

AUDITOR OF STATE BULLETIN 2001-004
March 15, 2001

TO: ALL SCHOOL DISTRICT TREASURERS
ALL COUNTY AUDITORS
ALL CITY FINANCE DIRECTORS
ALL CITY AUDITORS
ALL INDEPENDENT PUBLIC ACCOUNTANTS

SUBJECT: GASB STATEMENT NO. 33

Introduction

Although the new reporting model established by the Governmental Accounting Standards Board (GASB) in Statement No. 34 is generating the most discussion, another new statement from the GASB will become effective before the transition to the new model is required. GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" is effective for financial statements for periods beginning after June 15, 2000. For school districts, GASB Statement No. 33 will need to be implemented for the fiscal year ending June 30, 2001. For counties and cities, implementation will be required for the year ending December 31, 2001.

GASB has also issued Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues" which modified the provisions of Statement No. 33 for certain specific nonexchange revenues. The provisions of Statement No. 36 are to be implemented simultaneously with those of Statement No. 33 and are incorporated into this Bulletin.

The purpose of GASB Statement No. 33 is to clarify the timing requirements for recognizing assets, liabilities, revenues and expenditures/expenses associated with nonexchange transactions. The Statement defines a nonexchange transaction as one in which the government receives value without directly giving equal value in return. (This is in contrast to exchange transactions in which each party receives or gives up essentially equal value.) Examples of nonexchange transactions include sales, income and property taxes, hotel-motel tax, gasoline tax, fines and penalties and grants. Inadequate guidance has resulted in these transactions being reported differently from one government to another. The GASB is hoping to generate more consistency and comparability in financial reporting by establishing more detailed recognition criteria.

GASB Statement No. 33 groups nonexchange transactions into the following four categories:

Derived tax revenues result from assessments imposed by governments on exchange transactions.

Imposed nonexchange revenues result from assessments by governments on non-governmental entities, including individuals, other than assessments on exchange transactions.

Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose or purposes established in the provider's enabling legislation.

Voluntary nonexchange transactions result from legislative or contractual agreements, other than exchanges, entered into willingly by two or more parties.

The following recognition guidelines apply when the **full accrual** basis of accounting is being used. Additional guidelines for the **modified accrual** basis of accounting are identified later in this Bulletin.

Derived Tax Revenues

A receivable is recognized when the underlying exchange on which the tax is imposed occurs or when resources are received, whichever occurs first. Revenue is recognized in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred.

Examples: income tax, permissive sales tax, hotel-motel tax.

Income tax discussion: At June 30 or December 31, a receivable and revenue would be recognized for all tax remaining to be paid on income that was earned before year-end and that is considered collectible by the government. A receivable and revenue would also be recognized for prior year delinquencies still considered collectible.

Permissive sales tax discussion: At December 31, a receivable and revenue would be recorded for the estimated tax to be received from the State on transactions that had occurred during the year.

Imposed Nonexchange Revenues

An asset is recognized for imposed nonexchange transactions in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first. **Other than property taxes**, revenues should be recognized when the asset is recognized unless there are time requirements specified in the enabling legislation. If time requirements are specified, revenue should be recognized in the period when the resources are required to be used or when use is first permitted. Governments should recognize revenues from property taxes, net of refunds and uncollectible amounts, in the period for which the taxes are levied.

Examples: property tax, fines and penalties.

Property tax discussion: An enforceable legal claim exists at June 30 for schools and at December 31 for cities and counties for the tax settlements identified below. These amounts would be reported as receivables at year-end.

Schools - at June 30, 2001, the August, 2001 and February, 2002 real property tax settlements and the October, 2001 personal property tax settlement. ~~(If the personal property tax settlement scheduled for June 30, 2001 is late and has not been received before year-end, it would also be reported as a receivable).~~

Cities and counties - at December 31, 2001, the February, 2002 and August, 2002 real property tax settlements and the ~~June, 2002 and~~ October, 2002 personal property tax settlements.

The following revenues are considered to be levied, and would be reported as revenue, for the fiscal year ending June 30, 2001 for schools and for the calendar year ending December 31, 2001 for cities and counties.

Schools - the ~~four~~ property tax settlements which are scheduled by statute to occur within the fiscal year and which by statute are available for appropriation (August, 2000 and February,

Three settlements now, because the June 30 settlement no longer occurs.

2001 real property and October, 2000 ~~and June, 2001~~ personal property), plus any advance against the August, 2001 real property tax settlement available from the county auditor on June 30, 2001.

Cities and counties - the ~~four~~ property tax settlements which are scheduled by statute to occur within the calendar year (February, 2001 and August, 2001 real property and ~~June, 2001 and~~ October, 2001 personal property).

Delinquent property taxes from prior years would also be included as a receivable and revenue to the extent they are considered collectible.

Credit revenue for full accrual. Credit deferred inflows for modified accrual.

Government-mandated and voluntary nonexchange transactions

For government-mandated and voluntary nonexchange transactions, receivables and revenues are recognized when all eligibility requirements are met. Resources received before the eligibility requirements are satisfied ~~are deferred~~.

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. (The period when the resources are required to be used or when use is first permitted has begun, as specified by the provider.)

Sometimes a provider in a government-mandated or voluntary nonexchange transaction does not specify time requirements. When that is the case, the entire award should be recognized as a receivable and a revenue by the recipient in the period when all applicable eligibility requirements are met (applicable period). When the provider is a government, the applicable period for both the provider and the recipient is the provider's fiscal year and begins on the first day of that year (when, for example, the relevant appropriation becomes effective). The entire award should be recognized at that time.

Reimbursements. The provider offers resources on a reimbursement basis and the recipient has incurred allowable costs under the applicable program.

Contingencies. (Applies only to voluntary nonexchange transactions). The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred. Examples of contingencies include matching requirements that require the government to dedicate a portion of its own resources to a specified purpose or the environmental statement that is required by certain CDBG grants.

Examples: local government fund, foundation payments, gasoline tax, estate tax, motor vehicle license tax levied by the State, homestead and rollback, personal property tax exemption, grants.

Local government fund discussion: The local government and local government revenue assistance funds are grants from the State for which no time requirements are specified. The applicable period is therefore the State's fiscal year (July through June). At December 31, half of the amount awarded for the applicable period will remain to be received. A county or city would therefore record a receivable and revenue for the amount expected to be received from January through June. This same approach would apply for gas tax and motor vehicle license tax.

(excluding time requirements) should be reported as liabilities. Resources received before time requirements are met, but after all other eligibility requirements have been met, should be reported as a deferred inflow of resources by the recipient. (Revised per GASB 65)

Foundation payments discussion: Section 3317.01, Revised Code requires foundation payments to be distributed to school districts within the fiscal year. Whether or not these distribution guidelines are considered time requirements will not affect the recognition of revenue under Statement 33 since the applicable period for foundation payments would also be the fiscal year. At June 30, a school district would not record a receivable or revenue for foundation payments to be received in the following fiscal year.

Homestead and rollback: These payments represent statutory reductions in property tax bills which are being offset by the State. At June 30, 2001, there will be no receivable, assuming the payment for the February, 2001, settlement has been received. At December 31, 2001, the payment related to the February, 2002, settlement will be appropriated and unpaid. The estimated receipt should be reported as a receivable and revenue.

Purpose Restrictions

Often resources received by a government from nonexchange transactions have restrictions which specify the purpose for which the resources must be used. These restrictions may be imposed by the grantor or through the enabling legislation. (Enabling legislation is the ordinance or resolution that authorized the government to assess, levy, charge or otherwise mandate the payment of resources to the government, e.g. the resolution passed by the county commissioners that imposed a county sales tax). Purpose restrictions do not affect when a nonexchange transaction is recognized. At the time resources are provided or promised, it is assumed that purpose restrictions will be fulfilled.

If a recipient spends restricted resources for an inappropriate purpose, the recipient should record an expenditure/expense and a liability, if repayment to the provider is probable.

The same approach is used for grants that specify a date by which all resources must be used. It is assumed at the time the grant is made that the time limit will be satisfied. If the recipient fails to spend the resources within the prescribed time limit, the recipient should record an expenditure/expense and a liability, if repayment to the provider is probable.

Modified Accrual Accounting

Under the guidelines of GASB Statement No. 33, assets, liabilities and expenses/expenditures arising from nonexchange transactions are recognized at the same time whether using the full accrual or the modified accrual basis of accounting. Revenues from nonexchange transactions under the modified accrual basis are generally recognized using the same criteria as full accrual with the additional requirement that the resources must also be available. Specific guidelines for the four categories are:

Derived tax revenues - recognize revenues in the period when the underlying exchange transaction has occurred and the resources are available.

Imposed nonexchange transactions - recognize revenues in the period when an enforceable legal claim has arisen and the resources are available.

Government-mandated and voluntary nonexchange transactions - recognize revenues in the period when all applicable eligibility requirements have been met and the resources are available.

The additional criterion of availability under the modified accrual basis means that some or all of the amount recorded as revenue on a full accrual basis may be recorded as ~~deferred revenue~~ under the

Now termed "deferred inflow."

modified accrual basis, depending on when the resources are received. The receivable amount will not change.

Use of Modified v. Full Accrual Accounting

~~Prior to implementing the new reporting model, a government would apply the full accrual guidelines for recognizing receivables and revenue for nonexchange transactions to proprietary and nonexpendable trust funds. Once the new model has been implemented, the full accrual guidelines will apply to governmental and business-type activities and extended to all fiduciary funds.~~

~~Prior to implementing the new reporting model, the modified accrual guidelines would apply to governmental, agency and expendable trust funds. Once the new model has been implemented, the modified accrual guidelines will apply to the governmental funds only.~~

Measurable and Collectible

Recognition of nonexchange transactions in the financial statements is required regardless of the basis of accounting being used unless the transaction is not measurable or not probable of collection.

Transactions that are not recognized because they are not measurable must be disclosed in the notes to the financial statements.

Exchange Transactions

Although not the focus of the Statement, GASB Statement No. 33 also provides some guidance regarding exchange transactions. Exchange transactions are transactions in which each party receives or gives up essentially equal value. The GASB has also identified what are called exchange-like transactions in which the values exchanged may not be quite equal or in which the benefits to the transaction may not be exclusively for the parties to the transaction. Exchange and exchange-like transactions follow the same recognition guidelines. Under the full accrual basis of accounting, a receivable and revenue are recorded when the exchange takes place to the extent the amounts are collectible and measurable. Under the modified accrual basis, the resources must also be available in order to be recognized as revenue. Examples of exchange transactions include utility services, school excess cost charges and the sale of school supplies or lunches. Examples of exchange-like transactions include licenses and permits and certain tap fees.

Excess cost charges discussion - Excess cost charges arise when one school district provides services to another district under contract and those services are not fully paid from additional grant revenue. Charges for services that remain unpaid at year-end and that are both measurable and collectible will be reported as a receivable and revenue using the full accrual basis of accounting. On the modified accrual basis, the receivable amount will not change. Revenue would be recognized for the amount paid during the available period with ~~deferred revenue~~ reported for the remainder. The school district that received the services would report a liability for the full amount of the charge under either basis of accounting.

Reminder

Now termed "deferred inflow."

~~Please remember that the implementation of these new Statements may require a restatement of year-end balances at the beginning of the year for which they are being implemented. For example, if implementation is being done for the 2001 school fiscal year (July 1, 2000 through June 30, 2001), a restatement may be necessary at June 30, 2000.~~