

## DEFERRED REVENUE

This procedure is governed by its parent policy. Questions regarding this procedure are to be directed to the identified Procedure Owner.

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| <b>Category:</b>        | F. Finance              |
| <b>Parent Policy:</b>   | F10                     |
| <b>Approval Date:</b>   | April 12, 2024          |
| <b>Effective Date:</b>  | April 12, 2024          |
| <b>Procedure Owner:</b> | Chief Financial Officer |

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| <b>Overview:</b>   | To provide a clear and standardized approach for the recording and reporting of deferred revenue received by Olds College of Agriculture & Technology (the "College").  |
| <b>Procedures:</b> | <p>Deferred revenue includes the following externally restricted contributions:</p> <ol style="list-style-type: none"> <li>1. Externally restricted contributions received for expenses of future periods including:             <ol style="list-style-type: none"> <li>a. Grants, contracts, donations, bursaries, scholarships and sponsorships</li> <li>b. Spendable investment income earned on endowments</li> </ol> <p>When the externally restricted contributions are received in the same year that the funds are spent, the restrictions associated with these revenues have been met and the restricted funds are recognized as revenue in the same period.</p> </li> <li>2. Externally restricted contributions received for the purchase of capital assets:             <p>Externally restricted contributions for the purchase of capital assets, that will be amortized, will be deferred and recognized as revenue on the same basis as the amortization expense related to the acquired capital asset. These contributions will be recognized as revenue over the useful life of the acquired capital asset to reflect that the contribution provides benefits in all the periods that the College has use of the capital asset.</p> </li> </ol> <p>Recording and reporting of deferred revenue consists of initiation, management and closing lifecycle stages. Each life cycle stage is described below:</p> |

## Initiate

### 1. Funding Agreements

Funding agreements are required when there is an external contributor designating funds to the College for a specific purpose or outcome. The purpose of the funding agreement is to clearly outline the contributors expectations and the College's responsibilities in carrying out the expectations. All Funding agreements must adhere to the Gift Acceptance and Contract Management policies and procedures.

### 2. Accounting System Setup

Upon signing of the funding agreement, the required setup in the College's accounting system is initiated by the Contract Owner in a timely manner (within current reporting month) for any codes not yet set up including:

- a. Customer setup for the contributor with Accounts Receivable
- b. Setup of the required Alias and coding strings for the funding source

The Account Receivable is recorded as soon as funds become owed to the College.

### 3. Funding Stipulation Documentation

The Contract Owner must ensure that funding restrictions are documented as a Google Doc in a common location available to the Project Manager and Operations Accountant so that:

- a. Projects can be defined at a granular enough level to relate the projects to the funding source restrictions;
- b. All projects for which revenue is recognized against the funding source meet the required restrictions; and
- c. All stakeholders have access to the required information

## Manage

### 1. Budget Management

A restricted project budget for each fund that is separate from the board approved budget is maintained by an Operations Accountant and kept current as changes to projects and funding sources occur. The funding stipulation documentation will include a restricted project budget that will include all project expenses and the corresponding funding sources that will be used to fund the projects. The Contract Owner must approve that a project can be funded by their funding source. Project definitions must be created and communicated by the Project Manager to the Contract Owner to request approval for a funding source.

The funding stipulation documentation for projects should be defined at a granular enough level to facilitate:

- a. the matching of project expenses to funding sources, including any funding rules
- b. reporting requirements

### 2. Project Accounting

Authority to spend will be granted based on the restricted project budget. The Project Manager is responsible for setting up the Alias and coding strings for the project. The Operations Accountant, when permitted by agreement, will allocate project overhead balances regularly (normally at month end). If there are expenses incurred for the period for which revenue has not been recognized, the Project Manager is responsible to have reasonable assurance that the deficit balance will be funded by year end. Funding rules for a project will be established by the Project Manager and communicated to the Operations Accountant. The Project Manager must ensure that all expenses coded to the project meet the project definition for the project. The Operations Accountant will perform an annual review of all Contributor surpluses to ensure that surplus funds are allocated to the Contributor or applicable project based on Contributor requirements and to ensure the fullest utilization of all grants provided.

### 3. Monthly Revenue Recognition

The Operations Accountant will prepare the revenue recognition entries at month end based on the funding rules. Changing the funding sources used to fund projects is discouraged. Changes to funding sources in a prior year should only be performed with authorization of the CFO. Revenue will be recognized for all expenses incurred in the period the expenses occurred. Only in exceptional circumstances will revenue be recorded in a different period. The Director, Business Services will approve all revenue recognition entries. The Director, Business Services must monitor deficit project balances at month end and follow up significant deficits with the Operations Accountant and if necessary with the Project Manager.

### 4. Reporting

The delivery of accurate, timely and complete reporting, required under all Funding Agreements, is the responsibility of the Contract Owner with the support of the Operations Accountant. The Operations Accountant will report any significant deficits to the Director, Business Services.

### Close

1. The Contract Owner must complete the **Funding Source Completion Checklist** available in the workflow management system prior to permanently closing any codes related to the funding source.
2. The Project Manager must complete the **Restricted Project Completion Checklist** available in the workflow management system prior to permanently closing any codes related to the project.

### Definitions:

**Funding Source:** A source of funds for the College that has an associated revenue generating contract. The establishment of a funding source is driven by the need to be accountable to the Contributor. Internal funding sources are closed to net assets at the end of each fiscal year. External funding sources remain from year to year until they are spent.

**Project:** A unique identifier of an event or activity that has a designated funding source or sources. A project is attached to a single Fund and includes all expenses attached to that event or activity. The funding rules for the project must match the funding rules for all related funding sources. All expenses charged to a project must match the funding rules for the project.

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|                                    | <p><b>Contributor:</b> Includes a grantor, donor, customer or any other contributor of an externally restricted contribution.</p> <p><b>Funding Rules:</b> The funding stipulations as outlined in the revenue generating contract stating specifics around the budget and types of expenses that the funding sources will cover.</p> <p><b>Project Definition:</b> Consists of the explicit details of a project such as what the project is, how much the project will cost, who will be funding the project, who will be overseeing the project, the risks/costs (if any) to the College, the timing of the project (anticipated start &amp; end date) and details as to how the project fits within the College's strategic plan.</p> <p><b>Contract Owner:</b> The individual(s) accountable for contract delivery and whose budget will pay for the contract costs or receive the funds associated with the contract.</p> <p><b>Project Manager:</b> The budget owner of the department that the project is managed within.</p> |
| <p><b>Related Information:</b></p> | <p>B03 Fraud &amp; Irregularities Policy<br/> D06 Gift Acceptance Policy<br/> F05 Contract Management Policy<br/> F21 Signing Authority for Contracts &amp; Obligations Policy<br/> Deferred Revenue RACI Chart<br/> Funding Source Completion Checklist<br/> Restricted Project Completion Checklist</p>   |
| <p><b>Review Period:</b></p>       | <p>3 years</p>  |
| <p><b>Revision History:</b></p>    | <p>New: April 2021<br/> Revised: April 2024</p>   |