

# State of North Carolina

## Office of the State Controller

Michael F. Easley, Governor

Edward Renfrow, State Controller  
Gwen Canady, Chief Deputy

February 27, 2001

### **MEMORANDUM # SAD 01-33**

**TO:** Chief Fiscal Officers

**FROM:** Edward Renfrow, State Controller  
Don Waugh, Assistant State Controller

**SUBJECT:** GASB Statement No. 33

GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, is effective for the fiscal year ending June 30, 2001. This new statement offers comprehensive guidance on accounting for nonexchange transactions involving financial or capital resources (Note: it does not apply to other resources, such as contributed services). It will significantly change the way that many state and local governments account for federal and state grants and private donations, including promises to provide cash and other assets (i.e., pledges). In addition, it includes standards on accounting for income taxes, sales and similar taxes on consumption, other taxes, and fines and penalties. Generally, this standard will not change our accounting for taxpayer-assessed revenues (e.g., income and sales taxes) from current practice.

Since state agencies operate on a cash basis during the year, the prior period adjustments and the accrual entries needed to comply with this standard should be made during the thirteenth period (starting with the 2000-01 fiscal year). However, fiscal officers should start compiling the information that they will need to restate beginning fund balances (i.e., July 1, 2000). To assist with your implementation, we have attached a comprehensive summary of GASB Statement No. 33. The attached summary also includes illustrative journal entries (Attachment A), examples of typical nonexchange transactions in North Carolina (Attachment B), a chart from GASB Statement No. 33 that summarizes the four classes of nonexchange transactions (Attachment C), and examples of grant scenarios (Attachments D, E, and F).

When applying GASB Statement No. 33 to a specific transaction, an agency must first determine whether the transaction is an exchange or a nonexchange transaction (Note: Statement 33 does not apply to exchange or exchange-like transactions). If it is a nonexchange transaction, an agency should classify it into one of the four categories specified by this statement. The statement provides specific recognition criteria for each category of nonexchange transactions. GASB Statement No. 33 does not apply to research contracts and grants since they are considered exchange or exchange-like transactions.

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To facilitate the implementation process, OSC has added new accounts to NCAS for research grants (not subject to Statement 33), pledges receivable (current and noncurrent), and the allowance for doubtful accounts for pledges (current and noncurrent) as follows:

<b>Account Number</b>	<b>Account Description</b>
4327AA	Federal Research Grants
4328AA	State Research Grants
432BAA	Private Research Grants
432CAA	Out of State Research Grants
113940	Pledges Receivable – Current
113360	Allowance for Doubtful Accounts - Pledges
123940	Pledges Receivable - Noncurrent
123360	Allowance for Doubtful Accounts - Pledges

Agencies should begin using the new NCAS accounts for research grants during the 2000-01 fiscal year. This change will help agencies to segregate their exchange and exchange-like transactions (i.e., research grants) from their nonexchange transactions. Also, for proprietary funds and other entities that use proprietary fund accounting, this segregation will facilitate the preparation of the operating statement and the statement of cash flows under the new reporting model (e.g., research grants will be classified as operating revenues).

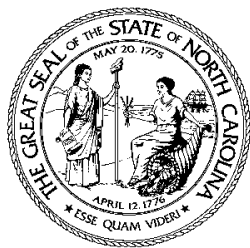
In addition, the following NCAS account definitions have been revised to clarify that they should be used to account for grants and contracts that are nonexchange transactions (i.e., subject to Statement 33):

<b>Account Number</b>	<b>Account Description</b>
4321AA	Federal Grants
4324AA	Private Grants
4325AA	State Grants
4326AA	Out of State Grants

Finally, GASB Statement No. 33 requires that capital contributions to proprietary funds and to other entities that use proprietary fund accounting be recorded as revenues, not contributed capital. The GASB further clarified that contributed capital arising from periods prior to implementation of this statement should not be restated. Under the new reporting model (effective FY ending June 30, 2002), governments will no longer distinguish between contributed capital and retained earnings in the equity section of their balance sheets. Instead, they will classify all proprietary fund equity into the following three categories: a) invested in capital assets (net of related debt), b) restricted, and c) unrestricted.

If you have any questions about GASB Statement No. 33, please contact Clayton Murphy at [cmurphy@mail.osc.state.nc.us](mailto:cmurphy@mail.osc.state.nc.us) or 919/981-5474.

Attachment



## North Carolina Office of the State Controller Financial Reporting Section

### Summary of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*

#### BACKGROUND

State and local governments engage in two kinds of transactions: 1) exchange and exchange-like transactions, and 2) non-exchange transactions. In exchange transactions, each party receives and gives up essentially equal values. Thus, there is a presumption of "arms-length". In contrast to a "pure" exchange transaction, an exchange-like transaction is defined by GASB-33 as

"one in which the values exchanged, though related, may not be quite equal, or in which the direct benefits may not be exclusively for the parties to the transaction. Nevertheless, the exchange characteristics of the transactions are strong enough to justify treating the transaction as an exchange for accounting recognition."

In nonexchange transactions, a government gives (or receives) value without directly receiving (or giving) equal value in return. For example, the amount of your State income tax is not related to the value or amount of State services that you expect to receive during the year.

Most governments receive a majority of their revenues through nonexchange transactions, including income, sales, and property taxes; grants, entitlements and other financial assistance; and private donations. Many governments also provide financial assistance to other governmental and nongovernmental entities. Prior to GASB-33, the accounting standards included only limited guidance on when to report nonexchange transactions,

despite their significance. Also, the previous standards were issued on a piecemeal basis without a single comprehensive standard encompassing all nonexchange transactions. Consequently, financial reporting between governments was not consistent. To address these shortcomings, the GASB issued an exposure draft of this statement in March 1997. This proposal was finalized in December 1998 with the issuance of GASB-33.

GASB-33 is the final part of the grant accounting project that was originally exposed in 1992 in a GASB Discussion Memorandum (DM). Part of that DM was spun off and issued as GASB-24 in 1994. GASB-33 will supercede AICPA SOP 75-3, most of NCGA Statement-2, and GASB-22.

This new statement offers comprehensive guidance on accounting for nonexchange transactions. It will significantly change the way that many state and local governments account for federal and state grants and private donations. In addition, it includes new guidance on accounting for income taxes, sales and similar taxes on consumption, other taxes, and fines and penalties.

#### EXPLANATION OF STANDARDS

##### Scope and Applicability

This Statement establishes accounting and financial reporting standards for non-exchange transactions involving financial or capital resources. This statement defines "transactions" as external events in which something of value passes between two or more parties.

It does not apply to internal events, such as operating transfers between funds or other interfund activities. However, this statement does apply to nonexchange transactions between primary governments and their component units. Because component units are legally separate entities, the GASB believes all activities between them and their primary governments should be considered external events in the component units' stand-alone reports. Nonetheless, GASB Statement No 14 (paragraph 57) requires nonexchange transactions recognized as revenues or expenditures/expenses in a component unit's stand-alone report to be reclassified to transfers in the primary government's report.

Note: GASB-34 will require resource flows between a primary government and its discretely-presented component units to be reported as if they were external transactions (i.e., as revenues and expenses).

Furthermore, GASB-33 does not apply to other resources such as the following:

- Contributed services,
- Exchange transactions,
- Food stamps and on-behalf payments for fringe benefits and salaries (already addressed in GASB-24), and
- Unfunded mandates.

Note: This statement does apply to pass-through grants as defined by GASB-24, with one exception. It does not apply to the acquisition of goods and services in an exchange transaction that were funded through a nonexchange transaction. For example, the standards established by GASB-33 would not apply to situations where grant proceeds were used to purchase goods and services. Because GASB-24 (paragraph 5) does not include guidance on when to recognize pass-through grants, this Statement supplements, rather than amends that Statement.

### Nature of Nonexchange Transactions

The two parties in a nonexchange transaction are the provider and the receiver of the resources. The provider could be the federal government, a state or local government, or a nongovernmental entity. The receiver could be a state or local government or a nongovernmental entity. As mentioned earlier, the difference between a nonexchange transaction and an exchange transaction is that in a nonexchange transaction, a government "either gives value (benefit) to another party without directly receiving equal value in exchange or receives value (benefit) from another party without directly giving equal value in exchange". GASB-33 groups nonexchange transactions into four categories, based on their principal characteristics:

1. Derived tax revenues,
2. Imposed nonexchange revenues,
3. Government-mandated nonexchange transactions, and
4. Voluntary nonexchange transactions.

The GASB's approach in this statement was to provide general standards for the recognition of nonexchange transactions rather than to give detailed guidance on specific transactions. For example, GASB-33 does not specifically prescribe when a government should recognize sales tax revenues but instead established general standards for derived tax revenues that apply to all revenues that are considered part of this category, including sales tax revenues.

By establishing general rather than specific standards, the GASB gave governments more flexibility. Governments can apply general standards to all of their nonexchange transactions and not just to a few specific situations. Also, governments can apply general standards to less common transactions and to new kinds of transactions that they may encounter or establish in the future.

In applying GASB-33, governments should classify their nonexchange transactions into one of the four categories based on the substance of the transaction rather than its label. Sometimes a label will indicate its substance and, therefore, the class of nonexchange transaction to which it belongs. However, in practice the same label, such as "tax" may be given to numerous transactions that have different characteristics. Furthermore, a government that is too reliant on labels to characterize transactions could end up misclassifying nonexchange transactions as exchange transactions or vice versa. For example, a particular revenue source may be described as a fee on a remittance (implying an exchange transaction) but instead may have the characteristics of a tax (a nonexchange transaction).

### **Nonexchange versus Exchange**

As a practical matter, classifying a transaction as a nonexchange transaction or an exchange transaction can be difficult and may require careful analysis. This difficulty is especially true for exchange-like transactions. As noted earlier, the GASB defined an exchange-like transaction as

"an identifiable exchange between the reporting government and another party, but the values exchanged may not be quite equal or the direct benefits of the exchange may not be exclusively for the parties to the exchange".

The following are examples of exchange-like transactions:

- Fees from regulatory and professional licenses and permits,
- Certain tap fees,
- Certain developer contributions,
- Passenger facility charges,

- Certain grants and donations (e.g., research contracts and grants), and
- Other transactions that are based on an exchange of similar but not equal values.

The standards established by GASB-33 do not apply to exchange-like transactions. Instead, exchange-like transactions should be accounted for in the same way as exchange transactions (e.g., based on occurrence of an exchange between the reporting government and other party or parties).

Properly distinguishing transactions is even more difficult when a transaction has the characteristics of both exchange and nonexchange transactions. This difficulty is illustrated in the following example provided by the GASB:

"For example, a for-profit organization may provide resources to a public university for research that may result in commercial applications. This award may be referred to as a "grant". However, if the for-profit organization retains the right of first refusal to benefit from the research results, the award may be an exchange or exchange-like transaction. Alternatively, the characteristics of the award may indicate that part of the transaction should be accounted for as an exchange transaction and part as a nonexchange transaction."

The implementation guide to GASB-9 on the statement of cash flows discusses the factors to consider when determining if a grant is, in substance, an exchange (or exchange-like) transaction. Specifically, in question 63, the GASB stated the following:

"In Statement 9, the Board adopted the view that grants generally should be treated as subsidies. Capital grants should be considered capital and related financing activities, and all other grants

should be considered noncapital financing activities. However, the Board recognized that certain arrangements that are called "grants" appear to be contracts for services. Grants of this type should be classified as operating activities. The determination of whether a grant is, in substance, a purchase of services requires the exercise of judgment. To be classified as an operating cash inflow, the grant should finance a program that the grantee would not otherwise undertake (for example, a senior citizens' transportation service). Therefore, the grant is not subsidizing an existing program. It reimburses the costs of a new program, whose activity is inherently part of the operations of the grantor. A grant with these characteristics should be considered an "operating grant" as described in paragraph 17 of Statement 9. (See Example D in Appendix 1.)"

In addition, FASB-116, *Accounting for Contributions Received and Made* includes guidance on distinguishing contributions from exchange transactions. It provides the following illustrations (paragraphs 50 and 51):

"For example, a resource provider may sponsor research and development activities at a research university and retain proprietary rights or other privileges, such as patents, copyrights, or advances and exclusive knowledge of the research outcomes. The research outcomes may be intangible, uncertain, or difficult to measure, and may be perceived by the university as a sacrifice of little or no value; however, their value often is commensurate with the value that a resource provider expects in exchange. Similarly, a resource provider may sponsor research and development activities and specify the protocol of the testing so the research outcomes are particularly valuable to the resource provider. Those transactions are not contributions if their potential public

benefits are secondary to the potential proprietary benefits to the resource providers."

"Moreover, a single transaction may be in part exchange and in part a contribution. For example, if a donor transfers a building to an entity at a price significantly lower than its market value and no unstated rights or privileges are involved, the transaction is in part an exchange of assets and in part a contribution to be accounted for as required by this statement."

Therefore, grants that are really "contracts for services" should be accounted for in the same manner as exchange transactions. For example, research grants, including those from federal agencies are better characterized as "contracts for services" rather than as nonexchange transactions.

In summary, when applying GASB-33 to a specific transaction, a government should first determine whether the transaction is an exchange or a nonexchange transaction. If it is a nonexchange transaction, the government should classify the transaction into one of the four categories specified by this statement, based on its principal characteristics. The statement provides specific recognition criteria for each category of nonexchange transactions.

### **Basis of Accounting**

Although GASB-33 is written in the context of the accrual basis of accounting, it provides a significant amount of general guidance irrespective of the basis of accounting that a government may use. For this reason, the GASB concluded that this statement would also apply to governmental activities except that the guidance must be modified to conform to the modified accrual basis. Under the modified accrual basis of accounting, recipients must also satisfy the availability criterion when recognizing revenues.

The expenditure recognition standards in GASB-33 apply, without modification, to both the accrual basis of accounting and the modified accrual basis of accounting. On either basis of accounting, the nonexchange transactions must also be measurable and probable of collection before recognition can occur. Transactions that are not recognized because they are not measurable should be disclosed.

**Time Requirements/Purpose Restrictions**

In nonexchange transactions, the enabling legislation or the providers of resources frequently stipulate time requirements, purpose requirements or both. GASB-33 notes the following:

"Time requirements specify the period or periods when resources are required to be used or when use may begin."

"Purpose restrictions specify the purpose or purposes for which the resources are required to be used."

This Statement establishes different standards for time requirements than for purpose restrictions. Time requirements affect the period in which a government recognizes nonexchange transactions. Also, the effect of a timing requirement is different depending on whether the transaction is (a) an imposed nonexchange revenue transaction or (b) a government-mandated or voluntary nonexchange transaction.

<b>Time Requirements</b>
<p><u>Imposed Nonexchange</u> Only affect revenue recognition (not asset recognition).</p>
<p><u>Government-Mandated/Voluntary</u> Are considered eligibility requirements – without compliance there is no transaction and, therefore, no asset or revenue recognition (except advance receipts).</p>

In contrast, purpose restrictions do not affect the timing of the recognition of a nonexchange transaction. Rather, a government should report resources with purpose restrictions as a restriction of their equity, net assets, or fund balance, as appropriate. Purpose restrictions can arise from all four categories of nonexchange transactions.

**Derived Tax Revenues**

Derived tax revenues arise from a government imposing a tax on an exchange transaction. The principal characteristics of these transactions are as follows:

1. The assessing government imposes the tax on the provider (i.e., the individual or company that acquires the income, goods, or services).
2. The government's assessment is based on an exchange transaction.

Examples of derived tax revenues include sales taxes, individual income taxes, corporate income taxes, and motor fuel taxes. Purpose restrictions are common; time restrictions are uncommon.

Asset Recognition - Governments should recognize assets from derived tax revenue transactions when the underlying exchange transactions occur or when resources are received, whichever comes first.

Liability/Expense Recognition - None (only one government is involved in a derived tax revenue transaction).

Revenue Recognition - Governments should recognize derived tax revenues, net of estimated refunds and estimated uncollectible amounts, when

- (a) The underlying exchange transaction has occurred,
- (b) The amount is measurable, and

(c) The tax is expected to be collected or realized.

When modified accrual accounting is used, the resources also should be "available". Advance receipts should be reported as deferred revenues until the period of exchange.

In order to recognize revenues using the above criteria, a government will often use estimates to make an appropriate revenue accrual at year-end. For example, at year-end the state will need to estimate the sales tax revenue it expects to collect subsequent to year-end but that was based on sales that occurred on or before the June 30.

Note: North Carolina merchants are required to file sales and use tax returns with the NC Department of Revenue on either a semi-monthly, monthly, or quarterly basis.

### **Imposed Nonexchange Revenues**

Imposed nonexchange revenues arise from assessments imposed by governments on nongovernmental entities, excluding assessments based on exchange transactions. The principal characteristic of these transactions is that they are

"imposed by that government on an act committed or omitted by the provider (such as property ownership or the contravention of a law or regulation) that is not an exchange transaction."

Examples of imposed nonexchange revenues include environmental fines; library fines; property forfeitures, such as seizures and escheats; and other penalties (Note: property taxes are the most common example for local governments). Both purpose and time restrictions are common.

**Asset Recognition** - Governments should record assets from imposed nonexchange transactions when an enforceable legal claim to the assets arises or when the resources are received, whichever is first. (Note: the enforceable legal claim date can generally be determined from the enabling legislation or related regulations.)

**Liability/Expense Recognition** - None (only one government is involved in an imposed nonexchange revenue transaction).

**Revenue Recognition** - Governments should recognize imposed nonexchange revenues in the same period that the assets are recognized unless the enabling legislation includes time requirements. If so, revenues should be recognized when the use of the resources is required or is first permitted by time requirements. In addition, revenue should only be recognized if the amount is measurable and probable of collection (i.e., realizable).

When modified accrual accounting is used, the resources also should be "available". Advance receipts should be reported as deferred revenues. In the case of property taxes, receivables recognized before the period of revenue recognition should be reported as deferred revenues.

### **Government - Mandated Nonexchange Transactions and Voluntary Non-exchange Transactions**

Providers of resources in these two categories of nonexchange transactions frequently establish eligibility requirements. The eligibility requirements are required to be met before a transaction can occur. GASB-33 states the following:

"That is, until those requirements are met, the provider does not have a liability, the recipient does not have a receivable, and the recognition of expenses or revenues for resources



transmitted in advance should be deferred."

Eligibility requirements for government-mandated and voluntary nonexchange transactions comprise one or more of the following:

1. *Required characteristics of recipients.* The provider government may stipulate that the recipient (and secondary recipient, if applicable) must have specific characteristics. For example, under some federal programs, recipients are required to be states and secondary recipients are required to be school districts. Likewise, a private business may announce that computers will be made available to community colleges.
2. *Time requirements.* The provider may specify the period when the resources are required to be used (or sold, disbursed, or consumed), or may identify the period when recipient governments can begin expending the resources (which may be expended in one or more periods), or may require that the resources remain intact. Time requirements may be specified through the enabling legislation, related regulations, or as part of the appropriations process.
3. *Reimbursements.* The provider may stipulate that a recipient cannot qualify for resources without first incurring allowable costs under the provider's program. These transactions are commonly referred to as "reimbursement-type" or "expenditure-driven" grant programs. Similarly, matching requirements may be set as a condition of eligibility.
4. *Contingencies* (applies only to voluntary nonexchange transactions). The offer of resources by the provider is contingent upon a specified action of the recipient and that action has occurred. For example, a corporation may promise to donate a specified sum of money to a university provided its alumni can match the promised gift dollar for dollar. In this

situation, the university would not recognize revenues until it had raised the appropriate resources from its alumni.

### **Government - Mandated Nonexchange Transactions**

These transactions occur when a government at one level (e.g. the federal government) provides resources to a government at a lower level and requires the recipient government to use them for a specific purpose or purposes established in the provider's enabling legislation. Examples include federal programs that state governments are mandated to perform and state programs that local governments are mandated to perform. Government - mandated nonexchange transactions have the following principal characteristics:

1. A provider government mandates that a recipient government perform a particular program or facilitate its performance by another government or nongovernmental entity (secondary recipient).
2. The fulfillment of certain requirements is essential for a transaction to occur (other than the provision of cash or other assets in advance).

These essential requirements are referred to as eligibility requirements. Government-mandated nonexchange transactions always create a purpose restriction because the recipient government must use the resources for a particular purpose.

A higher level government mandating the establishment of a specific program by a lower level government does not, by itself, create a nonexchange transaction that is government-mandated. For this type of transaction to occur, the higher level government must fund the program. GASB-33 does not apply to unfunded mandates since these types of programs do not involve the exchange of resources.

Revenue Recognition

The recipient government should recognize revenues, net of estimated uncollectible amounts, when all eligibility requirements are satisfied. When modified accrual accounting is used, the resources also should be "available". The eligibility requirements are as follows:

- (a) Required characteristics of recipients (Note: almost always exist),
- (b) Time requirements, and
- (c) Reimbursements.

If the provider government does not establish time requirements and there are no other eligibility requirements, both the recipient and provider governments should recognize revenues and expenditures as of the first day of the provider government's fiscal year (see "Other Recognition Issues" on page 10). When a provider has a biannual budget, each year of the biannual period should be considered a separate year.

For government-mandated nonexchange transactions that are reimbursements, the recipient should recognize revenues when it has incurred costs that are reimbursable under the program.

Asset Recognition

Recipient governments should recognize assets when all applicable eligibility requirements have been met or when resources are received, whichever comes first. Resources transmitted before the eligibility requirements are met should be reported as advances by the provider (deferred revenues by recipients).

Expense/Liability Recognition

Providers should recognize expenses and liabilities from government-mandated nonexchange transactions when all applicable eligibility requirements have been met.

Note: The recognition of revenues by recipients and expenses by providers should not be delayed because routine administrative requirements have not been completed. As noted by GASB-33, these routine requirements include the filing of claims for allowable costs under a reimbursement program or the filing of progress reports with the provider.

Voluntary Nonexchange Transactions

Voluntary nonexchange transactions "result from legislative or contractual agreements, other than exchanges, entered into willingly by two or more parties." These transactions can be based on either a written or oral agreement, provided that the latter is verifiable.

The principal characteristics of voluntary nonexchange transactions are as follows:

1. They are not imposed on the provider or recipient.
2. Fulfillment of eligibility requirements (other than the provision of cash or other assets in advance) is necessary for a transaction to occur.

In a voluntary nonexchange transaction, both parties may be governments or one party may be a nongovernmental entity, such as an individual or a not-for-profit organization. Examples include certain federal and State grants, some entitlement programs, and donations and pledges by nongovernmental entities.

The provider in these transactions frequently establishes eligibility requirements and purpose restrictions. Also, the provider often requires the return of resources if the purpose restrictions or eligibility requirements are contravened after recognition occurs.

The GASB established the same recognition standards for government-mandated

nonexchange transactions and voluntary nonexchange transactions, with one exception. Voluntary nonexchange transactions have four possible eligibility requirements instead of three. The additional eligibility requirement is for contingencies.

Revenue Recognition

A recipient government should recognize revenues, net of estimated uncollectible amounts, from voluntary nonexchange transactions when all applicable eligibility requirements are satisfied. When modified accrual accounting is used, the resources also should be "available". The eligibility requirements are categorized as follows:

- (a) Required characteristics of recipients,
- (b) Time requirements,
- (c) Reimbursements, and
- (d) Contingencies.

If the provider government does not establish time requirements and there are no other eligibility requirements, both the recipient and provider governments should recognize revenues and expenses as of the first day of the provider government's fiscal year (see "Other Recognition Issues" on page 10). When a provider has a biannual budget, each year of the biannual period should be considered a separate year.

Note: The fiscal year of a nongovernmental provider is not relevant in determining when the recipient government should recognize revenue. For voluntary nonexchange transactions, the GASB did not believe that it was reasonable to expect a recipient government to be aware of the fiscal year of a nongovernmental provider.

For voluntary nonexchange transactions that are reimbursements, a government should recognize revenues when it has incurred costs that are reimbursable under the program.

In some cases, a nongovernmental entity may provide resources on an installment basis. If there are no time restrictions or other eligibility requirements, the recipient should recognize the full amount as revenue. If the installments are spread over more than one year, the recipient should recognize revenue equal to the present value of future cash flows.

If a recipient government receives resources before the eligibility requirements are satisfied, it should record the transaction as deferred revenues (i.e., liability).

For pledges from nongovernmental entities, a recipient government should recognize a receivable and revenue (net of estimated uncollectible amounts) when all eligibility requirements are met, provided that the promise is verifiable and the resources are measurable and probable of collection.

However, for pledges where the provider stipulates (time requirement) that the resources cannot be sold, disbursed or consumed until after passage of a specified period of time or the occurrence of a specified event, if ever, the recognition rules are different. In these cases, a recipient should recognize revenues when the pledged **resources are received**, assuming the recipient has met all other eligibility requirements.

Asset Recognition

A recipient should recognize an asset (e.g., receivable) when it has satisfied all applicable eligibility requirements or when it receives the resources, whichever comes first.

Note: Until all eligibility requirements are met, the provider should not record a liability and the recipient should not record a receivable.

Expense/Liability Recognition

When the provider in a voluntary nonexchange transaction is a government, it should recognize expenses and liabilities based on the same criteria used by the recipient government to recognize revenues (i.e., when all applicable eligibility requirements are met). If a provider has not met the expense recognition criteria and has made cash payments to a recipient government, the provider should record the payment as an advance (i.e., asset).

Note: The recognition of revenues by recipients and expenses by providers should not be delayed because routine administrative requirements have not been completed.

**Other Recognition Issues - Government-Mandated and Voluntary Nonexchange Transactions**

In some situations, a provider may stipulate that resources cannot be sold, disbursed, or consumed until after a specified number of years have passed or a specific event has occurred; or may require that the resources remain intact permanently. In the interim, the recipient government may derive benefits from the resources (i.e., by investing or exhibiting them). Examples include permanent additions to endowments and other trusts; term endowments; and contributions of works of art, historical treasures, and similar assets to capitalized collections. For government-mandated or voluntary nonexchange transactions of this type, no transaction should be recognized until the recipient can begin to comply with the provider's stipulation to maintain the resources intact.

Note: The stipulation to maintain resources intact is a time requirement.

Therefore, in these kinds of transactions, providers and recipients should not recognize liabilities and receivables. Rather, these transactions should be recognized as expenditures when paid (providers) and revenues when received (recipients), provided that all other eligibility requirements have been met. The receipt of resources would satisfy the time requirement. The resulting equity should be reported as a reservation of fund balance for a governmental fund or a restriction of fund equity for a proprietary fund.

Note: GASB-34, (paragraph 27) discusses the reporting of works of art and historical treasures. When donated collection items are added to noncapitalized collections, governments should recognize program expense equal to the amount of revenues recognized.

Sometimes in a government-mandated or voluntary nonexchange transaction, the provider government does not establish time requirements. When this situation occurs, assuming no other eligibility requirements exist (e.g., reimbursements), the provider should recognize a liability and expense for the entire award and the recipient should recognize a receivable and revenue for the entire award in the period when all applicable eligibility requirements are met.

When the provider is a government, the applicable period for both the provider and the recipient is the first day of the provider's fiscal year. The provider government's relevant fiscal year is generally the first day that the appropriation becomes effective.

Note: The federal government's fiscal year begins on October 1.

For secondary recipients, the fiscal year of the immediate provider, rather than the originating provider, should be used. For example, a local government receiving federal

grants through the state should use the state's fiscal year in determining when to recognize revenues. However, the state would use the federal government's fiscal year in determining when to recognize revenues under the program.

Also, if the provider has a biennial budget, each year of the biennial period should be considered a separate year. In this situation, the provider and recipient should allocate one-half of the resources appropriated for the biennium to each applicable period (unless the provider specifies a different allocation).

#### **Subsequent Contravention of Eligibility Requirements or Purpose Restrictions**

Sometimes after a recipient government has recognized a nonexchange transaction in the financial statements, it may become apparent that the transaction will not take place because:

- (a) The eligibility requirements are no longer met, or
- (b) The recipient will not comply with the purpose restrictions within the specified time limit.

In this situation, if it is probable that the provider will not provide the resources or will require the return of all or part of the resources already received, the parties should observe the following procedures:

- (a) The recipient should recognize a decrease in assets (or an increase in liabilities) and an expense for the amount the provider is expected to cancel or reclaim.
- (b) The provider should recognize a decrease in liabilities (or an increase in assets) and a revenue for the amount it is expected to cancel or reclaim.

#### **Nonexchange Revenues Administered and Collected Another Government**

In some cases, a government may collect derived tax revenues or imposed nonexchange revenues on behalf of a recipient government that imposes the tax. For example, the state administers and collects local option sales taxes in conjunction with the state sales tax. The state subsequently remits the collections to the local government recipients. In this situation, the recipient governments should apply the relevant revenue recognition standards that apply to derived tax revenues. The GASB assumes that because the recipient government imposes the tax, it will have sufficient information to make the year end accrual. The local option sales taxes are not revenues of the State.

#### **Recipient Reporting for Certain Shared Nonexchange Revenues**

A State may share a portion of its own derived tax revenues or imposed nonexchange revenues with other governments. For example, the State shares a portion of its gas tax revenues with municipal governments. The GASB recently amended a provision of GASB-33 when it issued GASB-36, *Recipient Reporting for Certain Shared Nonexchange Revenues*.

Note: GASB-36 amended GASB-33 by superceding paragraph 28 of that Statement with a new paragraph.

GASB-36 requires recipient governments to account for the sharing of revenues in the same manner as provider governments, thereby providing symmetrical accounting treatment. It includes the following requirement:

“Both the provider and recipient governments should comply with the requirements of this Statement for

voluntary or government-mandated nonexchange transactions as appropriate.”

Therefore, in this case, both the provider and the recipient should recognize the transactions when all eligibility requirements have been met. GASB-36 further states that some recipient governments receive shared revenues through a continuing appropriation. As used in GASB-33, the term *continuing appropriation* is defined as

“an appropriation that, once established, is automatically renewed without further legislative action, period after period, until altered or revoked.”

When shared revenues are remitted under a continuing appropriation, the applicable period (i.e., eligibility requirement) is considered to have already begun as each sales transaction occurs.

### **Effective Date and Transition**

The standards established by this statement are effective for periods beginning after June 15, 2000. Prior period adjustments are not required for promises of private donations.

Note: GASB-33 requires governments to record capital contributions to proprietary funds and to other entities that use proprietary fund accounting as *revenues*, not contributed capital. However, the GASB notes that governments should not restate contributed capital arising from periods prior to implementation of this statement.

### **Adjustments in 13<sup>th</sup> Period**

GASB-33 is primarily an accrual-based standard. Since State agencies typically operate on a cash basis during the year, the prior period adjustments and the adjusting entries needed to comply with this standard should be made during the thirteenth period.

Although GASB-33 will not be implemented until the 2000-2001 CAFR, fiscal officers should start compiling the information that they will need to restate beginning fund balances (i.e., July 1, 2000). The grant accruals made in the previous fiscal year should be analyzed to determine if any additional adjustments are needed to implement GASB-33. For example, grants recognized as revenues in the first couple of months of the new fiscal year should be analyzed to determine if any amounts should have been recognized in the previous fiscal year. Also, grants received near the end of the previous fiscal year should be reviewed to determine if any amounts should have been reported as deferred revenues (liabilities) and recognized as revenues in the new fiscal year (see Attachment A for illustrative journal entries).

Additionally, grant expenditures should be analyzed. Grants expended in the first couple of months of the new fiscal year should be analyzed to determine if any amounts should have been recognized in the previous fiscal year. Also, grants expended near the end of the previous fiscal year should be reviewed to determine if any amounts should have been reported as advances (assets) and recognized as expenditures in the new fiscal year.

### **Nonexchange Transactions: GASB-34 Classification**

GASB-34 requires governments to report nonexchange revenues on the government-wide financial statements as either program revenues or general revenues as follows:

#### **Program Revenues**

- Program-specific grants and contributions arising from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.

- Multipurpose grants if the amounts restricted to each program are specifically identified in either the grant award or the grant application.
- Fines and forfeitures since they “derive directly from the program” and “reduce the net cost of the function to be financed from the government’s general revenues.” (Note: Classify in the charges for services category).

### **General Revenues**

- All taxes, even those levied for a specific purpose (report by type of tax – e.g., sales, tax, income tax, and franchise tax).
- Multipurpose grants that do not provide for specific identification of the programs and amounts.
- Grants and contributions that do not meet the criteria to be reported as program revenues.
- Contributions to term and permanent endowments and contributions to permanent fund principal should be reported separately from but in the same manner as, general revenues.

On the enterprise fund operating statement, nonexchange transactions should be classified as follows:

- Grant subsidies (including operating appropriations from the State) received for operations or for either operations or capital outlays should be classified as “nonoperating” revenues.
- However, grants that, in substance, are contracts for services, should be classified as “operating” revenues.
- Fines and penalties should be reported in the “nonoperating” section.
- Revenues from capital contributions and grants (including capital appropriations from the State) and additions to the principal of permanent and term endowments should be reported separately after “nonoperating” revenues and expenses (GASB-34, paragraph 100).

**Attachment A – Illustrative Journal Entries**  
**Restatement of Beginning Fund Balances**  
**For the FY Ending June 30, 2001**

Activity for 13<sup>th</sup> Period <sup>(1), (2), (3)</sup>

<u>NCAS A/C #</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Various <sup>(4)</sup> 321199	Grant Receivable Reserved Beginning Fund Balance Adj. (To record prior year grant receivables – i.e., eligibility requirements met in prior year) <b>[Note: Generally, agencies should already be making this entry since most grants are expenditure-driven.]</b>	XX	XX
321199 218110	Reserved Beginning Fund Balance Adj. Deferred Revenues (To adjust for grants received in prior year that should have been deferred - i.e., eligibility requirements not met) <b>[Note: Generally, agencies should already be making this entry since most grants are expenditure-driven.]</b>	XX	XX
113990 323190	Other Current Receivables Unreserved Beginning Fund Balance Adj. (To record prior year receivable for fines, licenses, and fees – i.e., enforceable legal claim arose in the prior year.)	XX	XX
321199 Various <sup>(4)</sup>	Reserved Beginning Fund Balance Adj. Grants Payable (To record prior year grants payable – i.e., eligibility requirements met by recipients in prior year)	XX	XX
119100 321199	Prepaid Items Reserved Beginning Fund Balance Adj. (To record prior year grant advances – i.e., grants disbursed in prior year but recipients had not met eligibility requirements)	XX	XX



**Notes:**

- (1) Prior period adjustments and restatement of the financial statements are not required for promises of private donations (GASB-33, paragraph 31).
- (2) Agencies should also consider whether any adjustments are needed for grants that are exchange/exchange-like transactions. These transactions should be recognized as the services are provided.
- (3) GASB-33 requires governments to record capital contributions to proprietary funds and to other entities that use proprietary fund accounting as *revenues*, not contributed capital. However, agencies should not restate contributed capital arising from periods prior to implementation of this statement (GASB-33, footnote 18).
- (4) Agencies should evaluate whether the above adjustments are needed. The grant accruals made in the previous fiscal year should be analyzed to determine if any additional adjustments are needed to implement GASB-33. If so, the following grant receivable and payable accounts may need to be adjusted:

Grants Receivable

- 113420 - Federal Agency Receivables
- 113410 - Local Governments Receivables
- 113931 - Other Contracts and Grants Receivable
- 114700 - Due from Component Units

Grants Payable

- 211310 - Local Government Payable
- 211971 - Other Contracts/Grants Payable
- 212600 - Due to Component Units

**Attachment A – Illustrative Journal Entries**  
**Year-End Accruals**  
**For the FY Ending June 30, 2001**

Activity for 13<sup>th</sup> Period

<u>NCAS A/C #</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Various <sup>(1)</sup>	Grant Revenues	XX	
Various <sup>(1)</sup>	Grant Receivable (To record reversing entry for prior year grant receivables)		XX
218110 Various <sup>(1)</sup>	Deferred Revenues Grant Revenues (To record reversing entry for prior year deferred revenues)	XX	XX
435500 113990	Fines, Penalties, and Assessment Fees Other Current Receivables (To record reversing entry for prior year fines, penalties, and assessments)	XX	XX
Various <sup>(1)</sup> Various <sup>(1)</sup>	Grant Receivable Grant Revenues (To accrue grant revenues at year-end – i.e., have met eligibility requirements) [ <b>Note: Generally, agencies should already be making this entry since most grants are expenditure-driven.</b> ]	XX	XX
Various <sup>(1)</sup> 218110	Grant Revenues Deferred Revenues (To adjust for grants received in current year that should have been deferred - i.e., have not met eligibility requirements) [ <b>Note: Generally, agencies should already be making this entry since most grants are expenditure-driven.</b> ]	XX	XX
113990 113300 435500	Other Current Receivables Allowance for Doubtful Accounts Fines, Penalties, and Assessment Fees (To accrue fines, penalties, and assessments at year-end – i.e., have enforceable legal claim.)	XX	XX XX

Activity for 13<sup>th</sup> Period <sup>(1)</sup>

<u>NCAS A/C #</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
113940	Pledges Receivable - Current	XX	
123940	Pledges Receivable - Noncurrent	XX	
113360	Allowance for Doubtful Accounts – Pledges		XX
123360	Allowance for Doubtful Accounts – Pledges		XX
436200	Private Donations and Gifts		XX
436201	Private Donations and Gifts - Nonoperating		XX
	(To accrue pledges at year-end - i.e., have met eligibility requirements)		
	<b>[Note: Pledges spread over more than one year should be discounted to present value.]</b>		
Various <sup>(1)</sup>	Grants Payable	XX	
536XXX <sup>(1)</sup>	Aid and Public Assistance		XX
	(To record reversing entry for prior year grants payable)		
536XXX <sup>(1)</sup>	Aid and Public Assistance	XX	
119100	Prepaid Items		XX
	(To record reversing entry for prior year prepaid items)		
536XXX <sup>(1)</sup>	Aid and Public Assistance	XX	
Various <sup>(1)</sup>	Grants Payable		XX
	(To accrue grants payable at year-end – i.e., recipients have met eligibility requirements)		
119100	Prepaid Items	XX	
536XXX <sup>(1)</sup>	Aid and Public Assistance		XX
	(To adjust for grants paid in current year that should have been deferred – i.e., recipients have not met eligibility requirements)		

**Notes:**

(1) Agencies should evaluate whether the above adjustments are needed. If so, the following accounts may need to be adjusted:

Grants Receivable

- 113420 - Federal Agency Receivables
- 113410 - Local Governments Receivables
- 113931 - Other Contracts and Grants Receivable
- 114700 - Due from Component Units

Grants Payable

- 211310 - Local Government Payable
- 211971 - Other Contracts/Grants Payable
- 212600 - Due to Component Units

Grant Revenues

- 4321AA - Federal Grants
- 4324AA - Private Grants
- 4325AA - State Grants
- 4326AA - Out of State Grants
- 432995 - Nongovernmental Grants & Contracts
- 432999 - Federal Grants - Nonoperating

Grant Expenditures

- 5361AA - Public Assistance/Entitlements
- 5362AA - Cost Reimbursements
- 5363AA - Formula Grants
- 5364AA - Discretionary Grants
- 5365AA - Statutory Distributions
- 5366AA - Directed Grants
- 5367AA - Loans
- 536810- 536890 - Educational Awards & Scholarships
- 5369AA - Other Grants & Aid

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## Attachment B – Typical Nonexchange Transactions State of North Carolina

### Derived Tax Revenues

- Corporation income tax
- Individual income tax
- Sales and use tax
- Highway use tax
- State gasoline tax\*
- Piped natural gas tax\*
- Tobacco products tax
- Alcoholic beverage tax
- Scrap tire disposal tax\*
- White goods disposal tax\*
- Dry cleaning solvent tax

### Imposed Nonexchange Revenues

- Franchise tax
- Estate tax (inheritance tax repealed effective 7/1/99)
- Gift tax
- Insurance tax (based on gross premiums)
- Fines and penalties:
  - DEHNR environmental fines – Divisions of Air Quality, Coastal Management, Environmental Health, Land Resources, Waste Management, and Water Quality
  - Library fines
  - Traffic fines
  - Court fines and fees
- Escheat property
- Property seizures
- Controlled substance tax\*

### Government-Mandated Nonexchange Transactions

- Federal - Grants for mandated drug and alcohol abuse prevention programs, administrative grants for the Food Stamp Program and Medicaid
- State - Appropriations of shared revenues for state-mandated programs (e.g., State gasoline tax, scrap tire disposal tax, and white goods disposal tax)

### Voluntary Nonexchange Transactions

- Certain federal and State grants and entitlements
- State appropriations (operating and capital)
- Donations by nongovernmental entities (including individuals)
- Pledges
- Additions to permanent and term endowments
- Appropriations of other State shared revenues (e.g., piped natural gas tax and controlled substance tax)

**Note: GASB Statement No. 33 does not apply to research grants and contracts (federal, state, and private) since they are considered exchange or exchange-like transactions).**

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\* Tax is a shared revenue.

## Attachment C - Classes and Timing of Recognition of Nonexchange Transactions

Class	Recognition
<p><b>Derived tax revenues</b></p> <p>Examples: sales taxes, personal and corporate income taxes, motor fuel taxes, and similar taxes on earnings or consumption</p>	<p><b>Assets*</b> Period when <i>underlying exchange has occurred</i> or when resources are received, whichever is first.</p> <p><b>Revenues</b> 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.”</p>
<p><b>Imposed nonexchange revenues</b></p> <p>Examples: traffic fines, library fines, and forfeitures</p>	<p><b>Assets*</b> Period when an <i>enforceable legal claim has arisen</i> or when resources are received, whichever is first.</p> <p><b>Revenues</b> Period when <i>resources are required to be used</i> or first period that use is permitted. When modified accrual accounting is used, resources <i>also</i> should be “available.”</p> <p>See paragraphs 17, 18, 30b, and 30c.</p>
<p><b>Government-mandated nonexchange transactions</b></p> <p>Examples: federal government mandates on state and local governments</p> <p><b>Voluntary nonexchange transactions</b></p> <p>Examples: certain grants and entitlements, most donations</p>	<p><b>Assets* and liabilities</b> Period when all <i>eligibility requirements have been met</i> or (for asset recognition) when resources are received, whichever is first.</p> <p><b>Revenues and expenses or expenditures</b> 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 [e.g., 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.)</p> <p>See paragraphs 19 through 25 and 30d.</p>

\*If there are purpose restrictions, report restricted net assets (or equity or fund balance) or for governmental funds, a reservation of fund balance.

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## **Attachment D - Illustrations from GASB-33 (Appendix D)**

### **Example 1: Sales Tax**

A state (recipient) imposes a tax on sales of goods by retail merchants. The tax is 5 percent of the sale amount and is collected by merchants from customers (providers) at the time of sale. Most merchants are required to submit sales tax receipts to the state on a weekly basis; however, small retail sales merchants are required to submit receipts only on a quarterly basis.

This example illustrates the characteristics of derived tax revenues. (The sales are exchange transactions.) The state should recognize assets and revenues, net of estimated refunds, as each sales transaction occurs. (From a practical standpoint, the state will likely base the amount to be recognized on total merchants' sales as reported or estimated for the weeks or quarters that make up the state's fiscal year.)

### **Example 3: Income Tax**

A state (recipient) imposes a 6 percent tax on personal income earned within the state. Employers are required to withhold taxes from payroll and remit withholdings on a monthly basis. Individuals with significant nonsalary (for example, investment) income are required to make estimated tax payments on a quarterly basis. In addition, individuals must file a tax return with the state by April 15 of the year following the tax year (calendar year) and must pay the remaining tax owed (or claim a refund) at that time. The state's fiscal year ends on June 30.

This example illustrates the characteristics of derived tax revenues. (The earning of income is an exchange transaction.) The state should recognize assets and revenues, net of estimated refunds, as taxable income is earned by taxpayers during the year. (From a practical standpoint, the state will likely base the amount to be recognized on the amount of withholding and estimated tax payments made during the year, adjusted for the April 15 settlements and refunds.)

### **Example 6: Educational Programs**

A state (provider) reimburses school districts (recipients) for specific costs related to special education, up to a maximum amount for each school district in each school year. To obtain reimbursement for allowable costs, the school districts submit quarterly reports to the state.

This example illustrates the characteristics of voluntary nonexchange transactions. (The program is not a mandate on the state or the school districts.) However, fulfillment of two eligibility requirements is necessary for a transaction to occur (in addition to the requirement that the recipients be school districts): The applicable period (school year) should have begun and the school districts should have incurred allowable costs. The second requirement indicates that the transaction has the characteristics of grants commonly referred to as reimbursement-type or expenditure-driven grants.

### **Example 8: Road Improvements**

A state (provider) distributes money to counties and cities (recipients) for use in county road repairs and city street repairs, respectively. Part of the money is allocated to the counties and cities based on population. The remainder is awarded on a competitive basis to certain small cities. Potential recipients of the competitive awards apply for funding for specific safety improvement projects, and the state, in consultation with certain representative organizations, determines which projects to finance. For the competitive awards only, the state indicates that the resources may be

used at any time after the awards are made. The state's fiscal year ends on June 30. County and city fiscal years end on December 31.

This example illustrates the characteristics of voluntary nonexchange transactions. (The program is not a mandate on the state or the counties and cities.) However, fulfillment of certain eligibility requirements is necessary for a transaction to occur: For the awards based on population, the recipients are required to be counties or cities and the applicable period should have begun. (Unless the state specifies otherwise, the applicable period begins on the first day of the state's fiscal year.) For the competitive awards, the eligibility requirements are that (a) the recipients are required to be small cities, (b) the state should have selected the recipients, based on the selection criteria, and (c) the applicable period should have begun. (In this case, the applicable period begins when the award is made and may continue into subsequent periods; there is no time limit on the use of the resources.) The requirement to use the resources for road and street repairs and improvements is a purpose restriction.

#### **Recipients**

All counties and cities in the program should recognize receivables and revenues for the full amount of their awards when their respective eligibility requirements have been met. Because of the purpose restriction, they also should report resulting net assets (or equity or fund balance) as restricted until used.

#### **Provider**

The state should recognize liabilities and expenses for each of the two kinds of awards when the applicable eligibility requirements have been met.

### **Example 10: Community College Capital Program**

A state (provider) offers money to community colleges (recipients) to be used solely for capital outlays. The amounts are based on student population. Amounts not used within three years are to be returned to the state.

This example illustrates the characteristics of voluntary nonexchange transactions. (The program is not a mandate on the state or the community colleges.) There is no requirement that the colleges first incur allowable costs under the state's program in order to qualify for the resources. Therefore, it is not a reimbursement-type or expenditure-driven grant program. However, fulfillment of an eligibility requirement is necessary for a transaction to occur (in addition to the requirement that recipients be community colleges): The applicable period should have begun. (Unless the state has specified otherwise, the applicable period is assumed to begin the first day of the state's fiscal year.) The requirement to use the resources for capital outlays is a purpose restriction.

#### **Recipients**

Community colleges should recognize receivables and revenues, for the full amount of the award, on the first day of the state's fiscal year. Because of the purpose restriction, resulting net assets (or equity or fund balance) should be restricted until capital costs are incurred.

#### **Provider**

The state should recognize liabilities and expenses, for the full amount of the award, on the first day of its fiscal year.

### **Example 15: Private Donation with Eligibility Requirement**

An individual (provider) promises in writing to give \$1 million to the town library (recipient) for the construction of a new wing, provided that the library raises an equal amount of donations from others.



This example illustrates the characteristics of voluntary nonexchange transactions. However, fulfillment of an eligibility requirement is necessary for a transaction to occur: The library is to raise \$1 million from other parties for construction of the new wing. The library should recognize a receivable and a revenue for the individual's \$1 million when the other \$1 million has been raised. Because there is a purpose restriction (construction of a new wing), resulting net assets (or equity or fund balance) should be restricted until used.

**Example 16: Private Donation with Purpose Restriction**

An individual (provider) makes a large cash donation to a state university (recipient). The donation is to be used in the business school at any time for operations, scholarships, or any other purposes deemed appropriate by the university.

This example illustrates the characteristics of voluntary nonexchange transactions. There is no eligibility requirement. Assuming that the donation was not announced in advance, the university should recognize cash and a revenue when the money is received. If, on the other hand, the donor announces the donation a year before paying it and the university believes that collection is probable, the university should recognize a receivable and a revenue when the donation is announced. Because of the purpose restriction, the university should report resulting net assets (or fund balance) as restricted until used.

**Example 19: Matching Gift**

A large corporation (provider) has a published policy of matching its employees' gifts to qualified educational institutions, fifty cents on the dollar, with the matching gift unrestricted as to use by the recipient. An employee of the corporation makes a \$15,000 cash gift to a state university (recipient) and forwards the appropriate matching-gift forms to the university.

This example illustrates the characteristics of voluntary nonexchange transactions. The employee's gift has no eligibility requirements. However, fulfillment of an eligibility requirement is necessary for a transaction between the university and the corporation to occur: An employee of the corporation should have made a gift to a qualified educational institution. The filing of matching-gift forms is routine in nature and is not an eligibility requirement.

The university should recognize cash of \$15,000, receivables from the corporation of \$7,500, and revenues of \$22,500 when the university receives the employee's gift.

**Example 20: Contribution to Acquire Building**

A large corporation (provider) unexpectedly donates \$5 million to a local community college (recipient) so that the college may acquire and refurbish a building near campus. The building will be used for classrooms and laboratories. The corporation stipulates that the building should be named after the corporation and that the building's name should be prominently displayed.

This example illustrates the characteristics of voluntary nonexchange transactions. (Although there are elements of an exchange or exchange-like transaction, it does not appear that, solely by having its name on the building, the corporation is receiving equal or approximately equal value or future benefits in return for its donation.)

There is no eligibility requirement, so the community college should recognize assets and revenues of \$5 million when the donation is received. (The facts suggest that the corporation made the donation without previously announcing it. Alternatively, if the corporation announced that it would make the donation at a future date and the college believed that the amount probably would be collected, the college should recognize a receivable and a revenue at the time the announcement is made.) The requirement to use the resources to acquire and refurbish a building is a purpose

restriction and the college should report resulting net assets (or equity or fund balance) as restricted until used.

The requirement that the college name the building after the corporation is not a purpose restriction and does not affect the display of net assets. However, if, after recognizing the donation, the college decides not to name the building after the corporation, and if it is probable that the corporation will require the college to return the donation, the college should recognize a reduction in assets (or a liability) and an expense.

### **Example 21: Multiyear Promise with Eligibility Requirement**

An individual (provider) pledges \$500,000 to the county hospital (recipient) to further its mission of serving the indigent. The donor's letter specifies that he will pay \$100,000 per year over the next five years and that each installment should be used in the year it is paid.

This example illustrates the characteristics of voluntary nonexchange transactions. However, fulfillment of an eligibility requirement is necessary for a transaction to occur: The period to which each installment applies should have begun. Assuming that the hospital believes that the installments are probable of collection, the hospital should recognize a receivable and a revenue of \$100,000 in each of the five years.

The requirement to use the resources to further the hospital's mission is not a purpose restriction because serving the indigent is part of the hospital's general operations.

Example 21a: Multiyear Promise without Eligibility Requirement

### **Example 21a: Multiyear Promise without Eligibility Requirement**

The facts of the previous example are the same except that the donor does not specify that each installment is required to be used in the year it is paid. Thus, there is no eligibility requirement. Assuming that the hospital believes that the installments are probable of collection, it should recognize a receivable and a revenue for the discounted present value of the five installments in the period when the donor's pledge is received. Subsequent accruals of the interest element should be reported as revenues.

### **Example 22: Research Grant**

A large corporation that makes cleaning products (provider) gives money to a state university (recipient) to conduct research on the effectiveness of a certain chemical compound in quickly removing graffiti. The corporation stipulates that the research results should be shared with the corporation before being announced to the public, and that the corporation has the right to apply for a patent on the compound.

This is an exchange transaction. (In return for its gift, the corporation receives the right [future benefit] to profit from the research results.) Assets and revenues should be recognized when the exchange occurs. This Statement does not apply.

### **Example 23: Status as Potential Beneficiary**

A 25-year-old recent graduate (provider) of a state university names the university (recipient) as the primary beneficiary in her will. The graduate is single and has an estate currently valued at \$50,000.

This example illustrates the characteristics of voluntary nonexchange transactions. However, the state university should not recognize any asset or revenue. It is not probable that the university will remain the primary beneficiary, and potential future distributions from the estate are not measurable (reasonably estimable) at this time.

**Example 24: Permanent Endowment**

A corporation (provider) gives \$5 million to a state university (recipient) with the stipulation that the university establish an endowment, invest the gift, and maintain it (the principal) intact in perpetuity. The investment income is to be used for scholarships for underprivileged students majoring in business or public administration.

This example illustrates the characteristics of voluntary nonexchange transactions. The gift is a permanent endowment (permanently nonexpendable addition to net assets). The requirement to invest the gift is a purpose restriction. The stipulation that the principal be maintained intact in perpetuity (can never be expended) is a time requirement. (The stipulation as to the use of the investment income is a purpose restriction. However, the earning of investment income is an exchange transaction and is outside the scope of this Statement.) The university should recognize assets and revenues when the gift is received because at that time the university begins to comply with the time requirement (to maintain the principal intact). The university should always report resulting net assets or fund balance (principal) as restricted because of the purpose restriction and the time requirement (investment in perpetuity).

**Example 25: Term Endowment**

An alumnus promises to donate \$500,000 to his alma mater with the stipulation that the university invest the principal and use the income to provide summer research grants for accounting faculty members. The terms of the agreement specify that, after the donor's death, the university should withdraw the principal of the gift and use (expend) it, also for summer research grants for accounting faculty members.

This example illustrates the characteristics of voluntary nonexchange transactions. The gift is a term endowment. The requirements to invest the principal until the donor's death and then to expend it for summer grants are purpose restrictions. The requirement to maintain the principal intact until after the donor's death is a time requirement. The university should recognize assets and revenues when the gift is received. The university should not recognize a receivable when the promise is made because the university cannot begin to comply with the time requirement until the gift is received. When the gift is recognized, the university should report resulting net assets or fund balance as restricted because of the purpose restrictions and the time requirement. The initial purpose restriction (invest the principal) and the time requirement (maintain the principal intact) expire at the donor's death. However, the university should continue to report net assets or fund balance as restricted after the donor's death, until the principal is expended in accordance with the donor's stipulations.

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## Attachment E - Illustrations from GASB-36 (Appendix C)

### **Example 1: State Sales Tax Shared with Local Governments—Continuing Appropriation**

A state imposes a 6 percent tax on sales of goods by retail merchants. Legislation requires the state (provider) to remit one-sixth of the sales tax to cities and counties (recipients) on a quarterly basis. No annual appropriation is required. The cities and counties may use the resources for any governmental program.

This example illustrates the characteristics of voluntary nonexchange transactions. (The program is not a mandate on the cities and counties.) However, fulfillment of an eligibility requirement is necessary for a transaction to occur (in addition to the requirement that recipients be cities or counties): The applicable period should have begun. Because the remittances to cities and counties are continually appropriated by operation of law, the eligibility requirement is met (the applicable period is considered to have already begun) as each sales transaction occurs.

#### **Recipients**

Cities and counties should recognize receivables and revenues, net of estimated refunds, as each sales transaction occurs. (From a practical standpoint, the cities and counties will likely recognize receivables and revenues in the aggregate for the period in which the sales take place, based on notification from the state of the amount to be transmitted or a reasonable estimate if notification is not available in a timely manner.)

#### **Provider**

The state should recognize payables and expenses at the same time that it recognizes receivables and revenues from the sales transactions—that is, as each sales transaction occurs. (From a practical standpoint, the state will likely base the amount to be recognized as receivables and revenues on net merchants' sales as reported or estimated for the weeks or quarters that make up the state's fiscal year. The amount to be simultaneously recognized as payables and expenses should be based on the percentage specified in the legislation as required to be transmitted to the cities and counties.)

### **Example 1a: State Sales Tax Shared with Local Governments—No Continuing Appropriation**

The facts of the previous example are the same except that there is no continuing appropriation. The state legislature annually appropriates a portion of the state sales tax to provide resources to cities and counties. The state does not specify when the cities and counties should use the resources.

This example also illustrates the characteristics of voluntary nonexchange transactions. Fulfillment of an eligibility requirement is necessary for a transaction to occur (in addition to the requirement that recipients be cities or counties): The applicable period (the period for which the shared resources are appropriated) should have begun. Because the state does not specify otherwise, the applicable period is the state's fiscal year.

#### **Recipients**

Cities and counties should recognize receivables and revenues for the full amount of the appropriation when the appropriation goes into effect (the first day of the state's fiscal year).

#### **Provider**

The state should recognize payables and expenses when the appropriation goes into effect (the first day of the state's fiscal year).

**Example 1b: State Fuel Tax Shared with Local Governments—Acceptance and Use Mandated**

The facts are the same as in the previous two examples except that the tax is derived from fuel sales and the state mandates that cities and counties accept a share of the tax and use it to carry out road and street maintenance and improvement projects.

This example illustrates the characteristics of government-mandated nonexchange transactions. If the fuel tax is subject to a continuing appropriation, recipients and the provider would record the transaction as illustrated in Example 1. If the fuel tax is annually appropriated, recipients and the provider would record the transaction as illustrated in Example 1a. Because there is a purpose restriction (the requirement to use the resources for road and street projects), recipients should report resulting net assets (or fund balance) as restricted until used.

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## Attachment F - Other Scenarios

[Note: For grants with purpose restrictions, agencies should report any resulting fund equity as restricted until used.]

### **Example A: Federal “Expenditure-Driven” Grant**

A university enters into a grant with a federal agency. This is a one-year grant that is for the federal fiscal year (10/1/XX to 9/30/XX). Under the terms of the grant, the university cannot qualify for resources without first incurring allowable costs under the program.

This example illustrates the characteristics of voluntary nonexchange transactions. However, fulfillment of two eligibility requirements is necessary for a transaction (other than advance receipts) to occur: The applicable period (federal fiscal year) should have begun and the university should have incurred allowable costs.

#### **Payment on a Reimbursement Basis**

After the federal fiscal year has begun (October 1), the university should recognize receivables and revenues as it incurs allowable costs, up to the full amount of the award.

#### **Advance Receipts**

The university should report advance receipts as deferred revenues. After the federal fiscal year has begun, the university should recognize revenues as it incurs allowable costs, up to the full amount of the award.

### **Example B: Multi-year State Grant – Pro Rata Allocation**

A university enters into a grant with a State agency. This is a three-year grant and is for the period 7/1/1999 to 6/30/2002. Grant funds must be expended pro rata over the three-year period. Requests for funds will be made in accordance with the payment clause not to exceed the amount obligated for the current budget period.

This example illustrates the characteristics of voluntary nonexchange transactions. However, fulfillment of an eligibility requirement is necessary for a transaction to occur: The period to which the pro rata allocation applies should have begun. After the grant period has begun (July 1, 1999), the university should recognize receivables and revenues equal to one-third of the grant award in each of the three years (i.e., amount eligible to be expended each year). [*Note: after recognition of the transaction, it may become apparent that a university will have unused resources at the end of the three years. If so, when that determination is made the recipient should recognize an expense and a liability (or a reduction of assets) for the amount expected to be returned to the provider.*]

### **Example C: Multiyear State Grant – Reimbursement Basis / No Pro-Rata Allocation**

A university enters into a grant with a State agency. This is a three-year grant and is for the period 7/1/1999 to 6/30/2002. Grant funds may be expended at any rate over the three-year period. Under the terms of the grant, the university cannot qualify for resources without first incurring allowable costs under the program. Payment will be on a reimbursement basis.

This example illustrates the characteristics of voluntary nonexchange transactions. However, fulfillment of two eligibility requirements is necessary for a transaction to occur: 1) the applicable period should have begun (July 1, 1999) and 2) allowable costs should have been incurred. After the grant period has begun, the university should recognize receivables and revenues as it incurs allowable costs, up to the full amount of the award. The requirement that the grant is for a three-year period does not require pro-rata allocations because there is no stipulation

that the resources should be spread evenly over the three years or should be applied in a specific proportion in each of the three years. In this example, all of the resources could have been used in the first year, or at any time thereafter, until the end of the three years.

#### **Example D: Research Grant - Reporting Requirement**

A university enters into a research grant with a corporation. This is a one-year grant for the period 1/1/2000 to 12/31/2000. The university received the grant funds in advance with the requirement that a report outlining the results of the research be presented at the end of the grant period.

This grant is, in substance, a contract for services. Therefore, it is an exchange transaction (i.e., in return for cash payments, the university performs research services) and **Statement 33 does not apply**. For financial reporting purposes, research contracts and grants (including those from federal agencies) are considered to be purchases of services rather than grant subsidies. The requirement that the university present a research report to the corporation at the end of the grant period is an administrative requirement and, therefore, has no effect on revenue recognition.

#### **Fiscal Year Ending June 30, 2001 (Under the AICPA College Guide Model)**

The university should recognize advance receipts as deferred revenues. The university should recognize revenues as it incurs allowable costs, up to the full amount of the award.

#### **Fiscal Year Ending June 30, 2002 (Under the New Model)**

The university should recognize advance receipts as deferred revenues. The university should recognize revenues as it provides goods and services (i.e., incurs allowable costs), up to the full amount of the award.

#### **Example E: Research Grant – Two Year Period / Reporting Requirement**

A university enters into a grant with a corporation. This is a two-year grant that covers the period 7/1/2000 to 6/30/2002. The university received the grant funds in advance with the requirement that a report outlining the results of the research is due at the end of the grant.

This grant is, in substance, a contract for services. Therefore, it is an exchange transaction (i.e., in return for cash payments, the university performs research services) and **Statement 33 does not apply** (see Example D).

#### **Example F: Subgrant from State Agency – Reimbursement Basis**

A state agency receives a reimbursement type grant from a federal agency. The grant is for the study of pollution and is for a two-year period (10/1/2000 to 9/30/2002). Since the state agency does not have all the necessary technical competencies on staff, they subgrant part of the study to a university. The university may file for reimbursement of its expenses on a quarterly basis. At the end of the first year, a preliminary report is due to the state agency. If this report is not filed, that quarter's reimbursement is held up until the report is received. At the end of the second year, the final report is due. The final reimbursement cannot take place until this report is filed and has been accepted by the state agency.

This grant is, in substance, a contract for services. Therefore, it is an exchange transaction (i.e., in return for cash payments, the university performs research services) and **Statement 33 does not apply** (see Example D).

#### **Example G: Federal Reimbursement Grant – Portion Subgranted**

A university receives a grant from a federal agency to study pollution. To leverage competencies on staff at other institutions, part of the grant research is subgranted to two additional universities. This is a one-year reimbursement type grant for the federal fiscal year (10/1/2000 to

9/30/2001). The university is responsible for monitoring the quality of work performed by the subgrantees and approving reimbursement requests. The requests can be made monthly. At the end of the contract period, a report on the results of the research is due the subcontracting university and final payment will not be made until this report is received.

This grant is, in substance, a contract for services. Therefore, it is an exchange transaction (i.e., in return for cash payments, the university performs research services) and **Statement 33 does not apply** (see Example D).

#### **Example H: State Appropriations**

A university received a \$42,000,000 current operations appropriation from the State legislature for the fiscal year ending June 30, 2001.

The university should recognize the state appropriation as an asset and revenue on the first day of the State's fiscal year (July 1, 2000) unless another specific time period is explicitly stated in the appropriations act.

#### **Example I: Pledge of Works of Art to a Collection**

A university receives a pledge from an individual that involves contributions of works of art to be included in a collection that is maintained by the university.

The university should recognize revenues when the property is received (see GASB-33, footnote 15). The university should not recognize a receivable when the pledge is made because it cannot begin to comply with the time requirement (i.e., maintain the collection intact) until the gift is received.

#### **Example J: Non-State System Street-Aid Allocation (Powell Bill)**

Eligible cities and towns receive annual appropriations from the State Highway Fund equal to the net amount after refunds that was produced by a 1 3/4 cents tax on each gallon of motor fuel taxed under Chapter 105 (Chapters 36C and 36D) of the General Statutes. The appropriation is based on the revenues collected during the fiscal year preceding the date of distribution. The annual allocation is sent out each October 1. A municipality's allocation may be withheld if all the required statements, reports or maps have not been submitted or there are unanswered questions concerning them. Beginning in FY 1990-91, a supplement was allocated from the Highway Trust Fund. The annual allocation may be reduced due to penalties. Seventy-five percent (75%) of the funds appropriated is based on the most recent population estimates and twenty-five percent (25%) of the appropriation is based on the certified street miles within the municipality's corporate limits that do not form a part of the State highway system.

This example illustrates the characteristics of government-mandated nonexchange transactions. Fulfillment of an eligibility requirement is necessary for a transaction to occur (in addition to the requirement that recipients be cities or towns): The applicable period (the period for which the shared resources are appropriated) should have begun. Because the state does not specify otherwise, the applicable period is the state's fiscal year.

#### **Recipients**

Municipalities should recognize receivables and revenues for the full amount of the appropriation when the appropriation goes into effect (the first day of the state's fiscal year). Because there is a purpose restriction (the requirement to use the resources for road and street projects), they should report resulting net assets (or fund balance) as restricted until used.

#### **Provider**

The state should recognize payables and expenses when the appropriation goes into effect (the first day of the state's fiscal year).