State of North Carolina
Office of the State Controller

Michael F. Easley, Governor

Edward Renfrow, State Controller
Gwen Canady, Chief Deputy

May 7, 2001

MEMORANDUM # SAD 01-58

TO: Vice Chancellors
Business Managers

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

SUBJECT: GASB Statement No. 33 (Reissue of Memorandum # SAD 01-12 to Universities for technical changes and additional illustrations)

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 public colleges and universities account for federal and state grants and private donations, including promises to provide cash and other assets (i.e., pledges).

Since colleges and universities 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). For universities, these adjustments should be recorded in the accounting system and interfaced to NCAS. 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 (Attachment B), a chart from GASB Statement No. 33 on the four classes of nonexchange transactions (Attachment C), and illustrations of grant scenarios (Attachments D and E). Attachment E includes an illustration on accounting for the higher education improvement bonds.

When applying GASB Statement No. 33 to a specific transaction, an institution 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 institution should classify it into one of the four categories specified by this statement. GASB Statement No. 33 provides specific recognition criteria for each category of nonexchange transactions. This statement does not apply to research contracts and grants since they are considered exchange or exchange-like transactions.

Statewide Accounting Division • Don Waugh, Assistant State Controller

MAILING ADDRESS
1410 Mail Service Center
Raleigh, NC 27699-1410

Telephone: (919) 981-5465
Fax Number: (919) 981-5560
State Courier: 56-50-10
Website: www.osc.state.nc.us/OSC/

LOCATION
3512 Bush Street
Raleigh, NC

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 - pledges (current and noncurrent) as follows:

Account Number	**Account Description**
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

Institutions should begin using the new NCAS accounts for research grants during the 2000-01 fiscal year. This change will help institutions to segregate their exchange and exchange-like transactions (i.e., research and development grants) from their nonexchange transactions. Also, 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):

Account Number	**Account Description**
4321AA	Federal Grants
4324AA	Private Grants
4325AA	State Grants
4326AA	Out of State Grants
432995	Nongovernmental Grants and Contracts

If you have any questions about GASB Statement No. 33, please contact Clayton Murphy at 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 (Colleges and Universities)*

BACKGROUND

Public colleges and universities 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, an institution gives (or receives) value without directly receiving (or giving) equal value in return. For example, a gift made to a public college or university is not related to the value or amount of services that the donor expects to receive during the year.

Public colleges and universities receive a majority of their revenues from nonexchange transactions, including grants, state appropriations, private donations, and fines. (Note: State and local governments also receive significant nonexchange revenues through income, sales, and property taxes.) Many governmental entities 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 institutions 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 public colleges and universities account for federal and state grants and private donations.

EXPLANATION OF STANDARDS

<u>Scope and Applicability</u>

GASB statements and interpretations are the highest source of GAAP for governmental organizations. (Level 1 GAAP per SAS No. 69). Therefore, GASB-33 will override any inconsistent sections of the AICPA industry audit guide, *Audits of Colleges and Universities* (Level 2 GAAP).

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 component units' stand-alone reports. Furthermore, GASB-33 does not apply to other resources such as the following:

- Contributed services,
- Exchange transactions,
- 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 nonexhange transaction are the provider and the receiver of the resources. The provider could be the federal government, a state or local government, a college or university, or a nongovernmental entity. The receiver could be a college or university, 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 *(not applicable to public colleges and universities in NC)*,
2. Imposed nonexchange revenues,
3. Government-mandated nonexchange transactions (*not applicable to public colleges and universities*), and
4. Voluntary nonexchange transactions *(the most common category for public colleges and universities)*.

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 college or university should recognize grant revenues but instead established general standards for voluntary nonexchange transactions that apply to all revenues that are considered part of this category, including grants.

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, colleges and universities 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 public institution 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 grant on an award document (implying a nonexchange transaction) but instead may have the characteristics of a contract for services (an exchange transaction).

<u>Nonexchange versus Exchange</u>

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 grants, which are primarily contracts for services), 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 (i.e., 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 such as the U.S. Department of Defense, are better characterized as "contracts for services" rather than as nonexchange transactions.

In summary, when applying GASB-33 to a specific transaction, a government must first determine whether the transaction is an exchange or a nonexchange transaction. If it is a nonexchange transaction, the government must 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.

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 transaction or (b) a government-mandated or voluntary nonexchange transaction.

Time Requirements

Imposed Nonexchange
Only affect revenue recognition (not asset recognition).

Government-Mandated/Voluntary
Are considered eligibility requirements – without compliance there is no transaction and, therefore, no asset or revenue recognition (except advance receipts).

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

(Not applicable to public colleges and universities in NC.)

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 library fines, traffic fines and other penalties.

Asset Recognition – Colleges and universities 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 - Colleges and universities 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.

Government-Mandated 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

(Not applicable to public colleges and universities.)

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 grants, 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 university should recognize revenues, net of estimated uncollectible amounts, from voluntary nonexchange transaction when all applicable eligibility requirements are satisfied. 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 8). 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, an institution 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 institution receives resources before the eligibility requirements are satisfied, it should record the transaction as deferred revenues (i.e., liability). Similarly, until all eligibility requirements are met, the provider should not record a liability and the recipient should not record a receivable.

For pledges from nongovernmental entities, a recipient institution 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.

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 (e.g., the filing of claims for allowable costs under a reimbursement program or the filing of progress reports with the provider).

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 institution 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 restriction of fund equity.

> Note: GASB-34, (para. 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 university 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, when a 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.

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.

Adjustments in 13th Period

GASB-33 is primarily an accrual-based standard. Since colleges and universities 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. For universities, these adjustments should be recorded in the accounting system and interfaced to the NCAS.

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 they 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).

Nonexchange Transactions: GASB-34 Classification

We anticipate that colleges and universities will be reporting as "*Special-purpose Governments Engaged Only in Business-type Activities*" under GASB-34. Consequently, public institutions will be presenting the financial statements required for enterprise funds. The basic financial statements will consist of:

a. MD&A
b. Enterprise fund financial statements consisting of:
   1) Statement of net assets or balance sheet
   2) Statement or revenues, expenses, and changes in fund net assets
   3) Statement of cash flows

c. Notes to the financial statements

The statement of net assets should present assets and liabilities in a classified format that distinguishes between current and long-term assets and liabilities. The operating statement should distinguish between operating and nonoperating revenues and expenses. Also, the operating statement should classify nonexchange transactions 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).

Format of New Operating Statement
FY Ending June 30, 2002

Operating revenues
Operating expenses
  Operating income (loss)
Nonoperating revenues and expenses
  Income before other revenues, expenses, gains, and losses
Capital contributions
Additions to permanent and term endowments
Special items
Extraordinary items
  Increase (decrease) in net assets
Net assets – beginning of period
Net assets – end of period

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

Activity for 13th Period (1), (2), (3)

NCAS A/C #	Description	Debit	Credit
Various (4)	Grant Receivable	XX	
322190	Restricted Beginning Fund Balance Adj.		XX
	(To record prior year grant receivables – i.e., eligibility requirements met in prior year) **[Note: Generally, agencies should already be making this entry since most grants are expenditure-driven.]**		
322190	Restricted Beginning Fund Balance Adj.	XX	
218110	Deferred Revenues		XX
	(To adjust for grants received in prior year that should have been deferred - i.e., eligibility requirements not met) **[Note: Generally, agencies should already be making this entry since most grants are expenditure-driven.]**		
113990	Other Current Receivables	XX	
324190	Unrestricted Beginning Fund Balance Adj.		XX
	(To record prior year receivable for fines, licenses, and fees – i.e., enforceable legal claim arose in the prior year.)		

Notes:

(1) Institutions 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 accounts may need to be adjusted:

Grants Receivable
113410 - Local Governments Receivables
113420 - Federal Agency Receivables
113931 - Other Contracts and Grants Receivable
114600 - Due from Primary Government Agencies
114700 – Due from Component Units

(2) Prior period adjustments and restatement of the financial statements are not required for promises of private donations (GASB-33, paragraph 31).

(3) Institutions 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.

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

Activity for 13th Period

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

Activity for 13th Period [(1)]

NCAS A/C #	Description	Debit	Credit
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
	(To accrue pledges at year-end - i.e., have met eligibility requirements) **[Note: Pledges spread over more than one year should be discounted to present value.]**		

Notes:

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

Grants Receivable
113410 - Local Governments Receivables
113420 - Federal Agency Receivables
113931 - Other Contracts and Grants Receivable
114600 - Due From Primary Government Agencies
114700 - Due from Component Units

Grant Revenues
4321AA - Federal Grants
4322AA - County Funds
4323AA - Cities, Towns, and Other Local Funds
4324AA - Private Grants
4325AA - State Grants
4326AA - Out of State Grants
432995 - Nongovernmental Grants & Contracts
432997 - Federal Appropriations
432998 - County Appropriations

Attachment B - Typical Nonexchange Transactions
Colleges and Universities
(With Groupings by GASB-33 Classes)

<u>Derived Tax Revenues</u>
None

<u>Imposed Nonexchange Revenues</u>
Library fines
Traffic fines

<u>Government-Mandated Nonexchange Transactions</u>
None

<u>Voluntary Nonexchange Transactions</u>
Certain Federal and State grants (e.g., Student Financial Assistance Programs and Job Training Partnership Act grants)
State appropriations (operating and capital)
Donations by nongovernmental entities (including individuals)
Pledges
Additions to permanent and term endowments
Contributions of works of art, historical treasurers, and similar assets

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 (see page 4, column 2).

Attachment C - Classes and Timing of Recognition of Nonexchange Transactions

Class	Recognition
Imposed nonexchange revenues Examples: traffic fines, library fines, and forfeitures	**Assets*** Period when an *enforceable legal claim has arisen* or when resources are received, whichever is first. **Revenues** Period when *resources are required to be used* or first period that use is permitted. See paragraphs 17, 18, 30b, and 30c.
Government-mandated nonexchange transactions Examples: federal government mandates on state and local governments **Voluntary nonexchange transactions** Examples: certain grants and entitlements, most donations	**Assets* and liabilities** Period when all *eligibility requirements have been met* or (for asset recognition) when resources are received, whichever is first. **Revenues and expenses or expenditures** Period when *all eligibility requirements have been met*. (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.) See paragraphs 19 through 25 and 30d.

*If there are purpose restrictions, report restricted net assets (or equity or fund balance).

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

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 10a: Time Limit for Use of Resources

In the original example, the recipients and the provider recognized the amount of the award in full at the beginning of the three-year period. The requirement to use the resources within three years is not a time requirement (eligibility requirement) because there is no stipulation that the resources should be spread evenly over the three years or should be applied in a specific proportion to each of the three years. Stipulations of that kind would be time requirements and would require recognition of deferred revenues by recipients and of advances by the provider, in the amounts not eligible to be used in the current year. In contrast, in the original example, all of the resources may be used in the current year or at any time thereafter until the end of the three years. Therefore, the time limit does not indicate that recognition should be deferred.

The provider requires the return of resources not used by the end of the three years. After recognition of the transaction, it may become apparent that a recipient 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) and the provider should recognize a receivable (or a reduction of liabilities) and a revenue for the amount expected to be returned to the provider.

Example 10b: Reduction of Appropriation

In the middle of the year, the state experiences difficulties meeting its budget and cancels the portion of the appropriation that it had intended to pay to the community colleges in the last quarter of the year. The state intends to reappropriate the canceled amount in the following year. Without an appropriation in effect, the amount applicable to the last quarter of the year should not be recognized by either the state or the colleges. Assuming that recognition was made in full earlier in the year, the state should reduce liabilities and expenses and the colleges should reduce receivables and revenues in the canceled amount.

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.

Attachment E - Other Scenarios

[Note: For grants with purpose restrictions, universities 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.

<u>Fiscal Year Ending June 30, 2001 (Under the AICPA College Guide Model)</u>

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.

<u>Fiscal Year Ending June 30, 2002 (Under the New Model)</u>

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 permanent 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: University Improvement General Obligation Bonds

The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of $2.5 billion of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the University of North Carolina System. The funds authorized are to be used solely for capital facilities cost on the University of North Carolina campuses as specified in the legislation. The bond legislation specifies the amount of bond funding for each University campus and the level of bond funding intended for each project. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation ($201,600,000 were sold on March 7, 2001). Using a cash flow financing approach, The University of North Carolina – General Administration (UNC-GA) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, UNC-GA notifies the Office of State Budget, Planning, and Management (OSBPM) of the amounts not to exceed for each approved project. Within these amounts, based on an official request of cash needs from the University, OSBPM authorizes allotments.

This example illustrates the characteristics of voluntary nonexchange transactions. However, the fulfillment of an eligibility requirement is necessary for a transaction to occur (in addition to recipients' being universities). The applicable period should have begun (time requirement). In this case, the applicable period begins when OSBPM approves the allotments (allotments are the authorization to spend and determine when use may begin). The requirement to use the resources to construct new buildings and to renovate and modernize existing buildings is a purpose restriction.

<u>Recipient Institutions</u>

After OSBPM allotment approval, universities should recognize receivables and revenues for the amount of their allotment balance. [*Note: Universities should <u>not</u> recognize their total* *allocations specified in the bond legislation (i.e., certified budget) as receivables and revenues since they are contingent on future bond sales and OSBPM allotment approval. Under GASB 33, nonexchange transactions cannot be recognized in the financial statements if time requirements have not been met.]*

Provider - State

The State should recognize liabilities and expenses/expenditures for the allotment balance to universities.

Example K: Charitable Remainder Trust – Institution is Trustee

A donor creates a charitable remainder trust by transferring $1,000,000 to a university as trustee. The trust agreement stipulates that the university invest the cash and that $50,000 be transferred annually to a beneficiary (donor's spouse) as long as the beneficiary lives, which is estimated to be 10 years. The appropriate discount rate is 6 percent. At the beneficiary's death (termination of trust), the remaining assets become a gift to the university, with the stipulation that the university establish an endowment, invest the gift, and maintain it (the principal) intact in perpetuity.

This example illustrates the characteristics of voluntary nonexchange transactions. The requirement to invest the gift is a purpose restriction. The stipulation that the remaining assets given to the university be maintained intact in perpetuity (can never be expended) is a time requirement. The university should recognize assets, liabilities, and revenues when the trust assets are received because at that time it begins to comply with the time requirement (to maintain remaining principal intact). The liability to the beneficiary would be recorded at the present value of the future distributions. Revenues would be recognized as additions to permanent endowments for the difference between the asset and the liability. The university should always report the resulting net assets (principal) as restricted and nonexpendable because of the purpose restriction and the time requirement (investment of remaining assets in perpetuity). During the life of the beneficiary, the university should recognize the income of the trust as a liability to the beneficiary. The payments to the beneficiary would reduce that liability. However, if the payments to the beneficiary exceed the income of the trust, the university should report the shortfall as an expense.

Example L: Charitable Remainder Trust – Institution is not Trustee

A donor creates a charitable remainder trust by transferring $1,000,000 to a bank trust department as trustee. The trust agreement stipulates that the trustee invest the cash and that $50,000 be transferred annually to a beneficiary (donor's spouse) as long as the beneficiary lives, which is estimated to be 10 years. The appropriate discount rate is 6 percent. At the beneficiary's death (termination of trust), the remaining assets will be transferred to the university as a gift, with the stipulation that the university establish an endowment, invest the gift, and maintain it (the principal) intact in perpetuity.

This example illustrates the characteristics of voluntary nonexchange transactions. The requirement to invest the gift is a purpose restriction. The stipulation that the remaining assets given to the university be maintained intact in perpetuity (can never be expended) is a time requirement. 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 the resulting net assets (principal) as restricted and nonexpendable because of the purpose restriction and the time requirement (investment in perpetuity). The university should not recognize a receivable when the trust is initially created because it cannot begin to comply with the time requirement until the gift is received.