



State of Louisiana
DIVISION OF ADMINISTRATION

OFFICE OF STATEWIDE REPORTING AND ACCOUNTING POLICY

M. J. AMIKE® FOSTER, JR.
GOVERNOR

MARK C. DRENNEN
COMMISSIONER OF ADMINISTRATION

June 13, 2001

MEMORANDUM – OSRAP 01-41

TO: Fiscal Officers
All State Agencies

FROM: F. Howard Karlton, CPA, CGFM
Director

SUBJECT: Implementation of GASB Statement 33

Practically everything you hear today about governmental accounting deals with the implementation of GASB Statement 34 and the new reporting model, but there are other issues facing state and local governments before Statement 34 must be implemented. Of prime importance for fiscal year 2001 is the implementation of Statement 33, "Accounting and Financial Reporting for Nonexchange Transactions". This statement identifies four classes of nonexchange transactions and establishes criteria for recognizing revenues, expenditures/expenses, assets, and liabilities related to these transactions.

Nonexchange transactions are those in which ". . . a government gives (or receives) value without directly receiving (or giving) equal value in return." In exchange (and exchange-like) transactions, parties to the transaction give and receive essentially equal value. Because they have been covered extensively in past pronouncements, exchange (and exchange-like) transactions are not addressed here.

To help familiarize you and your staff with its requirements, we are providing a tabular summary of GASB Statement 33. This summary identifies the four classes of nonexchange transaction, recognition criteria for each class, and examples. We are aware that not all entities will collect all four types of nonexchange transactions, but you need to be aware of each class and its recognition criteria

In conjunction with the summary attached, we are providing the following specific example. We picked a state agency as an example and identified its revenue sources by means of financing (MOF). The following list includes each revenue source by MOF, whether it is an exchange or nonexchange transaction, and if so, what nonexchange classification to use.

Because they use the full accrual basis of accounting, agencies/entities that use proprietary accounting must be familiar with GASB 33 in order to implement its provisions for the current fiscal year.

<u>Revenue Source</u>	<u>Exchange or Nonexchange</u>	<u>Nonexchange Classification</u>
Federal:		
Title 18 – Medicare	Exchange	Not applicable
Medicaid (to Dept. of Health and Hospitals)	Nonexchange	voluntary
Self-generated:		
Reimbursement for employee housing	Exchange	Not applicable
Purchase of meal tickets	Exchange	Not applicable
Private insurance payments for residents	Exchange	Not applicable
Social Security payments for residents	Exchange	Not applicable
Interagency transfers		
Medicaid Disproportionate Share money from Health and Hospitals	Exchange	Not applicable
Rental of facilities at site to other agencies	Exchange	Not applicable
Receipts from Vocational Rehabilitation and Office of Childrens Services for housing patients	Exchange	Not applicable
Reimbursement contract – housing patients from Earl K. Long Hospital	Exchange	Not applicable

You should determine for all grants received your agency whether they are voluntary or government-mandated nonexchange transactions. You will have to provide a list of all government-mandated nonexchange transactions(grants) in your AFR/financial statement notes.

Fiscal Officers
Page 3
June 13, 2001

We have provided a detailed explanation of GASB Statement 33 for your benefit; however, our research indicates that Louisiana's financial system and reporting are adequate for implementing this statement.

To assist all agencies/entities included in the Comprehensive Annual Financial Report, OSRAP has established a GASB 33 Implementation Team consisting of the following staff members. Their job is to help you, so please contact them with questions you may have in the implementation of this statement.

Sue Seab	(225)342-1088
Pam Stephens	(225)342-0712
Deborah Zundel	(225)342-2209

Attachments (2)

G:\gasb33\May 2.doc

GASB 33
ACCOUNTING AND FINANCIAL REPORTING FOR NONEXCHANGE
TRANSACTIONS

GASB 33 identifies four classes of nonexchange transactions – derived tax revenues, imposed nonexchange revenues, government-mandated nonexchange transactions, and voluntary nonexchange transactions. These classes share characteristics that affect the timing of recognition. Nonexchange transactions are defined by GASB as those in which a government *either* gives or receives value without receiving or giving equal value in return. Exchange transactions are those in which both parties to the transaction give and receive essentially equal value.

Following is a discussion of the four classes of nonexchange transactions.

DERIVED TAX REVENUE: *Examples are personal income tax, corporate income tax, sales tax on retail sales of goods or services, gasoline tax, similar taxes on earnings or consumption, etc.*

These revenues result from government-imposed assessments on exchange transactions. The two major characteristics of this type of revenues are (1) the imposition of the tax by the government and (2) the tax is based on an exchange transaction. These transactions are between two parties that do not include the governmental entity. The revenue is recognized under the full accrual basis when the exchange that the tax is based on has occurred and the tax is expected to be collected. With the modified accrual basis the revenue would be recognized when the exchange has occurred, the tax is expected to be collected, and when the revenue is available to meet expenditures of the current period. Revenue may be accrued at the end of the fiscal year for amounts received after the end of the fiscal year that pertain to the current fiscal year. The accrual may be based on an estimate of amounts expected to be collected after the fiscal year end. If an estimate is used, it must be based on a historical trend analysis that is updated periodically and approved by OSRAP.

Revenue/Asset Recognition – For revenues received during the fiscal year, cash and revenue are recorded in the system. If revenues are received during the close period or shortly thereafter, a receivable should be established. In situations where the revenue is received before revenue recognition criteria are satisfied, a deferred revenue should be established.

Time Restrictions – A time restriction arises when a resource provider requires that a recipient governmental entity use the resources within a specific time period or that they not be used until a specified date or event

has occurred. Time restrictions are generally not applicable to derived tax revenues.

Purpose Restrictions – These restrictions do not affect the timing of revenue related to nonexchange transactions; however, if resources are restricted for a specific use, the governmental entity must disclose that fact in its financial statements. This disclosure requirement may be accomplished by establishing a fund balance reservation (for governmental fund types) or a restriction of retained earnings or net assets (for proprietary fund types). The reservation, if needed, will be booked by OSRAP – state agencies do not need to do this.

Examples:

Sales Tax – The state imposes a sales tax on the sale of goods by retail merchants that are collected by the merchant when a sale is made. Merchants are required to submit sales tax receipts monthly. Sales taxes are considered derived tax revenues because they are imposed by the state and are based on exchange transactions. These are recorded as revenue when received by the collecting agency.

Assets and revenues (net of estimated refunds) should be recognized when the underlying exchange transaction takes place. Since this is not practical, revenue recognition occurs when monthly reports and payments are received. End of year accruals are based on historical trend data compiled from activity reported in previous years.

This will have little impact on most state agencies. If your agency is currently following the outlined criteria for recognizing deferred tax revenues, then the procedure satisfies the requirements of GASB 33

IMPOSED NONEXCHANGE REVENUES: *Examples are property (ad valorem) taxes, fines and penalties, and property forfeitures, such as seizures and escheats, etc.*

These revenues are from assessments on nongovernmental entities and individuals other than assessments on exchange transactions. The main characteristic of this class of transactions is that they are imposed by the assessing government on an act committed or omitted by the provider (taxpayer). These revenues may also be obtained from someone who has violated a law and is required to pay a fine. As with the derived tax revenue, an accrual may be made at the end of the fiscal year for this type of revenue.

Revenue/Asset Recognition – For revenues received during the fiscal year, cash and revenue are recorded in the system. If revenues are received during the close period the revenue will be classified during the 45-day close

period and reported on the AFR as a receivable. In situations where the revenue is received before revenue recognition criteria are satisfied, a deferred revenue should be reported in the AFR.

Time Restrictions – Under imposed nonexchange revenues, a time restriction arises when a resource provider requires that a recipient governmental entity use the resources within a specific time period or that they not be used until a specified date or event has occurred. When a governmental entity receives resources that are subject to a time restriction, it should record the asset (cash) but recognize deferred revenue rather than revenue. Once the time restriction has passed or been met, the entity can recognize the revenue.

Purpose Restrictions – A purpose restriction does not affect the recognition of imposed nonexchange revenues. Revenues can be recorded when the appropriate criteria are satisfied; however, the entity must indicate in its financial statements that the restricted resources received from an imposed nonexchange revenue source are to be used for a specified purpose. This is accomplished by establishing a reservation of fund balance (for governmental fund types) or a restriction of retained earnings or net assets (for proprietary fund types).

Examples:

Because the state does not collect property taxes, the other example of government imposed nonexchange transactions would be fines, forfeitures, and penalties. Recognition criteria must follow the criteria outlined above, with the additional provision for governmental funds, that the monies must be available to pay liabilities of the period being reported. For ISIS agencies that record their collections during the 45-day close to the proper account and accounting period, there will be no changes to the way you currently deposit these revenues. Agencies that deposit all 13th period collections to the current year must begin accruing those revenues that apply to the previous fiscal year.

GOVERNMENT-MANDATED NONEXCHANGE TRANSACTIONS: *Examples are federal programs that state or local governments are required to perform, and state programs that local governments are required to perform.*

These revenues occur when a government at one level provides resources to a government at another level and imposes restrictions on how the resources are to be used. The provider government may also place restrictions on **when** these resources may be used. Characteristics of this class of transaction include requirements that (1) the provider government mandates that a recipient government perform a particular program or facilitate performance of that program through a secondary recipient (which may be

another government or a nongovernmental entity) and (2) certain requirements, known as eligibility requirements, must be met for a transaction to occur.

Revenue/Asset Recognition – Revenues received during the fiscal year, if eligibility requirements are met, are recorded in the system. Revenues received during the close period, for which eligibility requirements have been met, should be classified during the 45-day close and will appear on system generated AFR as receivables. If revenues are not received before the end of the close period, a manual (off system) adjustment will have to be made to the AFR.

For those situations in which the revenue is received before all recognition criteria are satisfied, including eligibility requirements, a deferred revenue should be reported on the AFR. The revenue will be classified in the system, but will be reported on the AFR as deferred revenue since the revenue was not earned as of 6/30.

Expense Recognition – The resource provider should recognize an expense for amounts provided using the same criteria used by the recipient to recognize revenues for government-mandated nonexchange transactions. Cash payments to recipients that do not meet expense recognition criteria should be recorded as an advance (asset).

Time Restrictions – Provider governments may identify the period during which recipient governments may expend resources provided or they may identify the period when recipient governments can begin expending the resources (and if they may be expended in one or more periods). A recipient government should not recognize resources that are received or expected to be received as operating transactions until the time requirements are satisfied.

Purpose Restrictions – Some government-mandated nonexchange transactions are based on a reimbursement arrangement. These transactions are referred to as reimbursement-type transactions or expenditure-driven grant programs. The fundamental characteristic of these types of programs is that the provider government requires the recipient to incur allowable costs before they can qualify for the resources. When government-mandated nonexchange transactions are subject to this type of eligibility requirement, the recipient government should not recognize revenue until costs allowable under the program have been incurred.

Examples:

Federal Grant Program – A state department/agency receives federal funding to provide a specific service to school students. Part of the funding is kept by the state agency while the remainder is to be paid to local governments or private organizations that actually provide the service. Amounts awarded to the state are based on student populations as of a certain date, as are the awards from the state to the local service providers. This is an example of a government-mandated nonexchange transaction, if the federal mandates that the state participate.

Currently, amounts are recorded as revenues when received by the state. Per GASB 33, revenues and receivables for these types of grants are to be recorded on the first day of the federal government's fiscal year, October 1. This procedure is not possible with ISIS, so ISIS agencies should track receipts during the year and determine the amount due at fiscal year end. An adjustment to revenues and receivables for the amount not yet received will have to be made to the AFR.

Currently, expenditures are recorded when payments are made to the local service providers (secondary recipients). To meet the requirements of GASB 33, these should be recorded as liabilities and expenditures by the state (primary recipient) on the first day of its' fiscal year, July 1,. Since expenditures are reported when payment vouchers are entered into the system, amounts due but not paid by year end should be tracked and an adjustment to liabilities and expenditures made to system generated reports for the AFR.

Secondary recipients record revenues when funds are received from the primary recipient. GASB 33 requires that secondary recipients record a revenue and receivable for the entire award from the state on the day the state's fiscal year begins (July 1). Since the revenues are reported when the funds are received, amounts due but not received by year end should be tracked and an adjustment to revenues and receivables made to system generated reports for the AFR.

Currently, no purpose restrictions are reported or disclosed in the financial statements. Since the awards are for a specific purpose, both primary and secondary recipients must disclose the restriction. If resources remain at June 30, this amount must be included in the reserve for continuing operations on the AFR.

Expenditure-driven (or reimbursement) grant – One state agency (provider) provides a grant to another state agency (recipient) to administer a specific service program. The provider agency only pays the recipient agency upon submission of a monthly cost reimbursement report itemizing allowable expenditures/expenses.

This is an example of a government mandated nonexchange transaction only if the government is mandated to perform; if not, this represents a voluntary nonexchange transaction. The grant's eligibility requirements (incurrence of allowable expenditures) must be met before the recipient agency can record revenues and receivables.

Recipient

Currently, the provider agency advances the recipient money to cover initial program costs. The recipient records a revenue for the amount received. At year end, the agency must determine how much, if any, of this amount is unearned and an adjustment must be made to the AFR.

To meet GASB 33 requirements, when the recipient submits a periodic cost reimbursement report to indicate that the eligibility requirements have been met, a revenue and receivable should be recorded in the financial statements (AFR).

Revenue must be recorded in the system upon receipt of the reimbursement. If it is received and classified in the 45-day close, this will show as a revenue and receivable on the AFR

If an agency does not receive an advance from the provider, other funding sources are used to cover expenditure, which are recorded when payments are made. Cost reimbursement reports submitted at year end for expenditures charged to another funding source must be tracked, so that an adjustment can be made to system generated financial statements to properly reclassify expenditures, revenues, and cash balances. An adjustment may also be necessary to include the revenue and receivable, if not received timely (within the 45-day close period).

Provider

The provider agency advances the recipient money to cover initial program costs. At this time, the provider records an advance for the amount paid until such time as eligibility requirements are met.

When the provider receives a cost reimbursement report from the recipient indicating that eligibility requirements have been met, currently, only an expenditure is recorded when payment is made. GASB 33 requires that the provider record a liability or a decrease in assets (for example, credit advance) and an expenditure/expense when the reimbursement report is received.

GASB 33 provides that if a disbursement to the recipient agency is not expected to be made within a reasonable period after the close of the fiscal year, the provider should record a liability.

In ISIS, expenditures are recorded when payments are made. Cost reimbursement reports submitted at year end for expenditures charged to another funding source must be tracked, so that an adjustment can be made to system generated financial statements to properly reclassify expenditures, revenues, and cash balances. An adjustment may also be necessary to include the revenue and receivable if not received timely (within the 45-day close period).

VOLUNTARY NONEXCHANGE TRANSACTIONS: *Examples are certain grants, some entitlements, donations by nongovernmental entities, including individuals (private donations), and pledges.*

These revenues arise from a transaction that is entered into willingly by two or more parties and result from legislative or contractual agreements other than exchanges. Characteristics of this type transaction are that (1) they are not imposed on the provider or the recipient, and (2) fulfillment of eligibility requirements is essential for a transaction (other than the provision of cash or other assets in advance) to occur.

Revenue/Asset Recognition - Monies received during the fiscal year, including the 45-day close period, are reported as revenues.. In situations where revenue is received before all recognition criteria, including eligibility requirements, are satisfied should be tracked and an adjustment for deferred revenue made in the AFR.

Pledges – Voluntary nonexchange transactions often involve pledges (promises to pay) from nongovernmental entities (individuals, business enterprises, or not-for-profit organizations). Such promises may involve cash, works of art, and various other assets, and they may or may not involve purpose restrictions or time requirements. ISIS agencies should record receipt of cash pledges as revenue when “all eligibility requirements are met. . .” provided the promise is verifiable, measurable, and probable of collection. Noncash items recorded as gifts will be disclosed in the notes to the financial statements. The governmental entity will have to determine any amounts that are not likely to be collected. GASB 33 requires that these revenues are reported at their expected realizable value (net of uncollectible amounts) as with any receivable.

Expense/Liability Recognition – When the provider is a government, that government should recognize an expense based on the same criteria that are used by the recipient government to recognize revenues. If the expense

recognition criteria are not satisfied and the provider has made a cash payment to the recipient, the provider should record the payment as an advance (asset).

Time Requirements – Providers of resources in voluntary nonexchange transactions may identify the period during which resources provided may be expended or the period when the resources can begin to be expended. Resources distributed or committed for distribution (expenses) and resources received or expected to be received (revenues) should not be recognized as operating transactions until the time requirements (and all other eligibility requirements) are satisfied, except as explained in the following paragraph.

In some instances, the time requirements may be permanent or resources may not be expendable until the expiration of a specified number of years or until a specified event has occurred. When the provider government does not establish time requirements, the recipient government and the provider government should recognize revenues and expenses when all other eligibility requirements are satisfied. ISIS agencies will need to contact OSRAP for procedures in recognizing pledges.

Purpose Restrictions – A purpose restriction does not affect the recognition of voluntary nonexchange transactions. Revenues can be recorded when the criteria described above are satisfied; however, the entity must indicate in its financial statements that the restricted resources received from a voluntary nonexchange revenue source are to be used for a specified purpose. This is accomplished by establishing a reservation of fund balance (for governmental fund types) or a restriction of retained earnings or net assets (for proprietary fund types).

Examples:

Donations with Purpose Restriction – An individual makes a cash donation to a state agency to be used specifically for the operations of a particular program operated by the agency. This is a voluntary nonexchange transaction.

The agency reports a revenue for the amount of the donation when it is received as required by GASB 33.

To meet the disclosure requirements of GASB 33, the recipient must report the restriction by reporting a reservation of fund balance for amounts unspent at fiscal year end.

If the donation was not announced in advance, the recipient agency would not change the way it recognizes revenue. However, if the donor announced the donation one year before actually paying it, and the recipient agency believes collection is probable, a receivable and a revenue should be recognized in the financial statements when

the announcement of the donation is made. Since a purpose restriction exists, restricted net assets (or fund balance) will have to be reported.

Contravention of Purpose Restrictions – Sometimes a recipient government records a nonexchange transaction as an operating transaction, but subsequent events indicate that resources will not be transferred in a manner originally anticipated by both parties or that resources transferred will have to be returned to the provider. This situation may arise when (a) eligibility requirements related to a government-mandated transaction or a voluntary nonexchange transaction are no longer being satisfied or (b) the recipient will not satisfy a purpose restriction within the time period specified.

When it is probable (likely to occur) that the recipient will not receive the resources or will be required to return all or part of the resources already received, the following procedures should be observed.

The recipient should make an adjustment to the AFR to recognize as an expense (a) the amount of resources that have been promised by the provider (and already recognized as revenue by the recipient) and/or (b) the amount of resources already received by the recipient but expected to be returned to the provider.

Eligibility Requirements for all types of nonexchange transactions consist of one or more of the following:

- a. Required characteristics of recipients. The recipient (and secondary recipients, if applicable) has the characteristics specified by the provider. (For example, under a certain federal program, recipients are required to be states and secondary recipients are required to be school districts.)
- b. Time requirements specified by enabling legislation or the provider have been met. (The period when the resources are required to be used (sold, disbursed, or consumed) or when use is first permitted has begun, or the resources are being maintained intact, as specified by the provider.)
- c. Reimbursements. The provider offers resources on a reimbursement ("expenditure-driven") basis and the recipient has incurred allowable costs under the applicable program.
- d. Contingencies (apply only to voluntary nonexchange transactions). The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred. (For example, the recipient is required to raise a specific amount of resources from third parties or to dedicate its own resources for a specified purpose and has complied with those requirements.)

GASB 33
REVENUE AND EXPENSE(EXPENDITURE) RECOGNITION
NONEXCHANGE TRANSACTIONS
TABULAR PRESENTATION

	<i>Derived Tax Revenue</i>	<i>Imposed Nonexchange Revenues</i>	<i>Government-Mandated Nonexchange Transaction</i>	<i>Voluntary Nonexchange Transactions</i>
Examples	<ul style="list-style-type: none"> ➤ Retail sales tax ➤ Personal income tax ➤ Corporation income tax ➤ Hotel occupancy tax 	<ul style="list-style-type: none"> ➤ Property taxes ➤ Fines and penalties ➤ Property seized ➤ Property that escheats to a governmental entity 	<ul style="list-style-type: none"> ➤ The federal government requires a state to establish a drug awareness program for teenagers. ➤ A state agency contracts with a third party to provide specific services to handicapped parish residents. 	<ul style="list-style-type: none"> ➤ Certain grants made by a governmental entity or nongovernmental entity ➤ Some entitlements ➤ Donations
Possible parties to the transaction	<ul style="list-style-type: none"> ➤ The recipient party is always a government. ➤ The provider party is always a nongovernmental entity. 	<ul style="list-style-type: none"> ➤ The recipient party is always a government. ➤ The provider party is always a nongovernmental entity. 	<ul style="list-style-type: none"> ➤ The recipient party is always a state or local government. ➤ The provider party may be a state government or the federal government. 	<ul style="list-style-type: none"> ➤ The recipient party may be a governmental entity or a nongovernmental entity. ➤ The provider party may be a governmental entity or a nongovernmental entity.
Principal characteristics	<ul style="list-style-type: none"> ➤ A governmental entity imposes the tax on the tax provider. ➤ The imposition of the tax is based on an exchange transaction. 	<ul style="list-style-type: none"> ➤ A governmental entity imposes the tax or fee on an act committed or omitted by the provider that is not an exchange transaction. 	<ul style="list-style-type: none"> ➤ The provider government requires a recipient government to institute a specific program conducted by the recipient government or nongovernmental entity (secondary recipient). ➤ Certain performance requirements must be fulfilled. ➤ The higher-level government must fund the program. 	<ul style="list-style-type: none"> ➤ They are not imposed on either the provider or the recipient. ➤ Satisfaction of eligibility requirements (other than the provision of cash or other assets in advance) is necessary for a transaction to occur.

	<i>Derived Tax Revenue</i>	<i>Imposed Nonexchange Revenues</i>	<i>Government-Mandated Nonexchange Transaction</i>	<i>Voluntary Nonexchange Transactions</i>
Revenue recognition criteria (a)	➤ The exchange that the tax is based on has occurred. (b)	➤ When resources are required to be used, or the first period that use is permitted. (b) (d)	➤ Recipient government has satisfied all applicable eligibility requirements (required characteristics of recipients, time requirements, and reimbursements). (b) (d)	➤ Recipient has satisfied all applicable eligibility requirements (required characteristics of recipients, time requirements, reimbursements, and contingencies). (d)
Expense recognition criteria	➤ Due to the parties involved in the transaction, no expense can arise for a governmental entity.	➤ Due to the parties involved in the transaction, no expense can arise for a governmental entity.	➤ Recipient government has met all eligibility requirements (as described above). (d)	➤ Recipient party has met all eligibility requirements (as described above). (d)
Effect of a time restriction	➤ Generally not subject to time restrictions	➤ Revenue should not be recognized until the time restriction is satisfied.	➤ Revenue should not be recognized until the time restriction is satisfied. (c)	➤ Revenue should not be recognized until the time restriction is satisfied. (c)
Effect of a purpose restriction	➤ The restriction should be disclosed in the financial statements.	➤ The restriction should be disclosed in the financial statements.	➤ The restriction should be disclosed in the financial statements.	➤ The restriction should be disclosed in the financial statements.

- (a) When revenue is recognized under the modified accrual basis of accounting, the available criterion must be satisfied.
- (b) In addition, revenue can be recognized only if the amount is *measurable* (subject to reasonable estimation) and *realizable* (expected to be collected). Nonexchange transactions that are not recognizable because they are not measurable must be disclosed in the governmental entity's financial statements.
- (c) When the provider of the resources prohibits the sale, disbursement, or consumption of resources for a specified period of time (or indefinitely, as in a permanent endowment), or until a specified event has occurred, revenue should be recorded when the asset is received but the restriction should be disclosed in the entity's financial statements.
- (d) ISIS agencies should see detailed summary for additional requirements.