Policy: Classification of Customer Reimbursement Receipts — Reverse Expenditure vs. Revenue

University Controller's Office (UCO)

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1. Purpose

The purpose of this policy is to establish clear, authoritative criteria for determining when reimbursement payments received from external customers shall be recorded as reverse expenditures (reductions of expense) rather than as revenue.

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2. Scope

This policy applies to all University of Washington (UW) departments, colleges, auxiliary enterprises, and administrative units that receive reimbursement payments from external customers in the normal course of operations.

The SOP ensures:

- Consistent classification of reimbursements as reverse expenditure or revenue
- Clear differentiation between revenue and reverse expenditure

This policy does NOT apply to:

- Reimbursements associated with grants, contracts, or sponsored awards (governed separately by the Office of Sponsored Programs and Grants and Contract Accounting)
- Internal service transactions between UW departments or component units;
- Employee related reimbursement
- Insurance recoveries
- Litigation settlements
- Fiduciary or custodial transactions

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3. Policy Statement

The University of Washington shall classify reimbursement receipts from external customers as reverse expenditures (reductions of expense) when the substance of the transaction reflects cost recovery rather than an independent earnings process. Conversely, a receipt shall be classified as revenue when the University of Washington has provided a distinct, separately identifiable good or service that generates independent economic value and the transaction constitutes an exchange or non-exchange transaction as defined by GASB.

The classification shall be based on the economic substance of the transaction, not merely its legal form or how the paying party characterizes the payment.

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4. Decision Framework: Criteria for Classification

4.1 Primary Test — Substance Over Form

The classification of a receipt must reflect its economic substance. The University shall apply the following four-factor analysis. Factors should be considered together; no single factor is independently determinative.

Factor 1: Did the University Complete an Independent Earnings Process?

Condition	Classification
The University provided a distinct good or service to the external party, taking on risk, deploying institutional expertise, and generating economic value independent of cost recovery	Revenue
The University incurred a cost on behalf of the external party, and the receipt compensates the University only for that cost with no markup or profit element	Reverse Expenditure

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Factor 2: Is the University Acting as a Principal or an Agent?

The University is functioning as a **principal** when it controls a good or service, bears substantive economic risk in delivering it, and generates independent value for the recipient. In this case, receipts are gross revenue.

The University functions as an **agent or fiscal intermediary** when it procures goods or services on behalf of another party, retains no economic benefit beyond recovery of its own costs, and passes resources through to vendors or other parties based on an agreed upon arrangement. In this case, receipts that equal actual costs are reverse expenditures.

Factor 3: Is the Amount Received Equal to (or Less Than) Actual Cost Incurred?

- Reimbursement at or below actual cost → strong indicator of reverse expenditure.
- Reimbursement above actual cost (i.e., includes a markup, profit element, or service charge) → the excess above cost shall be classified as revenue; the cost-equivalent portion shall be classified as a reverse expenditure unless the entire transaction qualifies as an exchange under Factor 1.

Factor 4: What Is the Nature of the Original Expenditure?

- If the original expenditure was recorded as an operating expense of the University of Washington, a subsequent recovery of that cost is appropriately treated as a reduction of that same operating expense, consistent with the economic reality of the transaction.

- If no original expenditure exists in UW accounts (i.e., the UW incurred no cost), then no reverse expenditure treatment is available, and any receipt must be evaluated as potential revenue.

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5. Specific Transaction Scenarios

5.1 Event hosting while UW is acting as a cost pass through

Scenario: The UW hosts an event on behalf of an external professional association. The association reimburses the University for catering, AV equipment rental, and printing costs actually incurred.

Classification: Reverse Expenditure. The UW incurs identifiable costs, is reimbursed at actual cost with no markup, and serves as a fiscal intermediary rather than a program operator. Credits shall reduce the relevant expense line items.

Exception: Any administrative or coordination fee charged above actual cost is revenue from an exchange transaction.

5.2 Academic Guest Lectures and Scholarly Exchanges on a cost sharing basis.

Scenario: A co-sponsoring external institution reimburses the UW for direct, documented costs incurred to facilitate a guest lecture or scholarly exchange, including speaker honoraria, travel, lodging, and hosting costs, at a rate that does not exceed actual cost.

Classification: Reverse Expenditure. The UW incurred identifiable operating expenses, recorded them as such, and the receipt returns only those funds. No independent earnings process has been completed; the University is not selling access to a program.

Exception: If an external party pays a registration or access fee to send participants to the lecture series at a market or near-market rate, the receipt is exchange revenue under GASB Statement No. 33.

5.3 International Academic Collaborations With an MOU

Scenario: A foreign partner university reimburses the UW for travel, stipend, or administrative costs incurred under a bilateral memorandum of understanding (MOU), based on actual documented costs with no markup.

Classification: Reverse Expenditure. provided the MOU is structured as a cost-sharing or cost-reimbursement arrangement rather than a fee-for-service contract, and the amount received does not exceed actual costs allocated to the foreign partner.

Exception: If the collaboration agreement requires UW to deliver defined academic outcomes (e.g., a specified number of course modules, a co-branded certificate or degree program), UW is functioning as a principal delivering a service. The consideration is an exchange transaction under GASB Statement No. 33 regardless of how the agreement labels the payment.

5.4 Joint Educational Events Without Program Fees

Scenario: A co-hosting external institution reimburses the University for a pre-agreed, defined share of direct event costs (catering, AV, room rental, speaker honoraria) for a joint workshop or symposium at which no registration or attendance fee is charged to participants.

Classification: Reverse Expenditure. The absence of participant fees itself is evidence that the University is not engaged in an exchange transaction. The University's costs are operating expenses; the partner's payment is a recovery of a portion of those costs.

Fiscal Agent Clarification: When the University acts as fiscal agent for a jointly organized event — collecting and disbursing funds on behalf of multiple co-sponsors — amounts collected in excess of the University's own cost share must be recorded as liabilities (deposits held for others), not as revenue or expense. Only the University's own cost share and the recovery of that share flow through the operating statement.

Exception: If a co-sponsor pays an organizing fee or administrative overhead charge above actual cost, or if the event subsequently adds participant fees, those amounts are revenue.

5.5 Incidental Personal Usage of University Resources By an Employee

Scenario: An employee uses a University photocopier for personal documents/signage and reimburses the University for actuals costs incurred.

Classification: Reverse Expenditure. The employee is reimbursing for actual costs and the University does not charge a fee for the service.

Exception: if the employee used a photocopier that is set up as a fee-for-service, then the receipt would be classified as revenue.

5.5 Sales of Goods or Services at Market Rates

Scenario: The University's printing services department sells printed materials to an external customer at posted market rates.

Classification: Revenue (Operating). The University is the principal, has completed an earnings process, and charges market rates that include overhead recovery and margin. This is an exchange transaction under GASB Statement No. 33.

This is NOT a reimbursement and shall NOT be treated as a reverse expenditure.

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6. Accounting Treatment and Journal Entry Guidance

Original Expense

Dr. Other Expense

  Cr. Cash / Accounts Payable

Reimbursement Received

Dr. Cash

  Cr. Other Expense Reimbursement

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7. Documentation Requirements

For every reimbursement transaction classified as a reverse expenditure, the responsible department shall maintain the following documentation:

1. **Original agreement, MOU, or written correspondence** establishing the basis for reimbursement and the cost-sharing or pass-through arrangement, executed prior to the activity;
2. **Documentation of original expenditure(s):** purchase orders, invoices, vendor receipts, payroll records, or other evidence of cost incurred;
3. **Cost calculation worksheet** demonstrating that the reimbursement amount does not exceed actual costs allocated to the external party;

4. **Evidence of receipt:** remittance advice, bank deposit confirmation, or accounts receivable payment record;

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8. Definitions

Reimbursement: A payment received from an external party that compensates the University for costs it has already incurred or will incur on behalf of that party, where the University is acting as an intermediary or cost-pass-through entity, and no independent earnings process has been completed.

Reverse Expenditure (Expenditure Recovery / Reduction of Expense): An accounting treatment in which a reimbursement receipt is recorded as a credit to the expense account to which the original cost was charged, thereby reducing the net reported expense. This treatment reflects the economic reality that the UW has recovered a cost rather than earned new revenue.

Revenue: An inflow of resources arising from the UW's exchange transactions (e.g., tuition, sales of goods or services) or non-exchange transactions (e.g., taxes, gifts) that increases net position and represents the completion of an earnings process independent of cost recovery.

Exchange Transaction: The University provides a good or service and receives consideration of commensurate value in return.

Non-Exchange Transaction: A transaction in which the University receives value without directly giving equal value in return (e.g., gifts, donations, certain government appropriations).

Agent / Fiscal Intermediary: A party that holds or disburses resources on behalf of another party, does not control those resources for its own benefit, and does not report the related flows as its own revenues and expenses.

Expense Reimbursement Accounting Decision Tree

Use this decision tree whenever your department expects to receive money back for costs the university paid.

STEP 1 — Did UW incur an expense?

If UW did not incur an expense, the payment cannot be a reimbursement.

- NO → Treat as revenue
- YES → Proceed to Step 2

STEP 2 — Is the payment repaying UW for that exact expense?

The payment must correspond to a specific, identifiable UW expenditure.

- NO → Treat as revenue
- ✅ Reimbursement must be recorded as **revenue**
  ✅ Expenses must be recorded **gross**
  ✅ Institutional overhead **may apply**
  ➡️ Contact Accounting if unsure
- YES → Proceed to Step 3

STEP 3 — Did UW provide goods, services, or a deliverable in return?

- YES → This is an exchange transaction → Record as exchange revenue
- ✅ Record payment as **revenue**
  ✅ Expenses remain **gross**
  ✅ Overhead **may apply**
- NO → Proceed to Step 4

STEP 4 — Does the payment increase UW's net position?

Examples of increases in net position: fees, program income, registration, service charges, markups, overhead.

- YES → Treat as revenue
- ✅ Reimbursement must be recorded as **revenue**
  ✅ Expenses must be recorded **gross**
  ✅ Institutional overhead **may apply**
  ➡️ Contact Accounting if unsure
- NO → Proceed to Step 5

STEP 5 — Is the payment part of a contract, cooperative agreement, or fee-for-service activity?

- YES → Treat as exchange revenue
- ✅ Reimbursement must be recorded as **revenue**
  ✅ Expenses must be recorded **gross**
  ✅ Institutional overhead **may apply**
  ➡️ Contact Accounting if unsure
- NO → Proceed to Step 6

STEP 6 — Is the payment part of a cost-sharing agreement?

If YES → classify based on the nature of the agreement:

6A — Does UW receive goods/services of equal value under the agreement?

Examples:

- Jointly funded event where UW receives a proportional benefit
- Shared research activity where UW receives deliverables
- Shared service arrangement where UW receives operational support

If YES → Record as exchange revenue (Because UW is receiving value in return.)

✅ Record payment as **revenue**
✅ Expenses remain **gross**
✅ Overhead **may apply**

6B — Is the payment simply reimbursing UW for its share of costs already incurred, with no deliverables provided?

Examples:

- Partner reimburses UW for its portion of travel, lodging, or hosting costs
- UW front-pays expenses and is later repaid for the partner's share
- No services or deliverables are provided to the partner

If YES → Record as an expense reduction (Because this is a reimbursement of expenditures.)

If NO → proceed to Step 7

STEP 7 — Is the payment simply repaying UW for a previously recorded expenditure, with no revenue earned?

- YES → Record as an expense reduction
- NO → Treat as revenue

FINAL CHECK (Before Submitting)

✓ Same fund and program as original expense

✓ Supporting documentation retained

✓ No revenue account used

✓ No overhead applied

When in Doubt

If **any step is unclear**, stop and contact:

- Accounting
- Revenue Manager
- University Controller's Office

Do not guess. Incorrect classification may result in audit findings.