF and Management Information Systems (MIS) to automate the appropriate recognition of contract and grant revenue. With this project, the current month-end unbilled receivable and year-end bogus receivable programs were discontinued and replaced with a new program developed by MIS that is run during each month-end close. The program generates journal entries to the GL on contract and grant centers to defer or accrue revenue as applicable. These entries automatically reverse at the beginning of the following month. This updated program was placed into production with the February 2009 month-end close.

This new automated process includes the re-use of the U01U4 Subcontract field, which has been relabeled “Match Revenue” and will be used (primarily by DOF) to flag contract and grant centers that should **not** be included in the monthly program due to special circumstances.

With the implementation of the revenue recognition program, separate accounts (3418x and 3419x) are used to distinguish revenue accruals from deferrals vs. other options. Revenue accounts will be assigned based on the U01 Fund Prime center value using logic consistent with the previous unbilled receivable program. The offset balance sheet accounts are 14261 for revenue accruals and 27000 and/or 14900 revenue deferrals.

GL Program Documentation

The Revenue Matching COBOL program, which was implemented with the February 2009 month-end close, is run at month-end to generate journal entries that accrue “earned” revenue and defer “unearned” revenue on Fund 4 and 9¹ contract and grant centers. The following describes the business requirements on which this program was based.

Business requirements

1. The year-end bogus receivable program (which reversed all year-end balances in 14900 against 34110) and current version of the monthly unbilled receivable program were discontinued when the new revenue matching program was implemented.
2. The revenue matching program is sequenced as follows in the month-end process. (Note: This is the same sequencing that was used for the unbilled receivable program. The year-end bogus receivable program ran between allocations and due to/ due from.)
 - 2.1. Allocations / letter of credit
 - 2.2. Due to / due from (11000)
 - 2.3. Revenue matching program**
 - 2.4. 99950 program

¹ Fund 9 included at request of Department of Finance to cover IPA agreements that were accounted for in Fund 4 years ago but moved to Fund 9 after being deemed “agency” funds rather than VU funds. They are processed similar to Fund 4 contracts and grants.

3. The M&D GL U01 Subcontract field was relabeled on the U01U4 screen to "Match Revenue." The default value is a blank, and users should enter "N" to flag those Fund 4 centers that should be excluded from the revenue matching program.
4. The Center Attributes Subcontract object was renamed in the General Ledger Business Objects universe (Prod and UAT) and its metadata updated appropriately.
 - 4.1. New object name - "Match Revenue"
 - 4.2. New metadata (description) - "As of April 4, 2008, used to identify Fund 4 contracts and grants that should be excluded from any revenue matching process. An "N" indicates center should be excluded. Blank or any other value indicates center should be included. Prior to April 4, used to identify Fund 4 centers with related subcontracts. When Match Revenue values are needed, the Current Center filter should always be used to ensure Subcontract values are not returned."
5. The Revenue Matching program selects and uses the following GL data.
 - 5.1. Center selection criteria**
 - 5.1.1. Fund = 4 or 9
 - 5.1.2. Center Award Type = C or G
 - 5.1.3. U01 Match Revenue not N
 - 5.2. Account selection criteria**
 - 5.2.1. Accounts 10000-29999
 - 5.2.2. Accounts 50000-89999, excluding GLM Misc A = Y (cost-sharing accounts)
 - 5.3. U01 center attributes used**
 - 5.3.1. Bill Type
 - 5.3.2. Federal
 - 5.3.3. Fund Prime
 - 5.3.4. Year-end Flag
 - 5.4. Definitions referenced in requirements**
 - 5.4.1. FUNDBAL = Sum of current balance in accounts 10000-29999
 - 5.4.2. 14900BAL = Current balance in account 14900
 - 5.4.3. PTDBUD = Sum of PTD revised budget in accounts 50000-89999 (excluding cost sharing accounts)
 - 5.4.4. PTDEXP = Sum of PTD activity in accounts 50000-89999 (excluding cost sharing accounts)
 - 5.4.5. BUD-OVERSPENT = PTDBUD – PTDEXP, where PTDEXP > PTDBUD; else 0
6. **Zero fund balance** program logic
 - 6.1. If FUNDBAL = 0, skip center.
7. **Revenue deferrals** program logic
 - 7.1. Letter of credit (LOC) centers
 - 7.1.1. If BILLTYPE like "LC?" or "SF?", FUNDBAL > 0, and FUNDBAL ≤ 14900BAL, create entry.

- 7.1.1.1. JE credit amount1 = FUNDBAL * -1
- 7.1.1.2. JE credit account1 = 14900
- 7.1.1.3. JE debit amount1 = FUNDBAL
- 7.1.1.4. JE debit account1 = 341x8 (see requirement 9 for determining “x”)
- 7.1.2. If BILLTYPE like “LC?” or “SF?”, FUNDBAL > 0, FUNDBAL > 14900BAL, and 14900BAL > 0, create entry.
 - 7.1.2.1. JE credit amount1 = 14900BAL * -1
 - 7.1.2.2. JE credit account1 = 14900
 - 7.1.2.3. JE debit amount1 = 14900BAL
 - 7.1.2.4. JE debit account1 = 341x8 (see requirement 9 for determining “x”)
 - 7.1.2.5. JE credit amount2 = (FUNDBAL – 14900BAL) *-1
 - 7.1.2.6. JE credit account2 = 27000
 - 7.1.2.7. JE debit amount2 = FUNDBAL – 14900BAL
 - 7.1.2.8. JE debit account2 = 341x8 (see requirement 9 for determining “x”)
- 7.1.3. If BILLTYPE like “LC?” or “SF?”, FUNDBAL > 0, and 14900BAL ≤ 0, create entry.
 - 7.1.3.1. JE credit amount1 = FUNDBAL * -1
 - 7.1.3.2. JE credit account1 = 27000
 - 7.1.3.3. JE debit amount1 = FUNDBAL
 - 7.1.3.4. JE debit account2 = 341x8 (see requirement 9 for determining “x”)
 - 7.1.3.5. Note: The above logic mimics (on a monthly basis) the year-end bogus receivable program except that a) it will leave a balance in 14900 to cover any liability balances, b) it will use 27000 instead of 14900 when 14900 < 0 and c) it uses 34118 as the offset rather than 34110.
- 7.2. Non-LOC centers
 - 7.2.1. If BILLTYPE not like “LC?” or “SF?” and FUNDBAL > 0, create entry.
 - 7.2.1.1. JE credit amount1 = FUNDBAL * -1
 - 7.2.1.2. JE credit account1 = 27000
 - 7.2.1.3. JE debit amount1 = FUNDBAL
 - 7.2.1.4. JE debit account1 = 341x8 (see requirement 9 for determining “x”)
 - 7.2.1.5. Note: Account 27000 will always be used on non-LOC centers, since any balance in 14900 is considered an error.
- 8. **Revenue accruals** (unbilled receivables) program logic
 - 8.1. If FUNDBAL < 0 and YEFLAG not “P”, skip center.
 - 8.2. If FUNDBAL < 0, FUNDBAL ≥ BUD-OVERSPENT, and YEFLAG = “P” and, skip center.
 - 8.3. If FUNDBAL < 0, FUNDBAL < BUD-OVERSPENT, and YEFLAG = “P”, create entry.
 - 8.3.1. JE debit amount1 = (FUNDBAL - BUD-OVERSPENT) * -1

- 8.3.2. JE debit account1 = 14261
- 8.3.3. JE credit amount1 = FUNDBAL - BUD-OVERSPENT
- 8.3.4. JE credit account1 = 341x9 (see requirements 9 for determining “x”)
- 8.4. Note: Centers with YEFLAG not “P” are skipped because the PTDBUD and PTDEXP calculations used to derive the BUD-OVERSPENT amount would be incorrect on centers that span fiscal years.
- 9. **Revenue accounts** (4th digit) should be determined using the following logic.
 - 9.1. Fourth digit = **1** (federal government): U01 Federal = Y or Fund Prime starts with “0”
 - 9.2. Fourth digit = **4** (State of TN government): U01 Fund Prime = 1000-1199, 4004, 4008, 4015, 4032, 4062, 4063
 - 9.3. Fourth digit = **5** (metro government): U01 Fund Prime = 2000-2199
 - 9.4. Fourth digit = **6** (other government): U01 Fund Prime = 1200-1999, 2200-2999
 - 9.5. Fourth digit = **7** (private): All other Fund Primes, including where Fund Prime is null
 - 9.6. Note: Requirement 9.1 reflects a change from the previous unbilled receivable logic, which stated that if Federal ≠ Y but Fund Prime = 0xxx, 34169 was assigned. The new logic defines both as federal.
- 10. **General journal entry details** are as follows.
 - 10.1. For error handling purposes, separate journals are created for Medical Center and University Central
 - 10.1.1. Division (digits 2-3 of center) between 01 and 19, MC journal error handling – **B**
 - 10.1.2. Division (digits 2-3 of center) between 20 and 99, UC journal error handling – **C**
 - 10.2. The journal entry IDs are as follows.
 - 10.2.1. MC JEID (Divisions < 20) – **MCREV**
 - 10.2.2. UC JEID (Divisions > 19) – **UCREV**
 - 10.3. Transaction type = **A** (accrual, so automatic reversals will be generated by the GL at the beginning of the following month)
 - 10.4. JE header description - **Match Revenue**
 - 10.5. JE short description on debit and credit, defaulted from JE header - **Match Revenue**
 - 10.6. JE expanded description (single space between each field - total characters = 30)
 - 10.6.1. Center
 - 10.6.2. Offset Account
 - 10.6.3. Award Type (should always be C or G)
 - 10.6.4. Federal flag (if blank, show *)
 - 10.6.5. Fund Prime (if blank, show ****)
 - 10.6.6. “BDEF” when entry is an accrual/unbilled receivable and budget balance (PTD Revised Budget less PTD Expenses) is negative; otherwise display ****.
 - 10.7. JE source - **MATCHREV**
 - 10.8. SLID and SLAC – Blank