

**UNIVERSITY OF HOUSTON SYSTEM
ADMINISTRATIVE MEMORANDUM**

SECTION: Fiscal Affairs

NUMBER: 03.A.24

AREA: General

SUBJECT: Extension of Credit by University of Houston System Component Universities

1. PURPOSE

This document sets forth the policy standards for component universities of the University of Houston System to ensure compliance with State of Texas law for the extension of credit to private and public entities, including business entities, individuals and other public agencies. Furthermore, it is the intent of this document to establish guidelines for the prudent extension of credit where deemed permissible and in the best interest of the System to do so.

2. POLICY

2.1. Constitutional and Statutory Prohibition: The System is prohibited from entering into a transaction for the sale or lease of goods or services in which the institution extends the credit of the state to the obligor. This prohibition is defined in Article 3, section 50 of the Texas Constitution, which states: "The Legislature shall have no power to give or to lend, or to authorize the giving or lending, of the credit of the State in aid of or to any person, association or corporation, whether municipal or other, or to pledge the credit of the State in any manner whatsoever, for the payment of the liabilities, present or prospective, of any individual, association of individuals, municipal or other corporation whatsoever."

Prohibition against certain extensions of credit by retail stores owned or operated by institutions of higher education is defined in Article 51.929 of the Texas Educational Code, which states: "(a) Except as provided by Subsection (b) of this section, a retail store that is owned or operated by an institution of higher education may not enter into a transaction for the sale or lease of goods or services in which the institution extends the credit of the state to the obligor."

2.2. System Policy: In view of this prohibition, component universities may not deliver merchandise or provide services to individuals, associations or corporations in any situation where the use of state appropriated funds are involved, unless payment is received. The prohibition against the extension of credit does not apply to federal, state, county or municipal government agencies; political subdivisions of the State of Texas; tuition and fees installment options as specified in the Texas Educational Code, section 54.007.

In those instances where a state agency is not prohibited from extending credit, TEX. GOV'T CODE ANN. § 403.0551 (Vernon Supp. 2000) authorizes the Texas Comptroller of Public Accounts to offset state payments against a person's indebtedness, delinquency or default. In addition, TEX. GOV'T CODE ANN. § 403.055 and similar statutes (known collectively as "warrant hold statutes"), contain provisions requiring that state agencies report to the Texas Comptroller of Public Accounts the names of persons who have an indebtedness or tax delinquency to the state.

- 2.3. Component universities may determine that the extension of credit in specific cases is appropriate and in the best interest of the component university to do so. It is the responsibility of the component universities to establish guidelines for doing so, such guidelines to contain:
 - a. A process to ensure that the requested extension of credit is not a prohibited transaction.
 - b. A procedure for ensuring that any extension of credit is done so in a prudent manner, including the use of standardized credit applications, commercial credit reports and specification of the level of authority required for approval of the requested credit.
 - c. Establishment of the billing, accounting and collection procedures for recording and monitoring the credit extended and ensuring that the agreed upon payment is received. Such procedures are to include the creation of a reserve for doubtful accounts in cases of on-going credit extensions, or the identification of non-state appropriated funds to offset any expenses in other cases.
 - d. A procedure for ensuring compliance with TEX. GOV'T CODE ANN. § 403.055 and similar statutes (known collectively as "warrant hold statutes") which require that state agencies report to the Texas Comptroller of Public Accounts the names of persons who have an indebtedness or tax delinquency to the state.

3. COMPONENT UNIVERSITY STUDENT INDEBTEDNESS

Each component university must establish guidelines prohibiting students with a financial stop from enrolling at that university or another component university.

4. DEFINITIONS

- a. Debtor: Entity purchasing goods or services on credit (i.e., the buyer).
- b. Creditor: Entity selling goods or services on credit (i.e., System department).

- c. Account Receivable: An asset that represents a claim against another entity for goods or services that has been provided, but for which cash has not been received.

5. WRITE-OFF OF AN UNCOLLECTIBLE ACCOUNT

All accounts receivable to be written off are approved by the Board of Regents of the System. Each component Accounting Department will compile a list of all such accounts receivable for submission to the Board. Accounts receivable are eligible for write-off once they have been outstanding for 720 days (two years). To be considered for write off, the component university must demonstrate that adequate steps were taken to collect the amount due.

6. FORGIVENESS OF DEBT VERSUS WRITE-OFF OF UNCOLLECTED ACCOUNTS

The write-off of an uncollected account is a bookkeeping entry only and does not relieve the debtor from financial responsibility to the component university. Although the uncollected account has been removed from the books, the component university may still have a claim against the debtor and may still seek legal remedy (e.g., sue for collection in a court of law). Therefore, it is the responsibility of each component university to maintain adequate records regarding legal financial obligations (i.e., debts) owed to the component university.

7. REVIEW AND RESPONSIBILITY

Responsible Party: Associate Vice Chancellor for Finance

Review: Every three years on or before August 31

8. APPROVAL

Approved: John Rudley
Vice Chancellor for Administration and Finance

Jay Gogue
Chancellor

Date: 4/29/05

9. INDEXING TERMS

Credit
Extension of Credit
University
Student Indebtedness