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ACCOUNTING BULLETIN

TO: Fiscal Officers of All State Agencies

FROM: Steven L. Valasek, Director of State Accounting

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SUBJECT: GASB 33/36 Implementation

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In December 1998, the Governmental Accounting Standards Board (GASB) issued Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The purpose of this statement is to offer comprehensive guidance to both primary governments and component units in accounting for and reporting nonexchange transactions involving financial or capital resources. Additionally, the Statement provides clarification for both the accrual and modified accrual basis for accounting for nonexchange transactions. Guidance is offered to governmental entities regardless of whether they are the recipient or the provider of the resources. Finally, clarifications to Statement No.33 were made in GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues,* issued in April 2000. The two statements are to be implemented concurrently for the 2001 GAAP cycle.

What is a nonexchange transaction?

A nonexchange transaction is one in which a government receives (or gives) value without directly giving (or receiving) goods or services of equal value in exchange. In other words, there is no clear link between the goods or services provided and the supporting revenues. *Transactions* are defined as external events in which something of value passes between two or more parties. While the Statement does not affect internal events such as interfund transfers and operating transfers, it does include exchanges between a primary government and its component units. (Note: GASB 34 requires such transactions between a primary government and one of its component units to be reported as if it were an external transaction.)

Based upon a transaction's substance and underlying characteristics, GASB 33 classifies nonexchange transactions into four categories. The type of nonexchange transaction drives the accounting and reporting requirements outlined in the Statement. The four types of nonexchange transactions, as defined by the Statement, are:

- **Derived tax revenues** are revenues that result from assessments imposed by a government on an exchange transaction. Some examples of this type of revenue include sales taxes, personal and corporate income taxes, motor fuel taxes and similar taxes on earnings or consumption.

- **Imposed nonexchange revenues** are revenues that result from assessments imposed on nongovernmental entities, including individuals. These revenues are not linked with an exchange transaction. Some examples include property taxes, and most fines and forfeitures.

- **Government-mandated nonexchange transactions** are the result of resources being provided by a government at one level to a government at another level and requiring their use for a specific purpose or purposes. The fulfillment of certain requirements is essential for the transaction to have occurred. These transactions often have purpose restrictions, time requirements and eligibility requirements (as discussed below) associated with them. An example would include grants from the federal government to a state or local governmental agency.

- **Voluntary nonexchange transactions** are the result of legislative or contractual agreements, other than exchanges, entered into willingly by two or more parties. These include certain grants and entitlements and most donations.

What are the implications of Statements 33 and 36?

Once an agency or entity has properly classified its nonexchange transactions per the above categories, GASB Statements 33/36 provide guidance on the timing for recognition of assets, liabilities and revenues that are related to nonexchange transactions. The basic guidance provided in the Statements is given below.

Derived tax revenues - Derived tax revenues may have an imposed purpose restriction as to how they can be used. Recipients of purpose-restricted resources should report the resulting net assets as “restricted” until the resources are used for a particular purpose or as long as the resources are to be maintained intact.

The resulting *assets* should be recognized in the period in which the exchange transaction on which the tax is based occurs, or when resources are received, whichever occurs first.

The *revenues* should be recognized in the same period in which the assets are recognized, given that the exchange transaction has occurred. Any resources received in advance of the transaction should be reported as deferred revenues until the exchange occurs.

Imposed nonexchange revenues - It is common for these revenues to be impacted by both purpose and time restrictions. Thus, the entity must be aware of the nature of these restrictions and record the transaction accordingly.

The *assets* should be recorded when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first. Enabling legislation or regulations tied to the exchange will generally impact the enforceable legal claim date.

The *revenues* should be recorded in the period when use of the resources is required or first permitted by time requirements (for example, for property taxes, the period for which they are levied), or at the same time as the assets if the government has not established time requirements. Resources received or recognized as receivable before the time requirements are met should be reported as deferred revenues.

Government-mandated nonexchange transactions and voluntary nonexchange transactions - Typically these exchanges include eligibility requirements that specify conditions that must be satisfied before a transaction can occur. These requirements must be met before the provider records a liability and the recipient recognizes a receivable. All resources transmitted in advance of the eligibility requirements being satisfied should be deferred.

The eligibility requirements related to these transactions comprise one or more of the following:

A. Required characteristics of recipients (i.e., under some programs the recipient is required to be a state and secondary recipients are required to be school districts.)

B. Time requirements of provider or legislation are met

C. Reimbursements are made by provider if recipient has allowable costs

D. Contingencies – applies only to voluntary nonexchange transactions; the offer of resources is contingent upon a specific action of the recipient and that action has occurred

Assets (recipients) and *liabilities* (providers) are recorded when eligibility requirements are met or when received, whichever is first. *Revenues* (recipients) and expenses (providers) are recognized when eligibility requirements are met.

The above recognition principles assume the accrual basis of accounting.

How do I determine the proper classification of various transactions?

When applying GASB Statements 33 and 36 to a specific transaction, an agency (or component unit) must first determine whether the transaction is exchange or nonexchange in nature. Exchange and exchange-like transactions are not impacted by these requirements. If the transaction is nonexchange, however, an agency must utilize the four classifications described above to categorize the transaction for reporting purposes. The categorization of a nonexchange transaction must be based solely on its characteristics and substance and not on its label. For instance, just because a transaction uses "tax" in its name, does not necessarily mean that all "taxes" are identified under the same category. Instead, each must be examined and <u>categorized based on the *substance* of the transaction</u> rather than the *label* attached to it. Additionally, transactions can also use similar labels (tax, fee, etc.), yet not share the same transaction type (exchange, exchange-like and nonexchange).

While Statement 33 provides the above classes and examples of transactions, it is intended to serve as the framework for the classification of all nonexchange transactions that a government engages in. GASB encourages the careful analysis of each transaction to minimize the improper grouping of exchanges.

What is the effective date?

Beginning with the first reporting period following June 15, 2000, entities are to adopt the accounting and reporting requirements of Statements 33 and 36. Thus, for the State of Illinois and all component units, the FY 2001 financial statements are required to conform to these requirements. Any accounting changes made to comply with these statements should be treated as an adjustment of prior periods. Further, in the first period that these statements are applied, the financial statements should disclose the nature of the restatement and its effect.

What is the IOC doing in response to this change?

The IOC will present a GASB 33/36 ***training session*** at 1:00 p.m. on April 27, 2001. The training will be held at the Capital City Center located at 130 West Mason in Springfield. At that time, the IOC will outline the major components of GASB 33/36 and answer questions regarding its scope, implications, and implementation. Due to limited seating, please contact Laura Riemer at 217-524-9535 or Sue Scaife at 217-557-4172 for reservations no later than April 25, 2001.

The power point presentation will be available for those who are unable to attend or who wish to share the information with staff members. Please contact Ms. Scaife for a copy of the presentation.

The provisions of GASB 33/36 will be also be covered during the FY 2001 GAAP training session scheduled for June.

Where to call with questions regarding this bulletin.

Questions regarding this bulletin should be directed to the Comptroller's Financial Reporting Office at 217-782-2052.