1. Title

Policy for Accounting and Financial Reporting for Nonexchange Transactions

2. Policy

Sec. 1 Requirement. Governmental Accounting Standards Board (GASB) Statement No. 33 – Accounting and Financial Reporting for Nonexchange Transactions was issued December 1998. The Statement establishes accounting and financial reporting standards that address when to report the results of Nonexchange Transactions involving cash and other financial and capital resources. In a Nonexchange Transaction one party to a transaction receives or gives something without directly receiving or giving something of equal value. Conversely, the determining characteristic of an exchange transaction is that each party to the transaction receives or gives something of essentially equal value. Value is defined as monetary worth or measurable usefulness, importance, or general worth for something exchanged.

Sec. 2 Purpose. This accounting policy establishes more uniform recognition criteria to promote greater consistency and comparability in accounting and financial reporting of Nonexchange Transactions for University of Texas System institutions. This accounting policy defines Sponsored Programs as distinguished from gifts.

Sec. 3 Classes of Nonexchange Transactions Applicable to U. T. System Institutions. Two classes of Nonexchange Transactions primarily affect U. T. System institutions.

3.1 Sponsored Programs (Government-Mandated Nonexchange Transactions). Occur when government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose (i.e., Sponsored Programs like industry or governmental grants, contracts, appropriations, or student financial assistance).

3.2 Gift Pledges (Voluntary Nonexchange Transactions). Result from legislative or contractual agreements, other than exchanges, entered into willingly by two or more parties (i.e., certain grants or private gifts and donations).

Sponsored Programs can either be exchange or Nonexchange Transactions. In contrast, gifts are always Nonexchange Transactions to which GASB 33 applies.

Sec. 4 Required Documentation for Nonexchange Transactions. Verifiable documentation is necessary for recognizing that a Nonexchange Transaction has occurred.

4.1 Sponsored Programs (Government-Mandated Nonexchange Transactions). Sponsored programs should be evidenced by legal agreements obligating the provider and recipients or by authorizing appropriations or statute specifying performance.

4.2 Gift Pledges (Voluntary Nonexchange Transactions). Gift Pledges should be evidenced by one of several forms as outlined in U. T. System's Development and Gift Planning Services' Gift Acceptance Procedures.

Sec. 5 Recognition of Nonexchange Transactions in the General Ledger. Accounting and financial reporting of Nonexchange Transactions should be appropriate for their class and characteristics per the definitions in this Policy. Therefore, application of this Policy requires analysis of the substance or characteristics of a transaction, rather than attention only to the transaction's label. Additionally, some transactions have characteristics of both exchange and Nonexchange Transactions and, if material, should be accounted and reported for on an appropriate allocated percentage basis.

Providers of resources in Nonexchange Transactions frequently establish eligibility or conditional requirements through legislation or donor stipulations that must be met before a transaction can occur. Until such conditions, including time requirements, are satisfied, the provider 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.

Eligibility or conditional requirements can comprise one or more of the following:

- Required characteristics of recipients – The recipient has the characteristics specified by the provider.
- Time requirements – Time requirements specified by enabling legislation or the provider have been met.
- Reimbursements – The provider offers resources on a reimbursement basis and the recipient has incurred allowable costs under the applicable program.

- Contingencies – Applicable only to Voluntary Nonexchange Transactions (Gifts) when the donor’s gift pledge is contingent upon a specified action of the recipient being satisfied.

5.1 Sponsored Program (Government-Mandated Nonexchange Transaction) Recognition. When time requirements are not specified by the provider, the entire award should be recognized as a receivable and revenue (net of estimated uncollectible amounts) by the U. T. System institution, in the period when all applicable requirements are met. When the provider is a governmental agency, the applicable period is the first day of the provider’s fiscal year. However, if a provider government has a biennial budgetary process, each year of the biennium should be considered a separate applicable period. In such circumstances, the U. T. System institution receiving such amounts should allocate one-half of the resources appropriated for the biennium to each applicable period, unless the provider specifies a different allocation.

Funding methods that employ cash reimbursements, cash draw downs, or milestones should be recorded when all eligibility requirements are satisfied, including reimbursement requirements that the U. T. System institution incur allowable costs under the applicable program. The sample entry to record such transactions is as follows:

	Debit	**Credit**
Sponsored Program Receivable	$ xxx	
Sponsored Program Revenue		$ xxx

At the time that the receivable is collected, the appropriate entry is as follows:

	Debit	**Credit**
Cash	$ xxx	
Sponsored Program Receivable		$ xxx

For cash advance funding method arrangements where funds are received in advance of expenses incurred by the U. T. System institution, the entry when all eligibility requirements, including time requirements have been met, is:

	Debit	**Credit**
Cash	$ xxx	

Sponsored Program Revenue		$ xxx

5.2 Gift Pledge (Voluntary Nonexchange Transaction) Recognition. Material unconditional gift pledges must be included in the financial statements for the U. T. System institution. Material gift pledges are defined as pledges with a face value of $10,000 or greater. Institutions may adopt a lower materiality threshold if they wish, but not less than $5,000. The effort of tracking pledges of less than $5,000 outweighs the benefit of recording these immaterial amounts. A gift pledge is a documented verbal or written commitment of intent by a constituent to make a gift to the U. T. System institution over a specified period, payable according to terms set by the donor. Unconditional gift pledges should be recorded in the general ledger accounts when the U. T. System institution accepts the pledge, is verifiable, measurable, and is probable to collect. An unconditional gift pledge is defined as a gift promise that is binding on the donor when the promise is made and depends only upon the passage of time or collection efforts for its performance. When an unconditional gift pledge is received or a conditional gift pledge has been met, the pledge should be communicated and recorded by the office of accounting at the gift pledge's net present value as:

	Debit	**Credit**
Gift Pledge Receivable	$ xxx	
Gift Revenue		$ xxx

Subsequently, when the gift pledge is collected, the following entry should apply:

	Debit	**Credit**
Cash	$ xxx	
Gift Pledge Receivable		$ xxx
"Additional" Gift Revenue		$ xxx

Gift pledge receivable is credited for the present value originally established and "additional" gift revenue is credited for the interest accrual difference between the present value amount and the amount received from the donor.

Conditional gift pledges require the occurrence of some future and uncertain event to bind the donor. Until such condition(s) is satisfied, the gift pledge should not be communicated to the office of accounting or recorded in the general ledger account, but should be monitored by the development office. If however, unrestricted gift resources or temporarily restricted gift resources are transmitted in advance of all conditions, including time requirements being satisfied, the office of accounting should record the transaction in the following manner:

	Debit	**Credit**
Cash	$ xxx	
Deferred Gift Revenue		$ xxx

Upon satisfying the conditional requirements of the advanced resources, this information should be communicated to the office of accounting and recorded in the following manner:

	Debit	**Credit**
Deferred Gift Revenue	$ xxx	
Gift Revenue		$ xxx

For permanently restricted gifts and deferred gifts such as planned gifts or trusts, with a conditional time stipulation that the resources cannot be sold, disbursed, or consumed until after a specified number of years have passed or a specific event has occurred, if ever, the office of accounting should only record the resources when received. No gift pledge revenue or receivables are recognized since the time requirements have not been met. The appropriate entry for recording such transactions when received is as follows:

	Debit	**Credit**
Cash or Other Assets	$ xxx	
Gift Revenue		$ xxx

Sec. 6 Valuation of Multi-Year Nonexchange Transactions.

6.1 Multi-year gift pledges and Sponsored Programs extending beyond one year must be reported at the discounted present value, which is determined by:

- using an interest rate for the applicable federal mid-term rate in effect for valuing certain debt instruments established annually each September of the fiscal year in which valuations or receipts of resources occur. Interest rates must be reestablished annually for subsequent new Nonexchange

Transactions using the September or nearest maturity applicable debt instrument (i.e., U.S. Treasury Bills and Notes quoted yields as listed in the *Wall Street Journal*); and

- basing the calculations on the most recent mortality experience available.

Nonexchange Transactions that are expected to be collected or paid in less than one year may be measured at net realizable value because that amount, although not equivalent to the present value of estimated future cash flows, results in a reasonable estimate of proper value.

For gift pledge situations where the donor has not specified payment or funding terms but has indicated intent to pay or fund the pledge over several years, the gift pledge should be present valued as a lump sum amount at the earlier of final intended funding date or five years. As an example, if a donor indicates intent to provide the U. T. System institution $1 million over three years, but does not elaborate on how much will be funded during each of the years, the $1 million pledge should be present valued over the three-year period.

Continuing the example, if the donor indicates intent to provide the U. T. System institution $1 million but does not specify a funding period or terms of funding, the $1 million pledge should be present valued over a five-year period as specified in U. T. System's Office of Development and Gift Planning Services' Gift Acceptance Procedure as the maximum allowable funding period from the date of execution of the pledge agreement.

6.2 Example of Multi-Year Non-exchange Transaction Valuation. A donor pledges $500,000 to the U. T. System institution's hospital for indigent care. The donor's letter specifies that she will pay $100,000 per year over the next five years (no eligibility requirement).

Assuming that the hospital believes that the installments are probable of collection, the U. T. System institution should recognize a gift pledge receivable and gift revenue for the discounted net present value of the five installments in the period when the donor's pledge is accepted. Subsequent accruals of the interest element should be reported as additional gift revenues.

The calculation of the net present value is:

where n = period and i = current yield

$$
\begin{aligned}
NPV_0 = {} & PV_1 + PV_2 + PV_3 + PV_4 + PV_5 \\
& PV_1\ (n=1, i=\text{T-Note at Sep-01 is } 6.68\%, 100{,}000) = \$93{,}738.28 \\
+ {} & PV_2\ (n=2, i=\text{T-Note at Sep-02 is } 6.71\%, 100{,}000) = \$87{,}819.26 \\
+ {} & PV_3\ (n=3, i=\text{T-Note at Aug-03 is } 6.67\%, 100{,}000) = \$82{,}389.74 \\
+ {} & PV_4\ (n=4, i=\text{T-Note at Aug-04 is } 6.69\%, 100{,}000) = \$77{,}180.06 \\
+ {} & PV_5\ (n=5, i=\text{T-Note at Aug-05 is } 6.67\%, 100{,}000) = \$72{,}408.33 \\
& = \$413{,}535.67
\end{aligned}
$$

Accounting entry at time of pledge agreement (P_1):

	Debit	**Credit**
Gift Pledge Receivable	$413,535.67	
Gift Revenues		$413,535.67

Accounting entry at end of P_1 (Collection of first installment):

	Debit	**Credit**
Cash	$100,000.00	
Gift Pledge Receivable		$93,788.28
"Additional" Gift Revenue (Interest Accrual)		$ 6,261.72

Sec. 7 Allowance for Uncollectible Gift Pledges and Write-Off of Uncollectible Gifts. Each U. T. System institution's development office, with the assistance of the institutional office of accounting, shall establish standard policies for estimating the allowance method for uncollectible gift pledges and the write-off of uncollectible gifts that conforms to generally accepted accounting principles. When gift pledges are accepted, it must be realized that not all gift pledge receivables will be collected. To match the revenues and expenses of a given period on the income statement or *Statement of Revenues, Expenses, and Changes in Net Assets* and to value outstanding gift pledge receivables properly on the balance sheet or *Statement of Net Assets*, a reasonable estimate must be made to record the potential amount of uncollectible gift pledges.

Each U. T. System institution shall maintain a general ledger valuation contra asset account entitled "Allowance for Uncollectible Gift Pledges." This account shall be credited for the quarterly provision to be deducted from the gift pledge receivable balance, and "Write-off of Uncollectible Gifts" expense should be debited on the income statement or *Statement of Revenues, Expenses, and Changes in Net Assets*.

The periodic provision for the write-off of uncollectible gift pledge expense may be calculated by: (1) applying an average percentage of historical gift pledge write-offs to the net present value of gift pledge revenues, or (2) applying an appropriate gift pledge write-off expense percentage, to aged outstanding gift pledge receivable debit balances at the end of the accounting period. The current provision shall be the amount necessary to increase the allowance account to the required level. Option (2) may be used as often as considered necessary but no less than quarterly, including at fiscal year-end.

Uncollected gift pledges shall be written off, subject to appropriate approval authority, when they are determined to be uncollectible by the development office. The Allowance for Uncollectible Gift Pledges shall be debited for the amounts to be written off and the general ledger Gift Pledge Receivable account shall be credited with the corresponding amount. To avoid double counting, Write-off of Uncollectible Gifts expense is not charged again at the time of the write-off of the receivable. The sample entry to establish (or replenish) the allowance account and incur the expense on the income statement or *Statement of Revenues, Expenses, and Changes in Net Assets* is:

Write-off of Uncollectible Gifts Expense	$ xxx	
Allowance for Uncollectible Gift Pledges		$ xxx

The sample entry to write off the pledge determined to be uncollectible on the balance sheet or Statement of Net Assets is:

	Debit	**Credit**
Allowance for Uncollectible Gift Pledges	$ xxx	
Gift Pledge Receivable		$ xxx

3. Definitions

Conditional Gift Pledge - a gift promise dependent upon the passage of time and/or occurrence of some future and uncertain event to bind the donor.

Disposition of Properties ("Deliverables") - Sponsored Program agreements also usually include terms and conditions for the disposition of tangible properties (e.g., equipment, records, specified technical reports, theses, or dissertations) or intangible properties (e.g., rights in data, copyrights, and inventions). The presence of such terms and conditions in the agreement indicate that the activity is a Sponsored Program.

Gifts - voluntary transfer of items of value, usually in the form of cash, checks, securities, real property, or personal property. Gifts may come from individuals, industries, foundations, and other sources; recipients can use them for unrestricted or restricted purposes. Recipients make no commitment of resources or services in return for gifts, other than possibly agreeing to put the gift to use as the donor designates. In general, the following characteristics describe a gift:

- No contractual requirements are imposed and there are no "deliverables" to the donor. However, the gift may be accompanied by an agreement that restricts the use of the funds to a particular purpose. Gifts should be evidenced by one of several forms outlined in U. T. System's Office of Estates and Trusts' *Gift Acceptance Procedures*, and may include: formal Gift Pledge Agreements, letters of intent, pledge cards, notations on donor checks, and acknowledgment correspondence.

- A gift is typically irrevocable. While the gift may be intended for use within a certain timeframe, there is no specified "period of performance" or "start" and "stop" dates as associated with Sponsored Programs.

- There is no formal fiscal accountability to the donor beyond periodic progress reports and summary reports of expenditures. These reports may be thought of as requirements of good stewardship, and, as such, may be required by the terms of a gift. They are not characterized as contractual obligations or "deliverables."

Permanently Restricted Gift - a gift that the donor has placed indefinite restrictions on the purpose for which, or the conditions under which, such funds may be expended or disbursed, i.e., permanent endowments and other trusts, term endowments, and contributions of works of art, historical treasures, and similar assets to capitalized collections. In this case, the U. T. System institution must retain the gift intact in perpetuity, invest it, with the investment income available to be utilized in operations.

Sponsored Programs - externally-funded activities in which a formal written agreement, i.e., a grant, contract, or cooperative agreement, is entered into by U. T. System and by the sponsor. A Sponsored Program may be thought of as a transaction in which there is a specified statement of work with a related, reciprocal transfer of something of value. The following conditions characterize Sponsored Program agreements, and help to distinguish such agreements from gifts:

Statement of Work - Sponsored Programs are typically awarded to a U. T. System institution in response to a detailed statement of work and commitment to a specified project plan. As described below, this statement of work is usually supported by both a project schedule and a line-item budget, both of which are essential to financial accountability. The statement of work and budget are usually described in a written proposal submitted by a U. T. System institution to the sponsor for competitive review.

- The Sponsored Program agreement includes detailed financial accountability, typically including such conditions as:

  - a line-item budget related to the project plan. The terms of the agreement may specify allowable or unallowable costs, requirements for prior approvals for particular expenditures, etc.;
  - a specified period of performance, typically defined with "start" and "stop" dates;
  - a requirement to return any unexpended funds at the end of that period; and
  - regular financial reporting and audit, including, for federal and state awards, accountability under the terms of OMB A-21, *Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements With Educational Institutions;* OMB A-110, *Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations;* and OASC-3, *A Guide for Hospitals: Cost Principals and Procedures for Establishing Indirect Cost and Patient Care Cost Rates for Grants and Contracts with the Department of Health Education and Welfare*.

- These conditions generally define the level of financial accountability associated with a Sponsored Program. While not all of the above conditions are necessary to define a Sponsored Program, they are collectively indicative of the increased level of financial accountability associated with such projects.

Temporarily Restricted Gift - a gift with donor imposed definite restrictions, which may stipulate a specific purpose for the use of the funds or require that the gift be used only after a specific time period has elapsed, or both. Use of such funds is possible, but only to the extent that the U. T. System institution fulfills the stipulations attached to them, i.e., to support a particular program, department, project or professorship.

Unrestricted Gift - a gift that the donor has not placed any restrictions as to the method or purpose of expenditure, leaving the U. T. System institution to determine the appropriate use of such funds. Such funds may be budgeted, appropriated, and expended for any appropriate institutional purpose in accordance with the U. T. System institution’s policies and procedures. This term may also be applied to gifts received under a continuing solicitation program for general support of an institutional activity, i.e., the U. T. System institution's athletics programs where anticipated gifts are budgeted as a regular funding source.

4. Relevant Federal and State Statutes

Governmental Accounting Standards Board (GASB) Statement No. 33 – Accounting and Financial Reporting for Nonexchange Transactions (December 1998)

5. Relevant System Policies, Procedures, and Forms

UTS138, *Gift Acceptance Procedures*

6. System Administration Office(s) Responsible for Policy

Office of the Controller

7. Dates Approved or Amended

September 11, 2012