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## GASB Statements Number 33 and 36

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## **GASB STATEMENTS NUMBER 33 and 36**

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### **Summary for Non-accountants**

The Governmental Accounting Standards Board (GASB) determines generally accepted accounting principles (GAAP) for governments. They do so by issuing written reports or “statements.” This analysis will acquaint you with the GAAP from GASB Statements No. 33 and 36.

The focus of these Statements is revenue, specifically, when and how to *record* revenue. These recent accounting changes will show up at year’s end when auditors try to determine what is owed to the city.

The concept is to record a receivable for any revenue due or earned by June 30. That is, create an asset for all amounts earned or due as of June 30, but not yet received. This is accomplished with a journal entry at year’s end. These journal entries can be prepared by your auditor just like other year-end journal entries.

As an example, local option sales tax is paid on a sale made in June, remitted by the business to the state by July 20, and shared with cities in August. The monies received in July and August should be recorded as receivables.

In somewhat of a paper tiger, these newly accrued revenues show up as receivables (assets) on the balance sheet. That’s the easy part of the journal entry. The other half of the journal entry will be either a liability or a revenue. Basically, any receivable collectible within 60 days of year’s end is a revenue of the prior budget year. The receivable becomes cash within 60 days and can be used to pay for appropriations.

Receivables beyond the 60 day availability window are recorded as deferred revenue (liability) on the balance sheet. They are not revenues of the prior budget year because the cash comes in too late. Since Tennessee cities have been accruing receivables thru the 60-day window, any new accrual will necessarily be recorded as a deferred revenue on the balance sheet. This will be the

case most of the time. Fund balance would be unaffected as there is an asset with an offsetting liability created. The budget is unaffected.

These GASB Statements affect all governmental funds. One unusual change involves enterprise funds. Grants will be considered revenues. Previously, grants were recorded on the balance sheet as contributed capital.

**NOTE:** The following information is for accountants.

## Summary for Accountants

GASB Statement No. 33, titled *Accounting and Financial Reporting for Nonexchange Transactions*, took effect with the fiscal year beginning July 1, 2000. In an exchange transaction, you give something directly for something else. Metered water sales are good examples of exchange transactions. In a nonexchange transaction, a local government's general fund receives something (sales tax) without directly giving something to the payer of that tax. Local governments generate revenues (and assets) mostly through nonexchange transactions, an area that needed review and some standardization. Statement No. 33 defines and classifies nonexchange transactions into four categories, which dictate the timing of their recognition in financial statements. "Recognition" means the posting of the transaction, in this case, as an asset with an offsetting revenue or liability.

The GASB uses four classifications of nonexchange transactions:

1. **Derived tax revenues** result from assessments on exchange transactions, such as local option sales tax charged on purchases.
2. **Imposed nonexchange revenues** results from any other assessments imposed by the local government, such as property taxes.
3. **Government-mandated nonexchange transactions** result from one government providing resources to another government and requiring (mandating) the recipient government to use those resources for a specific purpose. The restricted State Street Aid gas taxes is an example.

4. **Voluntary nonexchange transactions** result from contractual or legislative agreements, other than exchanges, between two or more parties. Some grants and private donations are examples. State-shared taxes disbursed through a continuing resolution are examples.

Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, took effect simultaneously with Statement No. 33. Statement No. 36 further defines revenue recognition of nonexchange transactions that were first presented in Statement No. 33.

Statement No. 33 could be interpreted to require grant provider and recipient governments to record expenditures and revenues in different years. Statement No. 36 amends that language to eliminate timing differences, thus requiring grant recipient and provider governments to account for shared revenues in the same year.

One caveat of modified governmental accounting, the method used for the general fund, is that any revenue must be available to pay for expenditures of the budget year. This criterion of availability has not changed. Revenues must be available to pay expenditures of the fiscal period or budget year. This limits revenue recognition in the general fund to any monies received within 60 days after year end. Thus, any other recognition would be on the balance sheet.

What this generally means for a Tennessee municipal government's general fund is that new revenue accruals will show up on the balance sheet as assets with offsetting liabilities. The impact is minimal because our state government has always encouraged adherence to GAAP and requires annual audits of cities. Most Tennessee cities were already accruing monies received in July, and sometimes August, as revenues of the previous budget year.

GASB No. 33 requires the recognition of receivables, which stretches some of the basic accounting concepts of matching and modified accrual accounting. GASB No. 33 requires recognition of nonexchange transactions

that formerly were never recorded in financial statements. One large change for enterprise funds concerns grants. Any grant received after June 30, 2001, will be recorded as a non-operating revenue. It will no longer be recorded as a capital contribution on the balance sheet. (In fact, after implementing GASB No. 34, the Contributed Capital section will be eliminated, and NCGA Statement 2 will no longer be available.)

Before GASB No. 33, a utility would classify any capital grant, such as one from the Community Development Block Grant Program (CDBG), as an increase or credit to contributed capital (a balance sheet account). Then, through the use of NCGA Statement 2, the utility would add back any depreciation based on grant-acquired assets on the income statement, and reduce the contributed capital by that same amount. Now, all grants are recorded as revenues of the period.

### **Detail for Accountants**

**Derived tax revenues** should be recognized as assets in the fiscal year in which the exchange transaction occurs. They result from assessments on exchange transactions.

Revenue should be recognized in the same fiscal year as the asset, except this rule is trumped by the modified accrual basis of accounting rules concerning availability. This generally means limiting revenue recognition at June 30 to monies received in July and August.

Monies received in advance of the exchange period should be classified as a current liability; this would be a debit to cash and an increase or credit to deferred revenues, chart of account code 22110 series.

Local option sales tax revenue, derived from taxable sales, is recognized (booked with a journal entry) at June 30, for monies to be received in July and August. The theory is that a sale that occurs in June creates the derived sales tax, which is paid and remitted to the state in July where a portion is distributed to the cities in August. Thus, July's and August's share of the local option sales tax revenues are booked into the previous year's financial statements. This will continue to occur year after year so that there is always 12 months of

revenue spanning August to August. Most Tennessee cities already do this. Derived tax revenues include the local option sales tax, wholesale beer tax, business tax, room occupancy tax, and amusement tax.

**Imposed nonexchange revenues** are recognized as assets in the fiscal year in which a legal claim is received or when monies are received, whichever is first. Property taxes are recognized as assets when assessed by the state. In Tennessee, this occurs on January 1. Therefore, on June 30, Tennessee cities must recognize next year's property tax. That would be an increase or debit to Property Taxes Receivable (13100) and a credit to Deferred Property Tax Revenue (22120). Note that fund balance does not change due to adding an asset and offsetting liability. This is new for Tennessee cities.

Revenues from property taxes should be recognized in the fiscal year for which the taxes are levied, which should be the budget year. All other imposed nonexchange revenues should be recognized as revenue in the same fiscal year in which the asset is recognized.

Monies received in advance of the exchange period should be classified as a current liability; this would be chart of account code 22100 series for a deferred credit.

Other imposed nonexchange revenues include property taxes; their interest and penalties; and fines, forfeits and penalties.

**Government-mandated nonexchange transactions** result from one government providing resources to another government and requiring (mandating) the recipient government to use those resources for a specific purpose.

In a government-mandated transaction, one government requires the performance of another government. There also may be eligibility requirements. Eligibility requirements are established by the provider and may limit recipients, impose time constraints, define eligible costs, or impose other conditions.

A grant from CDBG to upgrade a water treatment plant is an example of a government-mandated nonexchange

transaction. This limited use of the grant dollars is called a “purpose restriction.” This also is a reimbursable type of grant, which means the city must spend the money first, then apply for reimbursement from CDBG. The “eligibility requirement” is that the city spend the money first.

Since this type of transaction involves two governments, the assets of one government and the liability of the provider government will be recognized in the same fiscal year when all eligibility requirements are met or resources are received, whichever is first.

Revenues and expenditures are recognized when all eligibility requirements are met and the resources are available.

**Voluntary nonexchange transactions** result from contractual or legislative agreements, other than exchanges, between two or more parties. The revenues received from TVA in lieu of tax, the Hall state income tax, and private donations are voluntary nonexchange transactions.

The state of Tennessee shares some of its derived tax revenue with cities, based on a continuing resolution. This includes the state sales tax, beer tax and gas tax.

For example, a developer is planning to build a new subdivision and makes an agreement with the city to accept the roads, sidewalks, and water and sewer lines after completion. This is a voluntary nonexchange transaction because the developer does not have to donate the infrastructure.

As with a government-mandated nonexchange transaction, there may be an eligibility requirement. In this case, the eligibility requirement by the developer is completion of the new subdivision.

Assets (recipients) and liabilities (provider), as well as revenues (recipient) and expenditures (provider), are recognized as they are in a government-mandated nonexchange transaction.

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