



Revenue Recognition, GASB Style

April 2018





About the Presenter



Brian J. Hemmerle, CPA, CFE

- Henry+Horne, Senior Manager, Governmental Services
- Graduated from the University of Arizona
- Certified Public Accountant and Certified Fraud Examiner
- Experience in Municipalities, School Districts, State Agencies, Nonprofits and Industry
- Serves on the Board of Directors for the Girl Scouts Arizona Cactus Pine Council as the Treasurer
- Member of the AICPA, ASCPA, GFOA, GFOAz, AASBO
- GFOA Special Review Committee Member



Today's Topic

- FASB ASC 606 is changing revenue recognition in the for profit and non for profit world.
- GASB decided to start a project to discuss revenue and expense recognition in governments.
- The projects comment period ends April 27, 2018.
- Let's refresh our knowledge of GASB Revenue Recognition.



Today's Topic

- What are exchange and nonexchange transactions?
 - Derived Tax Revenue
 - Imposed Nonexchange Revenue
 - Government Mandated Transactions
 - Voluntary Nonexchange Transactions
 - Nonexchange revenues from other governments



The Related GASB Statements

- **GASB Statement Number 33**
 - Accounting and Financial Reporting for Nonexchange Transactions
- **GASB Statement Number 36**
 - Recipient Reporting for Certain Shared Nonexchange Revenues
- **GASB Statement Number 62**
 - Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements





The Related GASB Statements

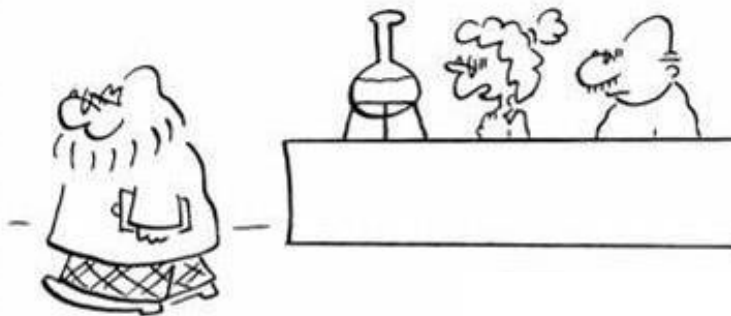
- GASB has limited guidance for exchange and exchange-like transactions.
 - Guidance is basically pre-November 30, 1989 FASB guidance with codification of AICPA pronouncements having been added in GASB 62.
- Basically recognize revenue when the exchange takes place (sale occurs).
- FASB now placing more emphasis on when a performance obligation occurs.





What are Nonexchange Transactions?

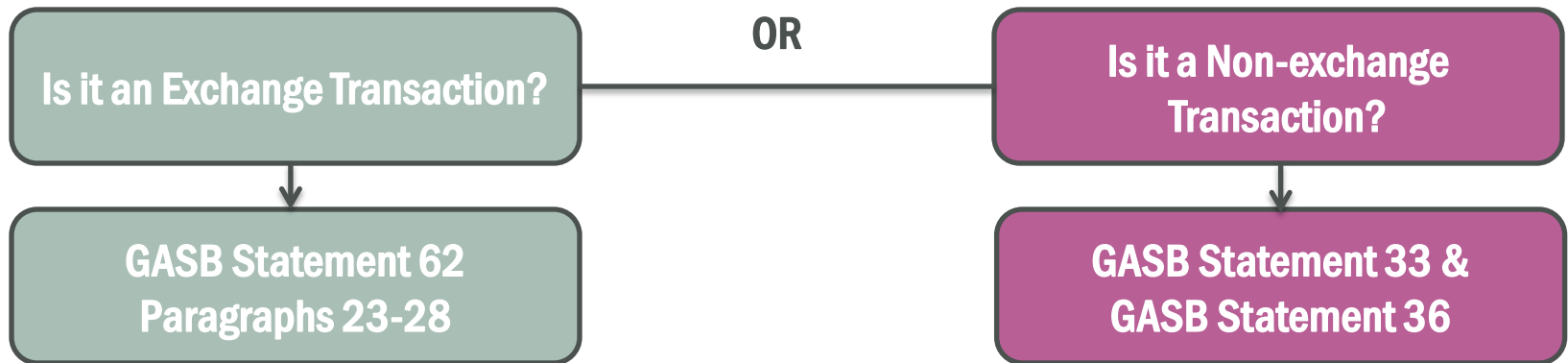
- **Exchange transaction:** a transaction between two or more parties in which value is given or received for direct equal value in return (**GASB 62**).
- **Nonexchange transaction:** a transaction in which a government is given or receives value without directly receiving or giving equivalent value in return (**GASB 33 & 36**).



*“Professor Patterson is really something
– he got a \$300,000 Federal grant to
figure out how to program his VCR.”*



Revenue Recognition GASB Style Thought Matrix





What are Nonexchange Transactions?

- Labels do not identify nonexchange transactions; the substance of a transaction drives whether or not it is a nonexchange transaction.
- Examples of nonexchange transactions:
 - Most taxes and assessments
 - Grants
 - Fines and Tickets
 - Contributions





What are Nonexchange Transactions?

- These GASB statements only apply to financial and capital resources, not donated services or guarantees.
- Financial resources include:
 - Cash
 - Noncash financial – food, drugs,
- Capital resources include:
 - Land
 - Buildings
 - Equipment





What are Nonexchange Transactions?

- Only revenues are recognized differently under the modified accrual basis of GASB Statement 33, if **measurable** and **available**.
 - If the transaction is **not measurable**, a disclosure should be made regarding the transaction.
 - All refunds and estimated uncollectible amounts should net out of the revenues recorded if the entire transaction is **not probable of collection**.
 - Examples: Pledged revenues, property taxes



What are Nonexchange Transactions?

- Available? You will hear us say resources must be **available** to recognize the revenue on the modified accrual basis, a lot today. So what is it?

“Available” means that the government has collected the resources in the current period or expects to collect them soon enough after the end of the period to use them to pay liabilities of the current period.

- This could be as much as 60 days or two months after year end, or more, if you can justify the resources having been **available** to pay liabilities of the current period.



What are Nonexchange Transactions?

- Nonexchange transactions with substance over form, may be challenging to determine.
 - **Examples:**
 - Sewer special assessment
 - Garbage pickup special assessments
 - Building Permits/Business Licenses
 - Private lake special assessments

GASB Statement 62 Paragraphs 23-25

Revenue from exchange transactions generally should be recognized when an exchange, in the ordinary course of operations, is effected unless the circumstances are such that the collection of the exchange price is not reasonably assured. Accordingly, revenues from exchange transactions should generally be accounted for at the time a transaction is completed, with appropriate provision for uncollectible accounts.

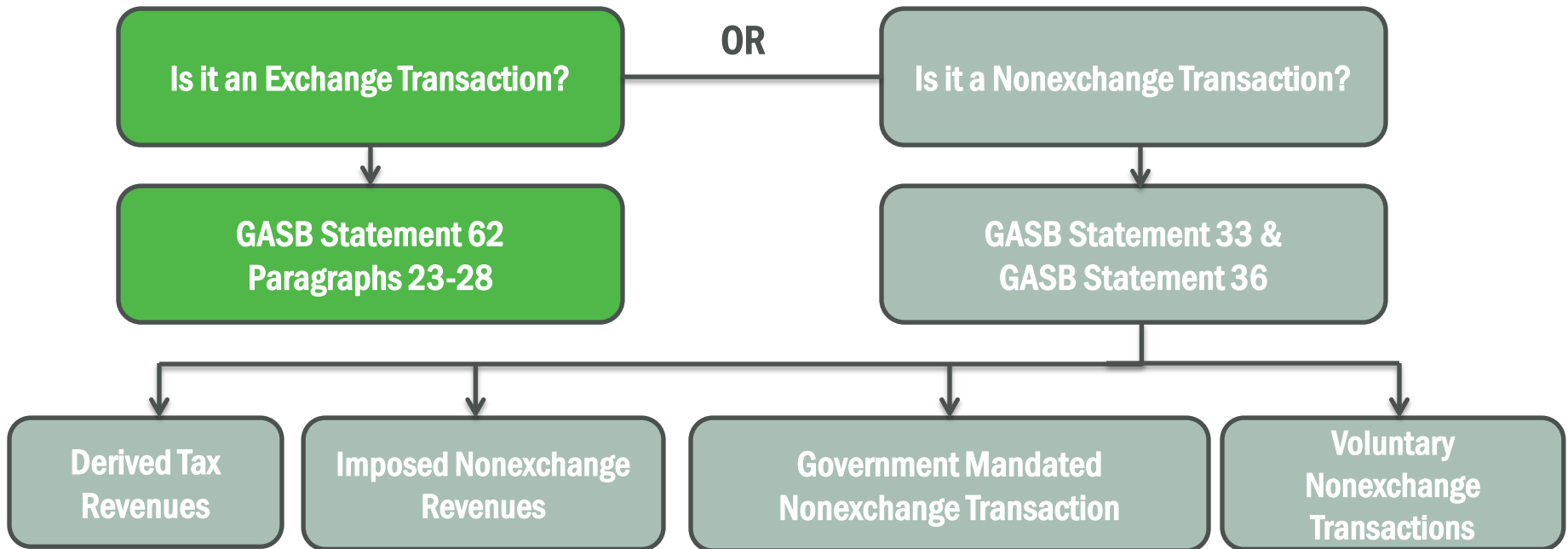


Four Options of Nonexchange Transactions

- Derived Tax Revenue
- Imposed Nonexchange Revenue
- Government Mandated Nonexchange Transactions
- Voluntary Nonexchange Transactions



Revenue Recognition GASB Style Thought Matrix





Four Options of Nonexchange Transactions

- Two separate requirements effect the options:
- Time Requirements
 - Affects the timing of recognition based on the period of time resources are required to be used, begin, kept in perpetuity or until a date or event
- Purpose Restrictions
 - Does not affect timing of recognition, rather it affects restrictions on the resources and how they are used
 - Remaining resources unused for the restricted purpose should be designated correctly in fund balances and/or net position



Derived Tax Revenues

- Tax on economic activity – *If it moves, the government taxes it.*
- It is a nonexchange revenue for the government to tax an outside exchange transaction using their taxing authority.

– Consumption

- Sales taxes
 - Gasoline tax – may have a restriction for use
 - Grocery tax

– Earnings

- Income tax



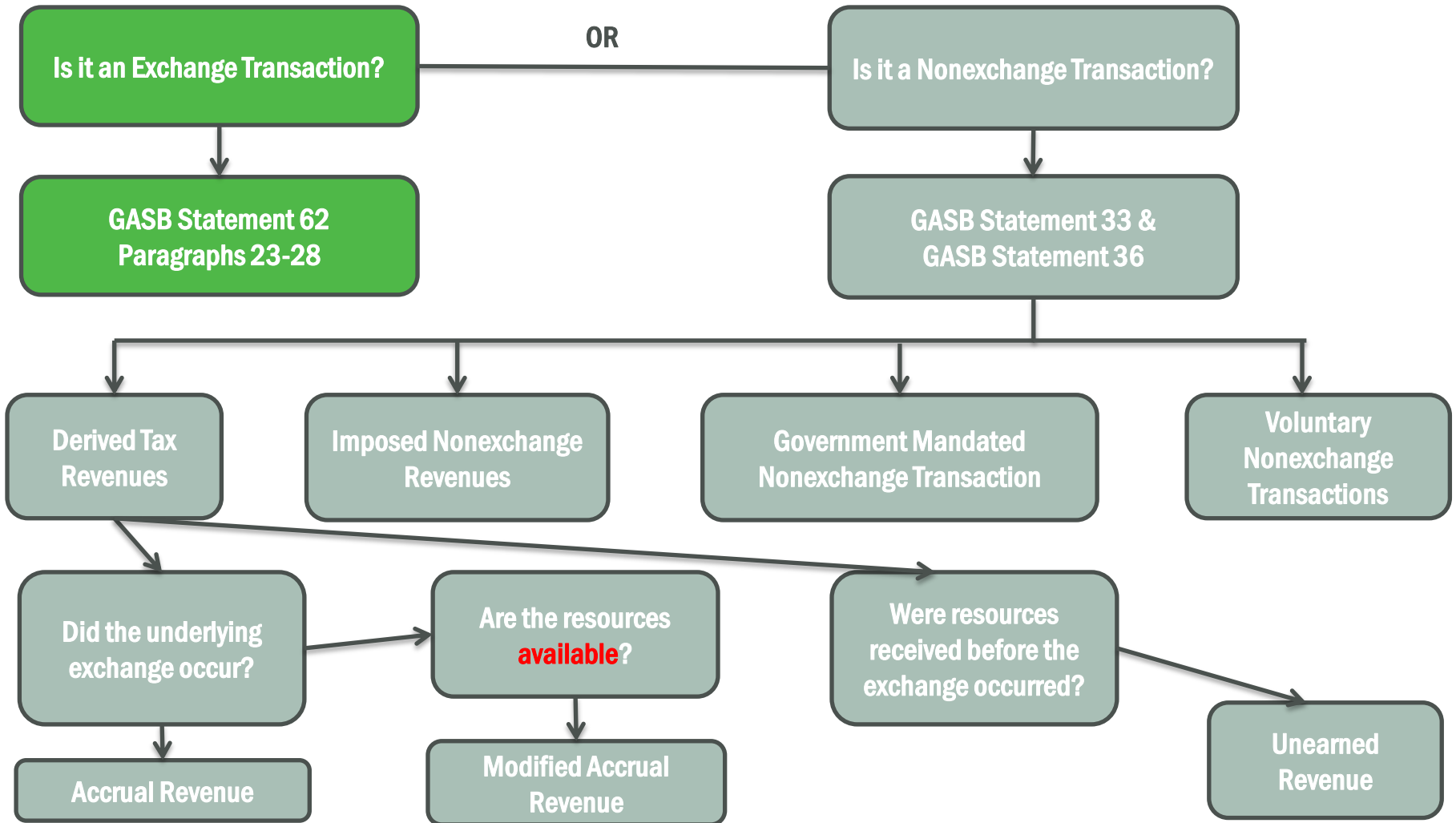


Derived Tax Revenues

- It is a nonexchange revenue for the government to tax an **outside exchange** transaction using their taxing authority.
- **Debit** cash or receivable when:
 - Underlying outside exchange transaction occurs (**Debit Receivable**)
 - Resources are **received** (**Debit Cash**)
- **Credit Revenue**
 - **Accrual Basis:** When the underlying outside exchange transaction occurs.
 - **Modified Accrual Basis:** When the underlying outside exchange transaction occurs and the resources are **available**.
- **Credit Liability**
 - If resources have been received but the underlying outside exchange transaction has not yet occurred (**Credit Unearned Revenue**)



Revenue Recognition GASB Style Thought Matrix





Imposed Nonexchange Revenues

- Assessments on some basis other than an exchange transaction – *Revenue from behavior or wealth.*

- Property (wealth)
- Acts committed or omitted (behavior)

- Examples:

- Property Taxes
- Fines
- Penalties
- Seizures and escheats

- May be restricted for purpose requirement



or to a levy year, time on when use may begin.



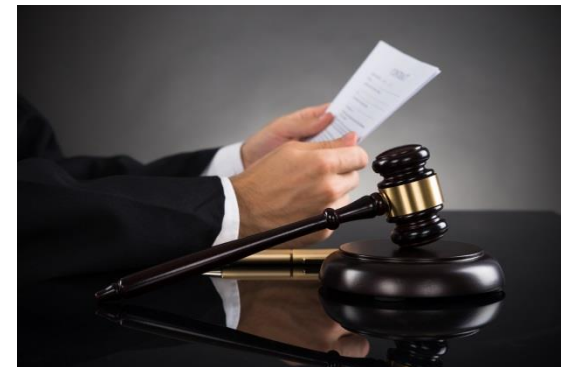
Imposed Nonexchange Revenues

- **Debit cash or receivable when:**
 - The government has an enforceable legal claim to the resources (lien date), or
 - Resources are received, whichever is first.
- **Credit Revenue**
 - **Accrual Basis:** In the period when resources are first permitted by time requirements even if the enforceable legal claim arises or payment occurs in a different period.
 - **Modified Accrual Basis:** In the period when resources are first permitted by time requirements **and the resources are available.**
 - If there is no time requirement, revenues in both basis should be recognized when the asset is recognized.
- **Credit Deferred Inflows of Resources**
 - **Deferred inflows of resources:** Resources recognized as receivable that have not met the time requirement (accrual) or availability requirement (modified accrual).



Imposed Nonexchange Revenues

- When to recognize revenue on a traffic ticket:
- It depends on whether or not the payment was received **before or after** the ticket was deemed legally enforceable.
- Whichever event below **occurs first**, is when the asset and revenue should be recognized for both Modified Accrual and Full Accrual Basis accounting:
 - When the payment is received
 - When the judge rules
 - When time for dispute lapses





Imposed Nonexchange Revenues

- Property tax levy should be recognized in the year the levy is intended to finance.
 - Usually laws and regulations govern the period for which the taxes are being levied.
 - Usually coincides with the budget for that fiscal year.
 - In Arizona, the County indicates the property tax levy year they collected so you may correctly recognize the assets revenues and deferred inflows



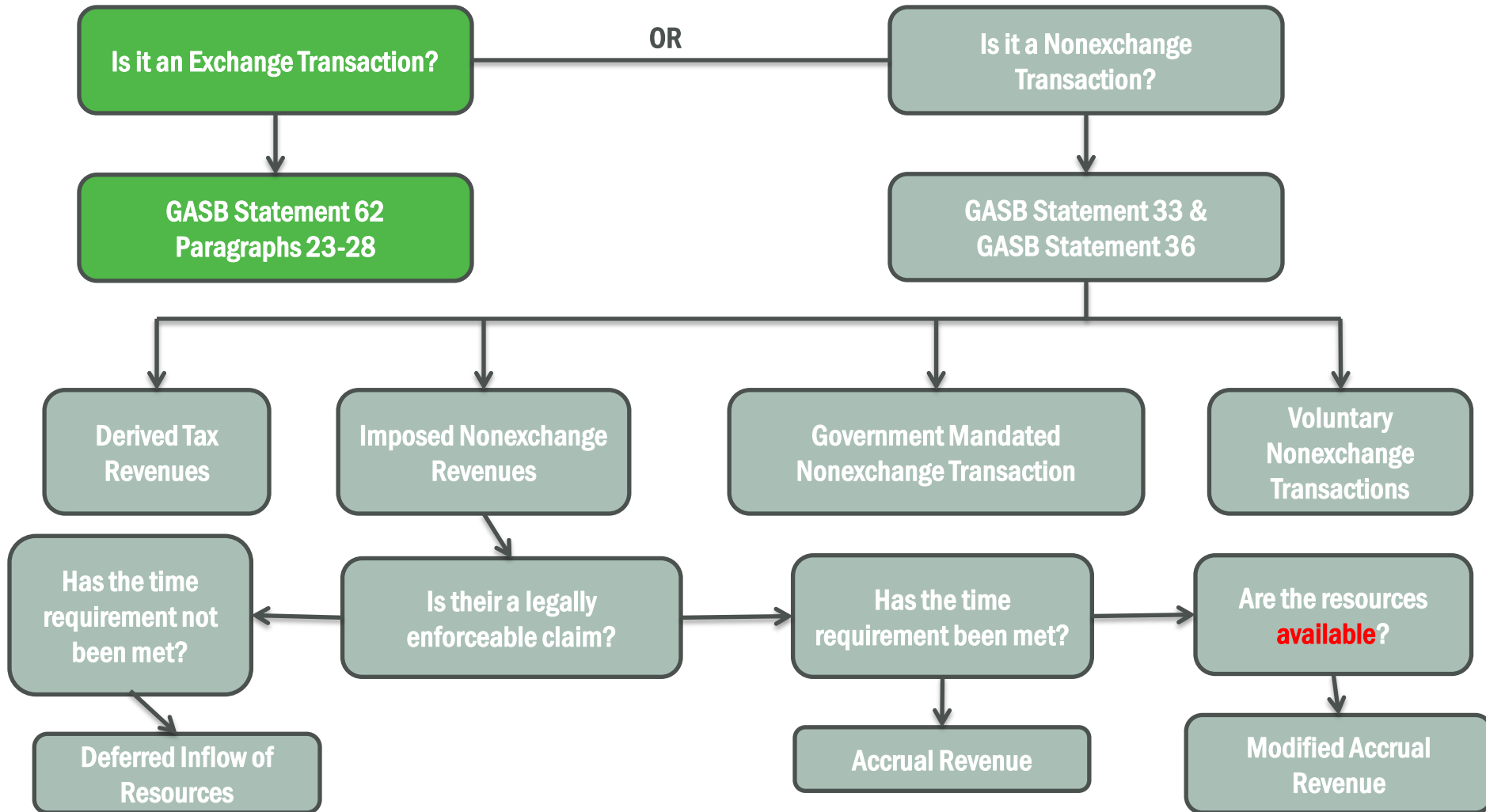


Imposed Nonexchange Revenues

- A government has a property tax rebate program that refunds a portion of the taxes paid based on the taxpayer's income level. How should the rebates be reported?
 - A. As an expense/expenditure
 - B. As a reduction of revenues
- GASB 33 requires revenues net of estimated refunds.



Revenue Recognition GASB Style Thought Matrix





Government Mandated and Voluntary Nonexchange Revenues

- Separate concepts governing both types of Revenues:
 - Government Mandated Nonexchange
 - Voluntary Nonexchange
- However, the accounting for each is very similar.



Government Mandated Nonexchange Revenues

- Revenue from transactions between two governments in which the providing government mandates a purpose for the revenues.
 - Purpose is restricted to a service or function
 - There may also be a time requirement
 - There may also be an eligibility requirement
- Example: Federally mandated school lunch program, which the School District is paid by the Federal/State Government to administer, and is required by the Federal/State Government to provide to their students.





Voluntary Nonexchange Revenues

- Typically, this is revenue from transactions between a government and a grantor, donor or like party in which legislation or contract agreements dictate the terms but is **entered into voluntarily** by the government.
 - Purpose is often restricted
 - There may also be a time requirement
 - There may also be an eligibility requirement
 - If restrictions or requirements are not met, the government may have to return the resources.
- Example: Many voluntary grants, gifts, contributions, bequests, donations, entitlements, etc.





Government Mandated and Voluntary Nonexchange Revenues

- For both types of nonexchange transactions, there are or can be eligibility, timing or purpose restrictions.
 - Eligibility or timing must be met before you can recognize the revenue. However,
 - Purpose does not dictate when the revenues can be recognized.



Government Mandated and Voluntary Nonexchange Revenues

- With purpose restrictions, you may recognize the resources before you spend them for their purpose.
 - However, if left unspent at year end, you must restrict the resources in your fund balance or net position.

Public Safety Grant Revenue	\$2,000,000
Public Safety Expenses (Allowable)	<u>\$1,500,000</u>
Restricted Fund Balance	\$ 500,000



Government Mandated and Voluntary Nonexchange Revenues

- Eligibility through legislation, contract or provider, does dictate when resources can be recognized in four ways:
 1. Contingencies
 2. Reimbursements
 3. Required characteristics of recipients
 4. Time requirements



Government Mandated and Voluntary Nonexchange Revenues

- **Contingencies** only apply to voluntary nonexchange transactions, and they dictate that a resource cannot be recognized until the government has met some contingency of the provider.
- **Example:**
 - **Matching funds:** Donor tells the government they will contribute or donate \$1,000 but only if the government matches 50% of the \$1,000 from their own coffers. Once the government has matched the \$1,000 with \$500 of their own money, they can recognize the \$1,000 resource.



Government Mandated and Voluntary Nonexchange Revenues

- **Reimbursements** are expenditure driven in that you cannot recognize the revenue until you first incur an allowable cost defined by the provider.
- Resources still belong to the provider until the allowable cost is incurred.
- Should be recognized net of refunds and allowances.
 - **Note: Modified accrual differs from accrual recognition because of the **availability** requirement in modified accrual:**
 - If you have expended money for the allowable costs, but the resources are not yet **available**, then you cannot record a receivable and revenue. Only when the resources are **available** can you record a receivable and revenue on the modified accrual basis.
 - Alternatively, the full accrual basis allows you to record the receivable and revenue when the allowable cost was expensed.



Government Mandated and Voluntary Nonexchange Revenues

- **Required characteristics of recipient (and secondary recipients) have met all the characteristics specified by the agreement.**
 - **Example: Must be used for families that fall under the federal poverty level of income.**



Government Mandated and Voluntary Nonexchange Revenues

- **Time requirements** specified by legislation or agreement in the transaction in which resources are first allowed to be used and for which period (sold, disbursed or consumed).
- Time requirements are also related to permanent endowments, resources maintained intact by the provider.
- If no time requirement is specified by the provider, generally you can use the provider's fiscal year start date as the appropriation year.
 - If continuing appropriations are made, then there is no need to obtain a renewal every year; they are automatically renewed each year.



Government Mandated and Voluntary Nonexchange Revenues

- **Debit cash or receivable when:**
 - The government has met all the eligibility requirements, or
 - Resources are received, whichever is first.
- **Credit Revenue**
 - **Accrual Basis:** In the period when all eligibility requirements have been met.
 - **Modified Accrual Basis:** In the period when all eligibility requirements have been met **and the resources are available.**
- **Credit Liability or Deferred Inflows of Resources**
 - **Deferred inflows of resources:** If resources have been received but the **time requirement has not been** met, you would credit deferred inflows of resources.
 - **Liability:** If resources have been received but the other eligibility requirements have not been met, credit a liability, probably an unearned revenue account.



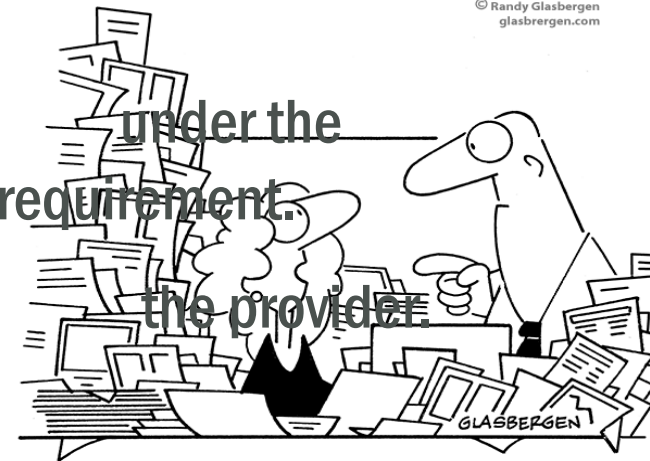
Government Mandated and Voluntary Nonexchange Revenues

- **Routine requirements do not delay recognition of revenues or resources.**

— Examples:

- Filing claims for allowable costs reimbursement
- Filing progress reports with

under the
eligibility requirement.
the provider.



© Randy Glasbergen
glasbergen.com

“You call it clutter. I call it free-range paperwork.”



Government Mandated and Voluntary Nonexchange Revenues

- Which of the following are examples of eligibility requirements?

A. Recipients must be hospice care providers

Required characteristic

B. Matching funds must be provided

Contingency

C. Monthly progress reports must be submitted

Routine requirement

D. All of the above

E. A and B



Government Mandated and Voluntary Nonexchange Revenues

- **Endowments (permanent & term) resources** are required to be held intact, by the provider:
 - In perpetuity,
 - or
 - For a specified period of time,
 - or
 - Until a specific event occurs





Government Mandated and Voluntary Nonexchange Revenues

- **Endowments (permanent & term)**

- Recognize revenue when resources are received and any related eligibility requirements have been met.
 - Time requirement cannot be met until resources are received.
 - Do not recognize a receivable.
- Restrict net position and fund balance starting in the period received and restricted equity until restrictions and have been met.

for those resources





Government Mandated and Voluntary Nonexchange Revenues

- **Voluntary nonexchange transactions from non-governmental providers:**
 - Pledges
 - Promises to give
 - Promised donations
- **Debit Receivables Credit Revenue**
 - When all eligibility requirements are met
 - The promise is **measurable** and **probable** of collection
 - Credit revenues net of an estimated uncollectible amount
 - Usually based on historical data from past pledges.





Government Mandated and Voluntary Nonexchange Revenues

- What if the eligibility or purpose restriction was **not** properly met before recognizing the resource and revenue?
 - If it is probable that the provider will ask for the resources back, or withhold the resources not yet received.
 - **Credit** the asset recognized or a liability
 - **Debit** an expense

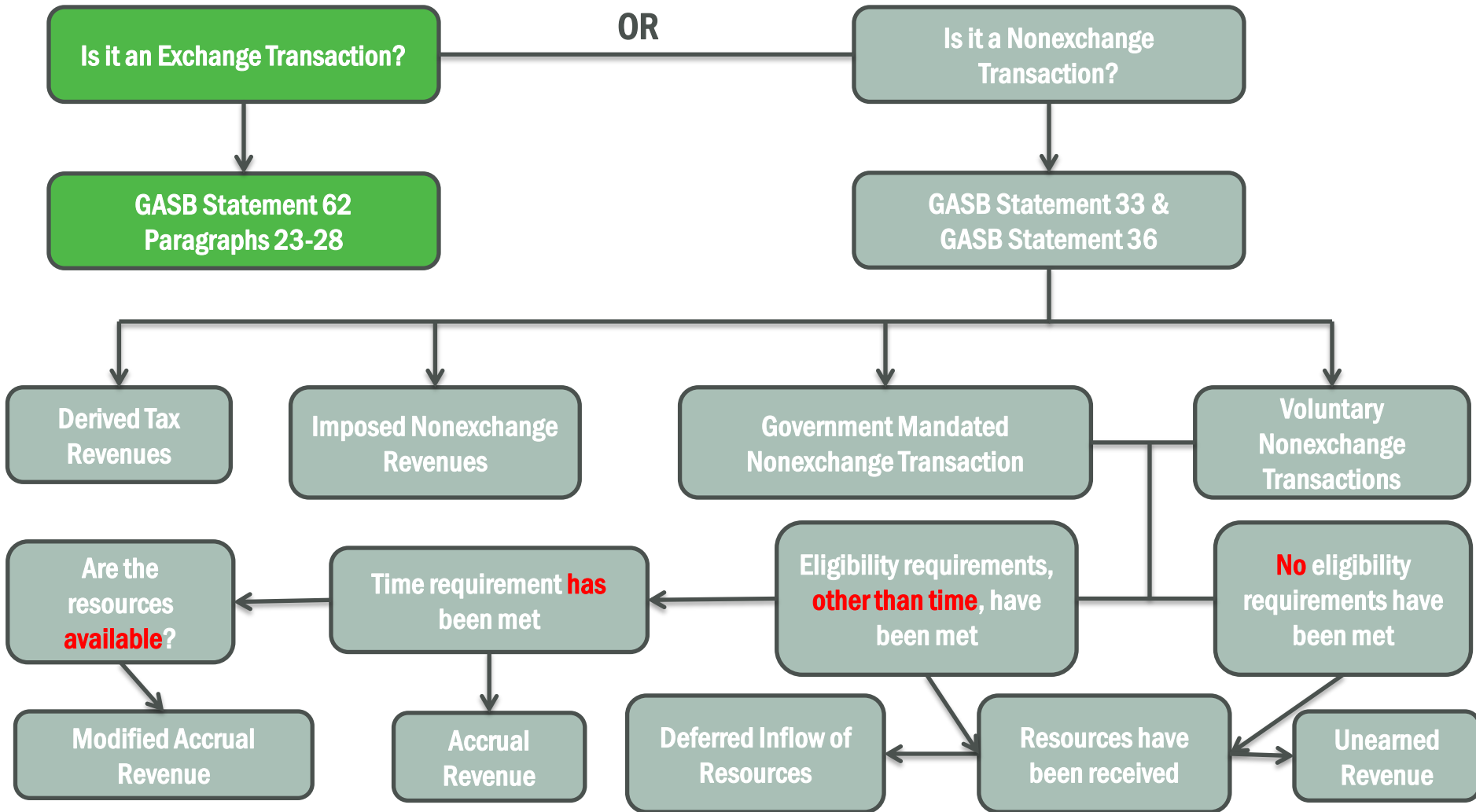


Government Mandated and Voluntary Nonexchange Revenues

- **State Shared Revenues** are often the State's derived tax revenue or imposed nonexchange revenues being shared with other governments.
 - Both the State and the recipient government will record this like a Voluntary or Government Mandated Nonexchange Revenue.
 - This allows the recipient government to record a reasonable estimate of the amount accrued.
 - The time requirements on when to recognize the State shared revenues depends on whether an appropriation is required.
 - **No State appropriations** or continued appropriation, recognize at the time the underlying transactions takes place.
 - **Required State appropriation**, recognize at the date appropriation begins for the State's fiscal year.



Revenue Recognition GASB Style Thought Matrix



CLASSES AND TIMING OF RECOGNITION OF NONEXCHANGE TRANSACTIONS

Class	Recognition
<p>Derived tax revenues Examples: sales taxes, personal and corporate income taxes, motor fuel taxes, and similar taxes on earnings or consumption</p>	<p>Assets* Period when <i>underlying exchange has occurred</i> or when resources are received, whichever is first.</p> <p>Revenues Period when <i>underlying exchange has occurred</i>. (Report advance receipts as deferred revenues.) When modified accrual accounting is used, resources <i>also</i> should be —available.¶ See paragraphs 16 and 30a.</p>
<p>Imposed nonexchange revenues Examples: property taxes, most fines and forfeitures</p>	<p>Assets* Period when an <i>enforceable legal claim has arisen</i> or when resources are received, whichever is first.</p> <p>Revenues Period when <i>resources are required to be used</i> or first period that use is permitted (for example, for property taxes, the <i>period for which levied</i>). When modified accrual accounting is used, resources <i>also</i> should be —available.¶ (For property taxes, apply NCGA Interpretation 3, as amended.) See paragraphs 17, 18, 30b, and 30c.</p>
<p>Government-mandated nonexchange transactions Examples: federal government mandates on state and local governments</p> <p>Voluntary nonexchange transactions Examples: certain grants and entitlements, most donations</p>	<p>Assets* and liabilities Period when <i>all eligibility requirements have been met</i> or (for asset recognition) when resources are received, whichever is first.</p> <p>Revenues and expenses or expenditures Period when <i>all eligibility requirements have been met</i>. (Report advance receipts or payments for use in the following period as deferred revenues or advances, respectively. However, when a provider precludes the sale, disbursement, or consumption of resources for a specified number of years, until a specified event has occurred, or permanently [for example, permanent and term endowments], report revenues and expenses or expenditures when the resources are, respectively, received or paid and report resulting net assets, equity, or fund balance as restricted.) When modified accrual accounting is used for revenue recognition, resources <i>also</i> should be —available.¶ See paragraphs 19 through 25 and 30d.</p>



Effects of GASB 63 & 65

- GASB 63, *“Financial Reporting of Deferred Outflow of Resources, Deferred Inflows of Resources and Net Position”*
- GASB 65, *“Items Previously Reported as Assets and Liabilities”*
- Clarify how and what transactions should be recorded as a deferred inflow or outflow in the financial statements.



Effects of GASB 63 & 65

- **Deferred inflow is defined as the acquisition of net assets by a government that is applicable to a future reporting period.**
- **Deferred outflow is defined as the consumption of net assets by a government that is applicable to a future reporting period**



Effects of GASB 63 & 65

- Government mandated and voluntary nonexchange transactions often have eligibility requirements.
 1. Required characteristics of recipients
 2. Time requirements
 3. Reimbursements
 4. Contingencies



Effects of GASB 63 & 65

- Resources transmitted prior to the time requirement being met are reported as:
 - Deferred outflow (provider)
 - Deferred inflow (recipient)
- Resources transmitted before other eligibility requirements being met are reported as:
 - Assets (provider)
 - Liabilities (recipient)



Quiz!

- You work for a city with a 6/30/2018 year end. The State has paid your city \$1 million for the operations of a homeless shelter, but they require the city match 50% of the money and it be spent in your 2019 fiscal year. The City has not yet identified the matching funds as of 6/30/2018. You debited cash, what should you credit?
- A. Deferred Inflow
- B. Liability (unearned revenue)



QUESTIONS

Contact Us

(480) 839-4900

- Brian Hemmerle, **Ext. 304**
- Marilyn Mays, **Ext. 305**





Thank you!