Original Pronouncements
Statements of the Governmental Accounting Standards Board (GASBS)

GASBS 33—Accounting and Financial Reporting for Nonexchange Transactions

Status

Issued: December 1998

Effective Date:
- For periods beginning after June 15, 2000

Affects:
- Supersedes NCGAS 2, ¶1–¶14, ¶17, ¶19, and ¶20
- Supersedes NCGAI 3, ¶9
- Amends NCGAI 3, ¶7
- Amends GASBS 1, ¶8
- Amends GASBS 6, ¶14, ¶15, and ¶23
- Supersedes GASBS 11, ¶40–¶61 and fn11–fn20
- Supersedes GASBS 22
- Supersedes GASBS 24, fn1
- Supersedes AICPA SOP 75-3

Affected by:
- Paragraph 5 amended by GASBS 68, ¶5; GASBS 70, ¶4; GASBS 73, ¶4, ¶5, and ¶7; GASBS 75, ¶6; GASBS 81, ¶4; and GASBS 99, ¶27
- Paragraph 11 amended by GASBS 34, ¶79 and GASBS 35, ¶5
- Footnote 7 amended by GASBS 62, ¶100
- Paragraph 14 amended by GASBS 63, ¶8
- Footnote 9 amended by GASBS 54, ¶5
- Paragraphs 15 and 16 amended by GASBS 65, ¶31
- Paragraph 18 amended by GASBS 65, ¶9
- Paragraphs 19 and 21 amended by GASBS 65, ¶10
- Paragraph 22 amended by GASBS 63, ¶8
- Footnote 11 amended by GASBS 34, ¶28
- Footnote 13 superseded by GASBS 54, ¶5
- Paragraph 28 superseded by GASBS 36, ¶2
- Paragraph 29 amended by GASBS 34, ¶79

Other Interpretive Literature:

- GASBTB 2006-1 (Provides guidance on ¶7)
- GASBTB 2020-1 (Provides guidance on ¶8, ¶15, and ¶20d)
- GASBIG 2015-1
- GASBIG 2016-1
- GASBIG 2017-1
- GASBIG 2019-1

Primary Codification Section Reference: N50

Preface

This Statement establishes accounting and financial reporting standards to guide state and local governments' decisions about *when* (in which fiscal year) to report the results of nonexchange transactions involving cash and other financial and capital resources. In a nonexchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return. The amount of a homeowner's property tax, for example, is not directly related to the value or amount of services to that taxpayer that are financed by

property taxes. The absence of an equal exchange sometimes can make it difficult to decide when a transaction has occurred that should be recognized in the financial statements.

Most governments receive a large proportion of their revenues through nonexchange transactions, including income, sales, and property taxes; intergovernmental grants, entitlements, and other financial assistance; and private donations. Many governments also provide financial assistance to other governmental and nongovernmental entities. Because of this, governments' decisions about when to include nonexchange transactions in the financial statements can have important effects on reported operating results and financial position and on users' ability to compare information across governments and over time. These effects may in turn influence decisions by governments and other resource providers about future revenue-raising and resource-allocation needs.

Until now, and despite the importance of nonexchange transactions, governmental accounting and financial reporting standards have included only limited guidance on when to report them. As a result, different governments have used different criteria in making reporting decisions. This Statement establishes more uniform recognition criteria to promote greater consistency and comparability in financial reporting.

A summary of the new standards follows this preface. The summary and the one-page chart in Appendix C describe the classes of nonexchange transactions and give an overview of the recognition criteria for each class. The authoritative standards are presented in paragraphs 3 through 31. The 25 mini-cases in Appendix D are nonauthoritative illustrations that will help governments identify nonexchange transactions and apply the appropriate standards. The reasons for the Board's conclusions on the major issues are discussed in the Basis for Conclusions (Appendix B). Finally, Appendix E summarizes how the new standards will be incorporated into the GASB's *Codification of Governmental Accounting and Financial Reporting Standards*.

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The GASB is responsible for developing standards of state and local governmental accounting and financial reporting that will (a) result in useful information for users of financial reports and (b) guide and educate the public, including issuers, auditors, and users of those financial reports. The GASB has an open decision-making process and encourages broad public participation. The research and due-process procedures that we followed in developing this Statement are summarized in the Background (Appendix A).

Summary

This Statement establishes accounting and financial reporting standards for nonexchange transactions involving financial or capital resources (for example, most taxes, grants, and private donations). In a *nonexchange* transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an *exchange* transaction, in which each party receives and gives up essentially equal values. The principal issue addressed in this Statement is the *timing of recognition* of nonexchange transactions —that is, *when* should governments recognize them in the financial statements?

Classes of Nonexchange Transactions

This Statement identifies four classes of nonexchange transactions based on shared characteristics that affect the timing of recognition:

1. *Derived tax revenues*, which result from assessments imposed on exchange transactions (for example, income taxes, sales taxes, and other assessments on earnings or consumption)
2. *Imposed nonexchange revenues*, which result from assessments imposed on nongovernmental entities, including individuals, other than assessments on exchange transactions (for example, property taxes and fines)
3. *Government-mandated nonexchange transactions*, which occur when a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose (for example, federal programs that state or local governments are mandated to perform)
4. *Voluntary nonexchange transactions*, which result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement (for example, certain grants and private donations).

Time Requirements and Purpose Restrictions

This Statement distinguishes between two kinds of stipulations on the use of resources: time requirements and purpose restrictions. Different standards apply for each kind of stipulation.

- *Time requirements* specify (a) the period when resources are required to be used (sold, disbursed, or consumed) or when use may begin (for example, operating or capital grants for a specific period) or (b) that the resources are required to be maintained intact in perpetuity or until a specified date or event has occurred (for example, permanent endowments, term endowments, and similar agreements). Time requirements affect the timing of recognition of nonexchange transactions.
- *Purpose restrictions* specify the purpose for which resources are required to be used. Purpose restrictions should not affect when a nonexchange transaction is recognized. However, governments that receive resources with purpose restrictions should report resulting net assets, equity, or fund balance as restricted (or a reservation of fund balance for governmental funds).

Recognition Standards

The timing of recognition of, respectively, *assets*, *liabilities*, and *expenses/expenditures* resulting from nonexchange transactions should be the same whether the accrual or the modified accrual (current financial resources) basis of accounting is required. However, for *revenue* recognition to occur on the modified accrual basis, the criteria established in this Statement for accrual-basis recognition should have been met *and* the revenues should be available. "Available" means that the government has collected the revenues in the current period or expects to collect them soon enough after the end of the period to use them to pay liabilities of the current period. Also, this Statement continues the guidance in NCGA Interpretation 3, *Revenue Recognition—Property Taxes*, as amended, for recognizing property taxes on the modified accrual basis of accounting.

The timing of recognition for each class of nonexchange transactions is outlined below. (The accrual basis of accounting is assumed, except where indicated for revenue recognition.)

- *Derived tax revenues*
  - *Assets*—when the underlying exchange transaction occurs or resources are received, whichever is first.
  - *Revenues*— when the underlying exchange transaction occurs. (On the modified accrual basis of accounting, revenues should be recognized when the underlying exchange has occurred and the resources are available.) Resources received before the underlying exchange has occurred should be reported as deferred revenues (liabilities).
- *Imposed nonexchange revenues*
  - *Assets*— when the government has an enforceable legal claim to the resources or resources are received, whichever is first.
  - *Revenues*— 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. (For property taxes on the modified accrual basis, governments should apply NCGA Interpretation 3, as amended.)
- *Government-mandated and voluntary nonexchange transactions*
  - *Assets* (recipients) and liabilities (providers)—when all applicable eligibility requirements are met or resources are received, whichever is first. Eligibility requirements are established by the provider and may stipulate the qualifying characteristics of recipients, time requirements, allowable costs, and other contingencies.
  - *Revenues* (recipients) and expenses/expenditures (providers)—when all applicable eligibility requirements are met. (On the modified accrual basis, revenues should be recognized when all applicable eligibility requirements are met and the resources are available.) For transactions in which the provider requires the recipient to use (sell, disburse, or consume) the resources in or beginning in the following period, resources provided before that period should be recognized as advances (providers) and deferred revenues (recipients). For transactions, such as permanent or term endowments, in which the provider stipulates that resources should be maintained intact in perpetuity, for a specified number of years, or until a specific event has occurred, resources should be recognized as revenues when received and as expenses/expenditures when paid.

Other Provisions and Illustrations

This Statement also provides guidance on recognizing promises made by private donors, contraventions of provider stipulations, and nonexchange revenues administered or collected by another government. Appendix C includes a chart summarizing the classes of nonexchange transactions and recognition requirements. Appendix D includes cases to illustrate how nonexchange transactions should be classified and when they should be recognized in accordance with this Statement.

Effective Date

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2000. Earlier application is encouraged.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments, public benefit corporations and authorities, public employee retirement systems, utilities, hospitals and other healthcare providers, and colleges and universities. Paragraphs 3 and 4 discuss the applicability of this Statement.

Introduction

1. State and local governments engage in two kinds of transactions: (a) exchange and exchange-like transactions, in which each party receives and gives up essentially equal values, and (b) nonexchange transactions, in which a government gives (or receives) value without directly receiving (or giving) equal value in exchange.[1]

2. Accounting and financial reporting standards using the accrual basis of accounting generally have focused on exchange and exchange-like transactions. Little guidance exists on accrual-basis accounting for the nonexchange transactions of governments. Also, existing accounting and financial reporting standards for nonexchange transactions using the modified accrual basis of accounting are limited in scope and require clarification.

Standards of Governmental Accounting and Financial Reporting

Scope and Applicability

3. This Statement establishes accounting and financial reporting standards for the nonexchange transactions of state and local governments. It applies to all governments[2] that engage in nonexchange transactions, including primary governments and component units in the same reporting entity, whether they are recipients of resources or providers of resources to others.

4. This Statement also refers to nongovernmental entities (including individuals) and the federal government as recipients or providers when they engage in nonexchange transactions with governments. However, the standards in this Statement do not apply to those entities.

5. This Statement applies to ◆ nonexchange transactions involving financial or capital resources; it does not apply to other resources, such as contributed services. Also, this Statement does not apply to ◆food stamps and on-behalf payments for fringe benefits and salaries, which are addressed in ◆GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*◆ ◆ ◆ ◆. This Statement does, however, apply to pass-through grants, as defined in Statement 24.[3]

6. This Statement supersedes American Institute of Certified Public Accountants Statement of Position 75-3,*Accrual of Revenues and Expenditures by State and Local Governmental Units*; paragraphs 1 through 14, 17, 19, and 20 of National Council on Governmental Accounting (NCGA) Statement 2, *Grant, Entitlement, and Shared Revenue Accounting by State and Local Governments*; paragraph 9 of NCGA Interpretation 3, *Revenue Recognition—Property Taxes*; paragraphs 14, 15, and 23 of GASB Statement No. 6, *Accounting and Financial Reporting for Special Assessments*; paragraphs 40 through 61 of GASB Statement No. 11, *Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements*; and GASB Statement No. 22, *Accounting for Taxpayer-Assessed Tax Revenues in Governmental Funds*.

Characteristics and Classes of Nonexchange Transactions

7. In a nonexchange transaction, a government (including the federal government, as a provider) *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. This Statement groups nonexchange transactions of governments into four classes, based on their principal characteristics:

a. *Derived tax revenues* result from assessments imposed by governments on exchange transactions. Examples include taxes on personal income, corporate income, and retail sales of goods and services. The principal characteristics of these transactions are (1) the assessing government *imposes* the provision of resources on the provider (the entity that acquires the income, goods, or services) and (2) the government's assessment is on an *exchange transaction*, such as the exchange of an employee's services for a wage or salary or the exchange of motor fuel for the market price of the fuel. Enabling legislation [4] sometimes requires a particular source of derived tax revenues to be used for a specific purpose or purposes. For example, revenues resulting from a motor fuel tax may be required to be used for road and street repairs. Stipulations concerning the *purpose* for which resources are required to be used are referred to in this Statement as *purpose restrictions* and are discussed in paragraph 14.

b. *Imposed nonexchange revenues* result from assessments by governments on nongovernmental entities, including individuals, *other than* assessments on exchange transactions. Examples include property (ad valorem) taxes; fines and penalties; and property forfeitures, such as seizures and escheats. The principal characteristic of these transactions is that the required transmittal of resources to the assessing government is *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. Enabling legislation sometimes places purpose restrictions on the use of the resources. Alternatively, or in addition to purpose restrictions, the government may specify the period when the resources are required to be used or when use may begin. For example, property taxes generally are required to be used in or beginning in a particular period—*the period for which the taxes are levied*— which may not be the same period that payment is due or the period when the government has a right to place a lien on the property. Stipulations concerning the *time period* when resources are required to be used or when use may begin are referred to in this Statement as *time requirements* and are discussed in paragraphs 12 and 13.

c. *Government-mandated nonexchange transactions* occur when a government (including the federal government) at one level provides resources to a government at another level and requires that government to use them for a specific purpose or purposes established in the provider's enabling legislation. [5] That is, the provider establishes purpose restrictions and also may establish time requirements. Examples of government-mandated

nonexchange transactions include federal programs that state or local governments are mandated to perform, and state programs that local governments are mandated to perform. The principal characteristics of these transactions are (1) a provider government (including the federal government) *mandates* that a recipient government perform a particular program or facilitate its performance by another government or by a nongovernmental entity (secondary recipient) and (2) fulfillment of certain requirements is essential for a transaction (other than the provision of cash or other assets in advance) to occur. These essential requirements may include time requirements and are referred to in this Statement as *eligibility requirements*. Eligibility requirements are discussed in paragraphs 19 and 20.

d. *Voluntary nonexchange transactions* result from legislative or contractual agreements,[6] other than exchanges, entered into willingly by two or more parties. Examples of voluntary nonexchange transactions include certain grants, certain entitlements, and donations by nongovernmental entities, including individuals (private donations). Both parties to a voluntary nonexchange transaction may be governments (including the federal government, as a provider), or one party may be a nongovernmental entity, including an individual. Frequently, the provider establishes purpose restrictions and eligibility requirements. In many cases, the provider may require the return of the resources if the purpose restrictions or eligibility requirements are contravened after recognition of the transaction. The principal characteristics of voluntary nonexchange transactions are (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.

Standards Based on Characteristics of Transactions

8. Accounting and financial reporting of nonexchange transactions should be appropriate for their class and characteristics (derived tax revenues, imposed nonexchange revenues, government-mandated nonexchange transactions, or voluntary nonexchange transactions), as described in paragraph 7. Therefore, application of the standards in this Statement requires analysis of the *substance* of a transaction, rather than attention only to its *label.*

9. A transaction's label often indicates its substance and, therefore, the class of nonexchange transaction to which it belongs. However, in practice, the same label, such as “tax” or “grant,” may be given to transactions that have different characteristics and should be accounted for differently. For example, property taxes and income taxes are classified differently in paragraph 7 because they have different characteristics that affect how they should be reported. Also, different labels may be given in practice to transactions that, from an accounting and financial reporting perspective, have the same characteristics and should be reported in the same way. For example, some transactions called “grants” have the same characteristics as other transactions called “contributions” or “donations.”

10. In addition, labels commonly used for exchange and exchange-like transactions, such as “fees” and “charges,” sometimes are applied to nonexchange transactions, so that these labels do not always indicate that an exchange has occurred. Also, some transactions have characteristics of both exchange and nonexchange transactions. For example, a for-profit organization may provide resources to a public university for research that may result in commercial applications. The 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.

Accounting and Financial Reporting

11. All standards in this Statement apply whether the accrual basis or the modified accrual basis of accounting is required, except for the revenue recognition standards. (When the modified accrual basis of accounting is required ◆or when the reporting government is a public college or university, the requirements of this Statement for the recognition of *expenses* should be interpreted as requirements for the recognition of *expenditures*.) For revenue recognition, the standards in paragraphs 16 through 28 apply when the accrual basis of accounting is required and the standards in paragraphs 29 and 30 apply when the modified accrual basis of accounting is required. On either basis of accounting, recognition of nonexchange transactions in the financial statements is required unless the transactions are not *measurable* (reasonably estimable) or are not *probable*[7] *of collection*. Transactions that are not recognizable because they are not measurable should be disclosed.

Time Requirements and Purpose Restrictions

12. As indicated in paragraph 7, enabling legislation or providers of resources in nonexchange transactions frequently stipulate time requirements, purpose restrictions, or both. *Time requirements specify the period or periods when resources are required to be used or when use may begin*. (For example, a provider may stipulate that the resources it provides are to be disbursed during a specific fiscal year or over a specified number of years, or cannot be disbursed until after a certain date or event has occurred, if ever.) *Purpose restrictions specify the purpose or purposes for which the resources are required to be used*. (For example, a provider may specify that its resources are to be expended for road and street repairs or, in the case of an endowment, that the principal is required to be held in income-producing investments.)

13. This Statement establishes different standards for time requirements than for purpose restrictions. Time requirements affect the *timing of recognition* of nonexchange transactions. Also, the *effect* on the timing of recognition is different, depending on

whether a nonexchange transaction is (a) an imposed nonexchange revenue transaction[8] (discussed in paragraphs 17 and 18) or (b) a government-mandated or voluntary nonexchange transaction (discussed in paragraphs 19 through 25).

14. In contrast to time requirements, purpose restrictions do not affect the timing of recognition for any class of nonexchange transactions. Rather, recipients of resources with purpose restrictions should report resulting net ◆assets (or equity or fund balance, as appropriate) as restricted until the resources are used for the specified purpose or for as long as the provider requires the resources to be maintained intact (for example, endowment principal).[9]

Reimbursements

15. Governments (including the federal government) frequently engage in award programs commonly referred to as "reimbursement-type" or "expenditure-driven" grant programs. These programs may be either government-mandated or voluntary nonexchange transactions, depending on their characteristics. In either case, the provider stipulates that a recipient cannot qualify for resources without *first* incurring allowable costs under the provider's program. That kind of stipulation is not a purpose restriction as defined in this Statement. Rather, it is considered an *eligibility* requirement (discussed in paragraphs 19 and 20) and affects the timing of recognition. That is, there is no award—the provider has no liability and the recipient has no asset (receivable)—until the recipient has met the provider's requirements by incurring costs in accordance with the provider's program. (Cash and other assets provided in advance should be reported as advances [assets] by providers and as ◆deferred revenues [liabilities] by recipients until allowable costs have been incurred and any other eligibility requirements have been met.)

Derived Tax Revenue Transactions

16. Governments should recognize assets from derived tax revenue transactions in the period when the exchange transaction on which the tax is imposed occurs or when the resources are received, whichever occurs first. *Revenues* should be recognized, net of estimated refunds and estimated uncollectible amounts, in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred. Resources received in advance should be reported as ◆deferred revenues (liabilities) until the period of the exchange.

Imposed Nonexchange Revenue Transactions

17. Governments should recognize *assets* from imposed nonexchange revenue transactions in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first. For property (ad valorem) taxes, the date when an enforceable legal claim to taxable property arises generally is specified in the enabling legislation. Many governments refer to this date as the "lien date," even though a lien is not formally placed on the property at that date. Some governments, however, use a different term, such as the "assessment date." (For some governments, the enforceable legal claim does not arise until the period after the period for which the taxes are levied. Those governments should recognize property taxes receivable in the same period that revenues are recognized in accordance with paragraph 18.)

18. Governments should recognize *revenues* from property taxes, net of estimated refunds and estimated uncollectible amounts, *in the period for which the taxes are levied*, even if the enforceable legal claim arises or the due date for payment occurs in a different period. All other imposed nonexchange revenues should be recognized in the same period that the assets are recognized unless the enabling legislation includes time requirements. If so, revenues should be recognized in the period when the resources are required to be used or when use is first permitted. ◆(Resources received or recognized as receivable before that period should be reported as deferred revenues.)

Government-Mandated Nonexchange Transactions and Voluntary Nonexchange Transactions

19. Providers of resources in government-mandated or voluntary nonexchange transactions frequently establish eligibility requirements. Eligibility requirements are conditions established by enabling legislation or the provider that are required to be met before a transaction (other than the provision of cash or other assets in advance) can occur. 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

20. Eligibility requirements for government-mandated and voluntary nonexchange transactions comprise 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*. 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* (applies 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.)

Recognition Requirements

21. Providers should recognize liabilities (or a decrease in assets) and expenses from government-mandated or voluntary nonexchange transactions, and recipients should recognize receivables (or a decrease in liabilities) and revenues (net of estimated uncollectible amounts), when all applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met should be reported as ◆advances by the provider and as ◆deferred revenues by recipients, [10]◆ except as indicated in paragraph 22 for recipients of certain resources transmitted in advance.

22. In some kinds of government-mandated and voluntary nonexchange transactions, a provider transmits cash or other assets with the stipulation (time requirement) that the resources cannot be sold, disbursed, or consumed until after a specified number of years have passed or a specific event has occurred, if ever. In the interim, the provider requires or permits the recipient to benefit from the resources—for example, by investing or exhibiting them. Examples of these transactions include permanently nonexpendable additions to endowments and other trusts; term endowments; and contributions of works of art, historical treasures, and similar assets to capitalized collections.[11] For these kinds of transactions, the recipient should recognize revenues when the resources are received, provided that all eligibility requirements have been met. [12] Resulting net ◆assets (or equity or fund balance, as appropriate) should be reported as restricted for as long as the provider's purpose restrictions or time requirements remain in effect.[13]

23. The transactions covered by paragraph 22 should be distinguished from those in which, for administrative or practical reasons, a government receives cash or other assets in the period immediately before the period that the provider specifies as the period when sale, disbursement, or consumption of resources is required or may begin. Although the recipient may benefit from the short-term investment of these resources, the benefit is incidental and not a primary purpose of the provider. Recipients should recognize these transactions as required by paragraph 21.

24. Sometimes a provider in a government-mandated or voluntary nonexchange transaction does not specify time requirements. When that is the case, the entire award should be recognized as a liability and an expense by the provider, and as a receivable and a revenue (net of estimated uncollectible amounts) by the recipients, in the period when all applicable eligibility requirements are met (applicable period). When the provider is a *government* (including the federal government), the applicable period for both the provider and the recipients is the *provider's* fiscal year and begins on the first day of that year (when, for example, the relevant appropriation becomes effective). [14] The entire award should be recognized at that time. However, if a provider government has a biennial budgetary process, each year of the biennium should be considered a separate applicable period. In those circumstances, the provider and the recipients should allocate one-half of the resources appropriated for the biennium to each applicable period, unless the provider specifies a different allocation.

25. Promises of cash or other assets that nongovernmental entities, including individuals, voluntarily make to governments may be referred to in practice as “pledges,” “promises to give,” or “promised donations” or by some other term. Promised assets may include permanently nonexpendable additions to endowments and other trusts; term endowments; contributions of works of art and similar assets to capitalized collections; or other kinds of capital or financial assets, with or without purpose restrictions or time requirements. As required by paragraph 21, recipients of promises from nongovernmental entities to provide cash or other assets should recognize receivables and revenues (net of estimated uncollectible amounts) when all eligibility requirements are met, [15] provided that the promise is verifiable and the resources are measurable and probable of collection.

Subsequent Contravention of Eligibility Requirements or Purpose Restrictions

26. After a nonexchange transaction has been recognized in the financial statements, it may become apparent that (a) the eligibility requirements are no longer met (the transaction was recognized as a government-mandated or voluntary nonexchange transaction) or (b) the recipient will not comply with the purpose restrictions within the specified time limit. In these circumstances, if it is probable that the provider will not provide the resources or will require the recipient to return all or part of the resources already received, the recipient should recognize a decrease in assets (or an increase in liabilities) and an expense, and the provider should recognize a decrease in liabilities (or an increase in assets) and a revenue, for the amount that the provider is expected to cancel or reclaim.

Nonexchange Revenues Administered or Collected by Another Government

27. Sometimes, a government collects derived tax revenues or imposed nonexchange revenues on behalf of the government (recipient) that imposed the revenue source. For example, a state may administer and collect a local option sales tax at the same time that the state collects the state sales tax; the state subsequently remits the appropriate amount of the collections to the participating local government recipients. Because those recipients impose the tax or other revenue source, they

should have or can reasonably estimate the accrual-basis information necessary to comply with the requirements of this Statement for derived tax revenues or imposed nonexchange revenues.

28. ◆ On the other hand, a government may share its own derived tax revenues or imposed nonexchange revenues with other governments. For example, a state may share a portion of the revenues resulting from its sales tax with local governments. The recipient governments should comply with the requirements of this Statement for derived tax revenues or imposed nonexchange revenues, as appropriate. However, because they do not impose the tax or other revenue source, they may neither have nor be able to reasonably estimate the accrual-basis information necessary for compliance, and they may be unable to obtain sufficient information in a timely manner from the administering or collecting government. If so, the recipient governments should recognize revenues for the period equal to cash received during the period. Cash received after the end of the period also should be recognized as revenues of the period (less amounts recognized as revenues in the previous period) if reliable information is consistently available to identify the amounts applicable to the current period.

Revenue Recognition Using the Modified Accrual Basis of Accounting

29. This Statement does not change the requirements of NCGA Statement 1, *Govermental Accounting and Financial Reporting Principles*, as amended, and subsequent NCGA and GASB pronouncements for revenue recognition using the modified accrual basis of accounting, except as indicated in paragraph 6 of this Statement. Therefore, revenues from nonexchange transactions should be recognized "in the accounting period when they become available and measurable." [16]

30. When the modified accrual basis of accounting is used, revenues resulting from nonexchange transactions should be recognized as follows:

a. *Derived tax revenues*. Recipients should recognize revenues in the period when the underlying exchange transaction has occurred *and* the resources are available.
b. *Imposed nonexchange revenues—property taxes*. Recipients should recognize revenues in accordance with NCGA Interpretation 3, as amended.
c. *Imposed nonexchange revenues—other than property taxes*. Recipients should recognize revenues in the period when an enforceable legal claim has arisen *and* the resources are available.
d. *Government-mandated nonexchange transactions and voluntary nonexchange transactions*. Recipients should recognize revenues in the period when all applicable eligibility requirements have been met *and* the resources are available.

If the circumstances described in paragraph 26 apply, providers that require the return of resources should recognize revenues in the period when the returned resources are available.

Effective Date and Transition

31. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2000. Earlier application is encouraged. [17] In the first period that this Statement is applied, accounting changes made to comply with this Statement should be treated as an adjustment of prior periods, and financial statements presented for the periods affected should be restated. [18] Prior-period adjustments and restatement of the financial statements are not required for promises of private donations. If restatement of the financial statements for prior periods is not practical, the cumulative effect of applying this Statement should be reported as a restatement of beginning net assets (or equity or fund balance, as appropriate) for the earliest period restated (generally the current period). In the first period that this Statement is applied, the financial statements should disclose the nature of the restatement and its effect.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by unanimous vote of the seven members of the Governmental Accounting Standards Board:

Tom L. Allen, *Chairman*
Robert J. Freeman, *Vice-chairman*
Cynthia B. Green
Barbara A. Henderson
Edward M. Klasny
Edward J. Mazur
Paul R. Reilly

Appendix A: Background Information

32. In conjunction with its financial reporting model projects for basic financial statements, the Board determined that specific guidance would be needed for nonexchange transactions—primarily in the government-wide (or, for colleges and universities, basic) statements. However, given the limited applicability of the existing guidance in NCGA Statement 2 to specific transactions, a nonexchange transactions project also was necessary in the context of a fund-based model to provide greater consistency in reporting.

33. To accomplish its objectives, the Board expanded the scope of its project on grants accounting, which has been on the technical agenda since 1987. The grants project was derived from the Board's measurement focus and basis of accounting (MFBA) project before issuance of the Exposure Draft (ED) that led to Statement 11. (The implementation of Statement 11 was indefinitely delayed by GASB Statement No. 17, *Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements: Amendment of the Effective Dates of GASB Statement No. 11 and Related Statements*.)

34. Statement 11 provided recognition guidance for taxes and certain other nonexchange revenues using a total financial resources measurement focus and an accrual basis of accounting. Revenue recognition, refunds, and transactions administered or collected by another government were specifically addressed in that Statement. Statement 11 also expanded the use of the "demand" criterion from property taxes (due date) to all tax revenues. Revenue recognition for other nonexchange transactions covered by that standard (grants were excluded from the scope) was based on when an underlying event took place, as long as the government had an enforceable legal claim.

35. In preparing this Statement, the Board used the research on tax revenues that was performed for the MFBA project. The Board also used the research performed for the grants project, including three published GASB Research Findings reports: "Food Stamps, Aid to Families with Dependent Children, and Commodities Programs," issued in 1989; "State Aid to Local Governments and Individuals," issued in 1991; and "Federal, State, and Local Government Assistance to Governmental Colleges and Universities," issued in 1992.

36. Furthermore, the ninety responses to the Discussion Memorandum (DM), *Grants and Other Financial Assistance of Cash, Food Stamps, and Vouchers*, issued on April 17, 1992, were beneficial. Some of the issues in the DM were addressed with the issuance of Statement 24 in June 1994.

37. In addition, the Board considered the results of a DM from another project: *Reporting Contributions, Subsidies, Tap Fees, and Similar Inflows to Enterprise and Internal Service Funds and to Entities Using Proprietary Fund Accounting*, issued on October 15, 1993. The eighty responses to that DM addressed various issues related to the accounting and financial reporting for capital contributions received by business-type (proprietary) activities, including activities accounted for in enterprise and internal service funds.

38. The Board also considered the guidance provided in FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*. That Statement established standards for business and nongovernmental not-for-profit organizations that receive and make contributions.

39. The Board issued an ED of this Statement on March 21, 1997. The initial comment period ended on June 20, 1997 but was later extended through August 29, 1997. The Board received seventy-three comment letters. Several respondents also presented their views on the nonexchange proposals in conjunction with their testimony at public hearings held between June and August 1997 on the financial reporting model EDs, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* (issued on January 31, 1997) and *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities* (issued on April 25, 1997). A majority of the respondents to the nonexchange transactions ED supported the proposed standards. However, in response to some of the comments received, the Board has clarified or modified certain requirements. The principal changes are addressed in Appendix B to this Statement.

40. The Board's efforts in this Statement were supported by the grants DM task force members and other individuals and organizations that assisted with the model-related projects.

Appendix B: Basis for Conclusions

Introduction

41. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members gave greater weight to some factors than to others.

Scope and Applicability

Transactions and Internal Events

42. This Statement defines transactions as *external events*. It does not apply to internal events, such as nonreciprocal (or nonexchange) transfers of resources between funds of the same government, even though existing standards refer to some internal activities as transactions or require recognition of certain internal activities as revenues and expenses/expenditures.

43. This Statement *does* apply to nonexchange transactions between primary governments and their component units. Some may consider such activities to be internal events (transfers), rather than transactions (revenues and expenses/expenditures), because a primary government and its component units are in the same reporting entity under GASB Statement No. 14, *The Financial Reporting Entity*. However, as discussed in that Statement, component units are legally separate entities. For that reason, the Board believes that all activities between them and their primary governments, whether exchange or nonexchange, should be considered transactions, at least in component units' stand-alone reports. Paragraph 57 of Statement 14 requires nonexchange transactions recognized as revenues or expenses/expenditures in a component unit's stand-alone report to be reclassified to transfers in the primary government's report. Reclassification is required whether the component unit is blended or discretely presented.[19]

Excluded Transactions

44. This Statement applies only to nonexchange transactions involving financial resources (other than food stamps or on-behalf payments for fringe benefits and salaries, which are addressed in Statement 24) or capital resources. The Board believes that those transactions are among the most frequent and significant transactions of governments and that existing standards do not provide sufficient guidance. The Board has concluded that issuance of this Statement should not be delayed to include other kinds of resources, such as contributed services, which preliminary research suggests may require additional or different guidance. Resources other than financial and capital resources may be addressed in future projects.

45. Pass-through grants are defined in paragraph 5 of Statement 24 as “grants and other financial assistance” that governments receive “to transfer to or spend on behalf of a secondary recipient.” Statement 24 does not include guidance on the timing of recognition of pass-through grants; therefore, this Statement supplements, rather than amends, paragraph 5 of that Statement.

Approach

46. The Board's approach in this Statement is to set general standards for the recognition of nonexchange transactions, based on the principal characteristics of the different classes of nonexchange transactions established in paragraph 7. Although some may prefer more detailed or prescriptive guidance than is provided through general standards, the Board believes that a major difficulty with that approach is that detailed requirements inevitably focus on currently common transactions; they may be difficult to apply or inappropriate for less common transactions or for new kinds of transactions that governments may encounter or establish in the future. In contrast, the Board believes that consideration of general standards, based on the principal characteristics of nonexchange transactions, will lead to financial reporting that better conveys the substance of those transactions, as well as greater consistency in the reporting of similar nonexchange transactions. To help governments understand and apply the principal characteristics of the four classes of nonexchange transactions, Appendix C includes a summary of this Statement's criteria for the timing of recognition of transactions in each of the four classes, and Appendix D includes illustrations of a broad range of transactions.

47. After examining a wide range of nonexchange transactions, the Board concluded that it would be useful to classify them based on their principal shared characteristics, regardless of particular labels, such as “tax,” “grant,” or “license.” As discussed in paragraphs 8 through 10, governments sometimes use different labels for substantively similar transactions or they use the same label for transactions that have different characteristics and should be accounted for differently. Therefore, although labels may sometimes be helpful in identifying the class to which a transaction belongs, the Board believes that attention only to labels may be confusing or even misleading in some circumstances. For example, a transaction labeled “tax” may have the characteristics of an exchange transaction (certain franchise taxes, for example) or a nonexchange transaction (most sales taxes and property taxes, for example). For these reasons, the Board believes that consideration of the principal characteristics of a nonexchange transaction is essential to proper reporting.

48. The standards in this Statement supersede the nonexchange revenue recognition requirements in Statement 11. The approach taken in this Statement—general standards based on the principal characteristics of classes of transactions—is somewhat different from the approach taken in Statement 11. That Statement provided fairly detailed requirements for major exchange and nonexchange revenues by type (for example, “taxes”), but excluded most “grants” and other financial assistance. However, many of the concepts underlying the Statement 11 requirements for nonexchange revenues have been included in or have contributed to this Statement. Examples include the requirement that a transaction should have occurred in order to recognize a revenue on the accrual basis, whether the transaction is an exchange or a nonexchange transaction; the usefulness of the notion of “enforceable legal claim” in identifying when a recognizable nonexchange transaction has occurred; and the notion that the fact that certain revenues (property taxes, for example) are provided for use in (or beginning in) a particular period should influence the timing of revenue recognition.

49. The Board has not, however, continued the requirement of Statement 11 that a government should have “demanded” taxes (by establishing a due date for payment) for accrual-basis revenue recognition to occur. The Board believes that, with the classification of nonexchange revenues in this Statement and the identification of their principal characteristics, the

recognition criteria in this Statement—that an enforceable legal claim should have arisen or compliance with eligibility requirements should have occurred—are appropriate and sufficient. Those same criteria apply, with the addition that resources should be "available," for recognition on the modified accrual basis.

Classification of Nonexchange Transactions

50. To assist in the development of general standards for nonexchange transactions, the Board examined the principal characteristics of different kinds of nonexchange transactions and grouped them into the classes established in paragraph 7, based on shared characteristics. During this process, the Board concluded that certain transactions, referred to in this Statement as *exchange-like* transactions, are more similar to exchange transactions than to nonexchange transactions, even though many governments and others call them nonexchange transactions. (The significance of exchanges to accrual-basis accounting recognition is discussed briefly in paragraph 56.) That is, in an exchange-like transaction, there *is* 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. Examples include certain fees for regulatory or professional licenses and permits, passenger facility charges, certain tap fees, certain developer contributions, certain grants and donations, and other transactions that, regardless of the label applied to them, are based on an exchange of similar but not equal values. The Board believes that exchange-like transactions should be accounted for in the same way as "pure" exchange transactions—that is, based on occurrence of an exchange between the reporting government and another party or parties—and this Statement does not apply.

51. The decision to account for certain (technically nonexchange) transactions as exchange transactions reduced the range of nonexchange transactions for which the Board would need to establish accrual-basis recognition criteria *other than* the existence of an exchange. The Board further extended the concept of an exchange to another group of nonexchange transactions, referred to in this Statement as derived tax revenues. Unlike exchange-like transactions, the Board considers *derived tax revenues* to be nonexchange transactions because *there is no exchange* between the provider—the customer in a retail sales transaction, for example—and the recipient government. Rather, the exchange occurs between a merchant and a customer, and the government imposes a tax on (derives revenue from) that exchange. The Board believes that the occurrence of the exchange is the appropriate point for recognition of a derived tax revenue from the sale, because without an exchange, no revenue would flow to the government. (For practical reasons, the amount of derived tax revenues to be recognized by the recipient government is likely to be based on estimates of amounts due on sales transactions close to the end of the year, as well as on actual receipts for the year.) Similar concepts support classifying revenues resulting from personal and corporate income taxes, gross receipts taxes, hotel occupancy taxes, and other impositions on earnings or consumption as derived tax revenues to the imposing government.

52. For the remaining classes of nonexchange transactions (imposed nonexchange revenues, government-mandated nonexchange transactions, and voluntary nonexchange transactions), the Board believes that the concept of an exchange is not useful because there are no true elements of an exchange in these transactions. That is, although some may believe that property owners "exchange" property taxes for certain services, such as public safety and sanitation, there is no direct relationship between the values provided by homeowners (taxes paid) and the services provided; the tax generally is not based on the cost or value of the services. For these classes of nonexchange transactions, therefore, the Board sought other recognition criteria, as discussed in paragraphs 57 through 89 below.

53. A large majority of the respondents to the ED agreed with the Board's decision to develop general standards based on shared characteristics of different kinds of nonexchange transactions. They also agreed with the classification system that the Board proposed. Some respondents, however, suggested combining the government-mandated and voluntary classes into one class, given that the recognition requirements are the same for both classes. The Board had considered this possibility before issuing the ED. However, the Board concluded and has reaffirmed in this Statement that, although the recognition requirements are the same for the two classes, the defining characteristics are not, and they are difficult to combine in a useful way. Also, combining the two classes for classification purposes would not result in a significant simplification of the standards, because it still would be necessary to identify the distinct characteristics of government mandates versus voluntary transactions. Moreover, the Board's intent with the classification system based on common characteristics is to help guide decisions concerning new kinds of transactions in the future, as well as those that currently occur. Two separate classes may be even more useful in the future.

Symmetrical Recognition

54. The Board believes that, when both parties to a nonexchange transaction are governments,[20] recognition generally should be symmetrical.[21] That is, whether the accrual basis or the modified accrual basis of accounting is used, when two governments engage in a nonexchange transaction and this Statement requires one government to recognize a liability, it generally also requires the other government to recognize an asset. Similarly, when both governments are using the same basis of accounting and one government is required to recognize an expense or expenditure, the other government generally is required to recognize a revenue. An exception occurs when both governments are using the same basis of accounting and appropriate application of the accounting principle of conservatism does not support the recognition of an asset and a revenue by a recipient (realization may be too uncertain), even though the provider has a recognizable liability and an expense. The standards in this Statement incorporate that principle.

55. Symmetrical recognition may not be possible when a government engages in a nonexchange transaction with the federal government or a nongovernmental entity. The Board believes that the applicability of the standards in this Statement to a government should not be affected by the accounting and financial reporting standards that another (nongovernmental or federal government) party to the transaction may be required to apply. Applicability to one government also should not be affected by another participating government's interpretation of or failure to apply this Statement. Each government should apply the standards in this Statement that are appropriate for its side of the transaction, regardless of how the other party accounts for its side. Therefore, if, for example, the standards require recognition of an asset, symmetrical recognition does not mean that a government need not recognize an asset because the other party does not appropriately recognize a corresponding liability.

Recognition of Nonexchange Transactions

Exchange versus Nonexchange Transactions

56. The accrual basis of accounting[22] requires recognition in the financial statements of events that affect the operating results or financial position of a reporting unit when the event occurs, rather than only when the resulting cash inflow or outflow occurs. A transaction is a particular kind of event—one that involves two or more reporting units that are external to (usually legally separate from) each other. When the event is an exchange transaction, the appropriate recognition point generally is acknowledged to be the point in time when the exchange occurs, because at that time each party's accrual-basis operating results or financial position is affected in equal but opposite ways by the transfer of value (benefit) from one party to the other. Sometimes there may be uncertainty about precisely when an exchange has occurred, or recognition may be made some time after the exchange occurred because it was not discovered until a later date. Also, other factors may indicate that the exchange should not be recognized as a transaction—for example, it is not measurable. Nevertheless, the notion that an exchange should have occurred for recognition to take place is fundamentally important and useful for the timing of recognition of exchange transactions.

57. These concepts do not apply for nonexchange transactions because, by their nature, there is no exchange. In a nonexchange transaction, one party transfers value (benefit) to another party (or receives value from another party) without receiving (giving) equal value in exchange. Without an exchange point, when should accounting recognition occur? When does a provider have a liability and the recipient have an asset? And should the provider recognize expenses and the recipient recognize revenues at the same time that they, respectively, recognize liabilities and assets?

Legislative and Contractual Requirements

58. The Board believes that a feature common to all nonexchange transactions of governments is that they are governed by legislative or contractual requirements (or both). For example, a general purpose government's ability to levy a tax on personal property is supported by its sovereign (constitutional) powers and by duly adopted enabling legislation that specifies, at least in broad terms, when, how, and on whom the tax may or should be levied. The enabling legislation frequently also specifies when the resources should be used (time requirements) and for what purpose (purpose restrictions). Similarly, a general purpose government's decision to provide financial assistance and the parameters of that decision (to whom the resources will be provided, when they are required to be used, and for what purpose) generally are incorporated into enabling legislation.

59. Some nonexchange transactions of governments are governed by contractual agreements, rather than by legislation. For example, when a private donor offers to provide resources to a public university, hospital, or library without requiring or anticipating equal or approximately equal value (benefit) in exchange, and the recipient accepts the offer, the donor and the recipient have made a contract that is the basis for their transaction. (The contract generally would be in writing, but it could be oral. Factors in addition to the existence of the contract will help determine whether a *recognizable* transaction has occurred, including verifiability, measurability, and probability of collection. However, those additional factors are not unique to nonexchange transactions.)

60. The Board concluded that the existence of legislative or contractual requirements is fundamental to governments' participation in nonexchange transactions and should have a role in accounting for them. The Board examined the different kinds of legislative and contractual requirements that govern the nonexchange transactions of governments. It concluded that fulfillment of certain requirements is essential to the existence of a transaction. That is, until those requirements are met, neither party has an asset (claim on resources) or a liability (obligation to provide resources). In some cases, fulfillment of those requirements is sufficient to recognize revenues or expenses at the same time. In other cases, however, additional requirements exist that the Board believes should be met before a government recognizes revenues or expenses. The Board also believes that the nature of some legislative and contractual requirements—purpose restrictions, for example—is such that recognition should not be delayed until performance has occurred.

Time Requirements, Purpose Restrictions, and Lifting of Restrictions

61. The Board believes that time requirements and purpose restrictions are quite different and warrant different reporting requirements. With time requirements, providers state that they will provide resources for use in a specific period or that they cannot be used until after a certain date or event has occurred, if ever (for example, the principal of permanent endowments). The Board believes that compliance with those requirements is necessary for providers and recipients in government-mandated and voluntary nonexchange transactions to recognize, respectively, liabilities and expenses or receivables and

revenues, and for recipients in imposed nonexchange revenue transactions to recognize revenues. Resources provided, for administrative or practical reasons, before a specified disbursement period has begun have the nature of and should be reported as advances (loans) by providers and deferred revenues (liabilities) by recipients. Over one-half of the respondents to the ED commented on the proposals concerning time requirements. A large majority of those respondents agreed with both the Board's concept and the related accounting requirements. This Statement includes those same requirements for imposed nonexchange revenues and for most kinds of resources provided in government-mandated or voluntary nonexchange transactions. However, as discussed in paragraphs 86 through 95, the Board has modified and clarified the requirements for permanent endowments, term endowments, and contributions of works of art and similar assets.

62. In contrast to time requirements, purpose restrictions are requirements of the provider that are mandated or expected to be met *after* a nonexchange transaction has occurred. They should not result in delayed recognition. On the contrary, purpose restrictions cannot be met *unless* a transaction has occurred. That is, it is only when a recipient has a legitimate claim to the resources—when an enforceable legal claim has arisen or all eligibility requirements have been met—that the recipient is able to use the provider's resources for the purpose intended by the provider (either those same resources, or other resources pending receipt of the provider's resources). The Board believes that, when an enforceable legal claim has arisen (derived tax and imposed nonexchange revenues) or all eligibility requirements have been met (government-mandated and voluntary nonexchange transactions), the provider and recipients have experienced a change in net assets that should be recognized in the financial statements. (Contraventions of purpose restrictions or eligibility requirements are discussed in paragraphs 98 and 99.)

63. The few respondents who commented on the definition and accounting treatment of purpose restrictions generally supported these provisions. Some of those respondents, however, asked the Board to clarify when purpose restrictions should be lifted and whether governments should be required to disburse restricted resources for the intended purpose before unrestricted resources are used for the same purpose. The Board states in paragraph 14 of this Statement that governments should report net assets resulting from transactions with purpose restrictions as restricted net assets (or a reservation of fund balance for governmental funds) "until the resources are used for the specified purpose or for as long as the provider requires the resources to be maintained intact (for example, endowment principal)." Thus, the disbursement of unrestricted resources for the same purpose should not result in a lifting of the restriction on an equivalent amount of restricted resources. The Board considered but decided not to give specific guidance that might change current practice on whether restricted or unrestricted resources should be disbursed first. However, the Board believes that it may be appropriate for governments to disclose their policy in that regard in the notes to the financial statements. The Board will examine that possibility when it reviews required disclosures of significant accounting policies in its note disclosures project.

Recognition of Assets and Liabilities

64. The Board concluded that the *conceptually* appropriate recognition point for assets and liabilities in nonexchange transactions is when an *enforceable legal claim* to resources arises, based on the specifications of enabling legislation or contractual requirements. However, the Board also concluded that, if a claim to assets is not realizable (for example, enforcement of the claim is not probable), the transaction should not be recognized. For some nonexchange transactions of governments (generally, derived tax and imposed nonexchange revenues), there is little doubt that a recipient government's claim is legal and realizable, in the normal course of events, because the government's claim is supported by law or regulation and the government can enforce its claim to the provider's resources. That is, when the provider is a *nongovernmental entity* (including an individual), a claim supported by legislation or a contract generally is *enforceable* and *will be enforced* by the recipient government, because the government can and will use its sovereign (coercive) powers to force payment without taking the nongovernmental entity to court. (Court action sought by the affected nongovernmental provider may, however, prevent or delay the recipient government's efforts to exact payment.) For example, a government can seize private property if the owner fails to pay the applicable taxes.

65. On the other hand, for government-mandated and voluntary nonexchange transactions, the enforceability of a legal claim may be more apparent than real. In contrast to recipient government claims against individuals and other private entities, when the provider is a government at a higher level, the recipient government generally has no power (actual or effective) to force transmittal of the promised resources. For example, a local government generally cannot *directly* (using its own personnel) force a state government to pay promised resources, nor is a local government likely to sue the state government for payment.

66. Also, when the recipient is a governmental entity without sovereign powers, it cannot *directly* force the provision of promised resources, even those promised by a nongovernmental entity. For example, a public university may have a fully documented (verifiable) and measurable promise of resources from a private donor. The university may even have made expenditures in anticipation of receipt of the resources. However, if the donor reneges, the university cannot by itself force payment. Rather, it must seek redress through the courts. Research indicates that the courts frequently have found in favor of the donee in such cases. However, research also indicates that many donees in that situation generally do not sue because they believe it may discourage future promises of resources or for other reasons. Thus, a *theoretically* "enforceable" legal claim may in fact be contingent upon both an act of the donee—bringing suit—and a favorable decision of the court. The Board believes that, in these circumstances, the existence of a conceptually enforceable legal claim may not be sufficient to justify accounting recognition. Therefore, recognition should be based on other criteria (eligibility requirements), as discussed in paragraphs 71 through 82.

Derived Tax Revenue and Imposed Nonexchange Revenue Transactions

67. The Board concluded that when a government imposes the provision of resources on nongovernmental entities, including individuals (derived tax revenue and imposed nonexchange revenue transactions), it should recognize assets when an enforceable legal claim arises against a provider (or when assets are received, if first), because that claim is, indeed, enforceable and, generally, probable of enforcement. (The government nevertheless should deduct the amount of estimated uncollectible resources as well as estimated refunds.) That is, for derived tax revenues, a government should recognize assets when the exchange transaction on which the government imposes the tax occurs. At that point, the government has a legal claim to the provider's resources, supported by the enabling legislation. This is so, even if actual payment to the government is not required until a later date or, if the amount of the required payment is not certain (but is reasonably estimable), until a tax return or other required validation report is submitted and accepted. The exchange point is the appropriate recognition point because the provider (taxpayer) has earned the income or made the purchase on which enabling legislation authorizes or requires the imposition of a tax.

68. For property taxes (imposed nonexchange revenues), the date when an enforceable legal claim arises generally is specified in enabling legislation. Many governments refer to that date as the "lien date," even though a lien is not formally placed at that time. Some governments, however, refer to the enforceable legal claim date as the "assessment date" or by some other term. Regardless of the term used, a receivable should be recognized as soon as the government has a legal claim to a provider's resources that is enforceable through the eventual seizure of the property. This is so, even if payment of property taxes is not required until a future date or the provider has certain rights of due process, including the right of appeal. For other kinds of imposed nonexchange revenues—for example, fines, penalties, and property forfeitures—the enabling legislation or related regulations should help define when an enforceable legal claim occurs, which may vary by type of imposition and from one jurisdiction to another.

69. Respondents to the ED generally agreed that receivables arising from imposed nonexchange revenue transactions should be recognized when an enforceable legal claim arises. With respect to property taxes receivable, however, some respondents said that the references in the ED to recognizing receivables on the lien date could be confusing because, in some states, an enforceable legal claim does not arise on that date. To clarify the issue, the Board has rephrased the standard (paragraph 17) and the wording of Examples 4 and 5 in Appendix D to emphasize that the recognition date for property taxes receivable should be the date on which an enforceable legal claim arises, whether that date is known as the lien date, the assessment date, or by some other term.

Government-mandated Nonexchange and Voluntary Nonexchange Transactions

70. For government-mandated nonexchange transactions and voluntary nonexchange transactions, the Board concluded that basing asset and liability recognition requirements on the occurrence of an enforceable legal claim might not be appropriate or might not give effective guidance, for the reasons discussed in paragraphs 65 and 66. Therefore, the Board based asset and liability recognition criteria for these classes of nonexchange transactions on the legislative or contractual requirements that it believes are essential for a transaction to occur—that is, the requirements described in paragraph 20 of this Statement and referred to collectively as eligibility requirements.

Eligibility Requirements

71. The Board believes that, for both government-mandated and voluntary nonexchange transactions, a transaction (other than the provision of cash in advance) should not be recognized until the eligibility requirements of paragraph 20 have been met. Briefly summarized, these requirements are (a) the recipient (and secondary recipients, if applicable) has the characteristics specified by the provider; (b) the time period when use of the resources is required or first permitted has begun, or the resources are being maintained intact in perpetuity or for the term specified by the provider; (c) if applicable (reimbursements), the recipient has incurred allowable costs; and (d) for voluntary nonexchange transactions, the recipient has complied with any specific actions that the provider has stipulated are mandatory in order for the recipient to qualify for resources.

72. The first eligibility requirement (paragraph 20a) applies to most government-mandated and many voluntary nonexchange transactions. For example, enabling legislation may specify that a government will provide financing for certain activities of school districts, or a private donor may announce that resources will be provided on a competitive basis to accounting departments at state universities. A transaction under that legislation or private offer cannot occur between the provider and a recipient that is not, respectively, a school district or a state university accounting department.

73. With regard to the second eligibility requirement (paragraph 20b) for government-mandated and voluntary nonexchange transactions, providers often specify time requirements. Some time requirements specify the period that the provider's resources are intended to finance or when recipients may begin to use (sell, disburse, or consume) them. Governments often specify these requirements in enabling legislation or related regulations, or through the appropriations process. Other time requirements specify that the provider's resources are to be maintained intact permanently, for a specified number of years, or until a specific event has occurred—for example, term endowments, permanent endowments, and other transactions that meet the criteria of paragraph 22. The Board believes that all time requirements are integral to the provider's mandate or offer of its resources, which in effect is an executory contract. That is, the provider has no obligation to provide resources and

potential recipients have no claim until the time requirements are met or (for endowments and similar transactions) can begin to be met. When the resources are provided to finance operations or capital acquisitions in or beginning in a particular period, the provider should recognize a liability and an expense, and recipients should recognize receivables and revenues (assuming that all other eligibility requirements have been met) when that period begins. For permanent endowments, term endowments, and similar transactions, no transaction should be recognized until the recipient can begin to comply with the provider's stipulation to maintain the resources intact. Therefore, providers and recipients should not recognize liabilities or receivables in these kinds of transactions. Rather, they should recognize cash or other assets as expenses when paid (providers) and as revenues when received (recipients).

74. When the provider is a *government*, the required period of disbursement often is specified through the appropriation of resources under the enabling legislation, rather than as part of that legislation or related regulations. The Board believes that, in those cases, a government appropriation is not equivalent to an authorization to pay an *existing* liability, such as the approval of a vendor's invoice for payment related to an exchange transaction that has occurred. Rather, an appropriation is *essential* to make the enabling legislation effective for a particular period of time. In these circumstances, the Board believes that a government does not have a liability to transmit resources under a particular program, and a recipient does not have a receivable, unless an appropriation for that program exists and the period to which the appropriation applies has begun. Once those requirements (and all other applicable eligibility requirements) have been met, a provider government should recognize a liability and a qualified recipient should recognize a receivable. However, there may be cases when a government has not made payments to other governments for a particular period, as required by enabling legislation and the related appropriation. In those cases, the provider government should inform recipients whether the omitted payments for that period have been postponed and will be made in the next period or periods, or whether no further payments will be made at any time for the period of the shortfall. If the omitted payments have been postponed, the provider should report a liability and the recipients should report receivables for the amounts postponed. If the omission is not a postponement, no liability or receivable should be reported.

75. The Board also believes—and this Statement requires—that when a provider *government* has not specifically established otherwise, the period for which the resources are provided (applicable period) begins on the first day of the *provider's* fiscal year. As noted in footnote 14 to paragraph 24 of this Statement, this requirement should be interpreted by secondary recipients as referring to the fiscal year of the *immediate* provider, rather than that of the *originating* provider. For example, if the federal government provides resources to states (recipients) with the requirement that they are to be passed through to local governments (secondary recipients) in the state, then the fiscal year of the federal government (original provider) is the applicable period for recognition by state governments, and the fiscal year of the state government (immediate provider) applies for recognition by local governments in that state. Also, this Statement requires that, when an appropriation is necessary to make resources available and the provider government has a biennial budgetary process, each fiscal year of the provider's biennium is a separate applicable period, unless the provider government specifies otherwise. With that exception, providers and recipients should recognize one-half of a two-year award in each fiscal year of the provider's biennium, unless the provider specifies a different allocation.

76. The Board considered two alternatives to establishing the provider government's fiscal year as the applicable period, when that government has not specified otherwise: (a) give no guidance or (b) establish the recipient's fiscal year as the applicable period. The Board rejected the first alternative because it believes that guidance is needed to enhance comparability and consistency in financial reporting. Without either guidance from the provider or a general standard for the applicable period, two recipients with the same fiscal year (different from the provider's) and receiving the same award could elect to recognize it in different fiscal years—one basing recognition on the provider's fiscal year and the other on its own fiscal year. In some circumstances, a recipient might recognize a receivable before the provider recognized a liability for the same award. The Board believes that would be inappropriate. Also, with no guidance, recipients and providers could periodically change the recognition period, which could be confusing for users.

77. The Board also rejected the second alternative—establish the recipient's fiscal year as the applicable period when the provider government is silent. First, the Board believes that provider governments generally appropriate resources in relation to their own fiscal years, rather than a recipient's fiscal year, unless they specify otherwise. When that is the case, this Statement indicates that the provider's specification of the recipient's fiscal year should govern. Second, in some states, the fiscal years of counties, cities, school districts, public colleges and universities, and other governmental recipients differ from each other as well as from the state government's fiscal year. In these cases, if the Board specified that the applicable period for the state government's awards was the recipient's fiscal year, proper application of the accrual basis of accounting would require the state government to allocate liabilities and expenses differently for different recipients. The Board believes that could be confusing for users of the state government's financial statements and could be impractical. Also, in some circumstances, a recipient might recognize a receivable before the provider government recognized a liability for the same award, which, as previously indicated, the Board believes is inappropriate.

78. The Board decided not to establish the provider's fiscal year as the applicable period when a *nongovernmental* provider has not established time requirements. Although considerations similar to those discussed for provider governments apply, the Board believes that they are outweighed by practical concerns. Whereas recipients generally receive resources from a limited number of provider governments and are aware of their fiscal years, those circumstances may not apply when providers are nongovernmental entities. The Board concluded that it would be unreasonable to require recipients to base the timing of recognition of resources on the possibly varying fiscal years of multiple nongovernmental providers. Therefore, when a nongovernmental provider does not specify otherwise, this Statement requires recipients to recognize the awards in full in the first period that use is permitted and all other applicable eligibility requirements have been met.

79. A few respondents questioned the timing of recognition of receivables when a *nongovernmental* provider does not establish time requirements but indicates that the award will be paid in several annual installments. Those respondents thought that each installment should be recognized in the year it is paid, because the installment plan may *imply* that the provider intends its resources to be used in that year. However, as stated in paragraph 24, when the provider does not establish time requirements, this Statement requires recognition of the entire award, by both the provider and recipients, in the first period that use is permitted (accrual basis) or in the first period that use is permitted and the resources are available (modified accrual basis). The Board does not believe that recognition should be based on assumptions about a provider's *implicit* intent based on, for example, expected payment dates. Rather, providers who wish to stipulate that future payments are intended to finance specific periods should make their wishes clear by explicitly establishing time requirements. The Board has illustrated in Appendix D how the timing of recognition of receivables (and revenues) should differ depending on whether an award to be paid in installments has time requirements (Example 21) or does not have time requirements (Example 21a).

80. Respondents who commented on the issue of differing fiscal years generally agreed with the Board's conclusions, as discussed in paragraphs 75 through 78, including the requirement to allocate one-half of the award to each year of the biennium, when a provider government has a biennial budgetary process and does not specify a different allocation. However, a majority of respondents on the issue disagreed with another proration proposal in the ED. The Board had proposed in paragraph 18b(1) of the ED that, when the fiscal years of provider and recipient governments do not coincide, recipients should recognize assets and revenues in proportion to the number of months that coincide with the provider government's fiscal year, unless that government specifies a different allocation. These respondents said that it would be inappropriate for the Board to require recipients to prorate revenues when a provider government has not required proration, particularly when there is no clear relationship between the use of resources and the passage of time. Some respondents also pointed out that it seemed especially inappropriate to report deferred revenues when there are no time requirements attached to the use of the resources and recipients may already have spent them. The Board reconsidered the issue and has deleted this proration requirement.

81. The third and fourth eligibility requirements (paragraphs 20c and 20d)—the stipulations that the resources will be given *provided that* the recipient first performs a specific act or series of acts—are common requirements of providers. As with time requirements, the Board believes that the provider has no obligation to provide resources and the recipient has no claim until the recipient has complied with the provider's stipulations. Before that time, the offer has the characteristics of an executory contract, and no liability or receivable should be recognized.

82. Paragraph 20c addresses a common situation—a government provides resources on a “reimbursement” basis (sometimes referred to as “expenditure-driven grants”). Recipients are required to have incurred allowable costs (generally those specified by the provider as reimbursable) under the provider's program *before* the provider will provide the resources. That is, *unless* allowable costs are incurred, the potential recipient has no claim to the provider's resources (no asset) and the provider has no liability. Other examples of this kind of eligibility requirement (paragraph 20d) include (a) a private donor offers a certain amount of resources to a hospital *provided that* the hospital first raises a similar amount from other donors and (b) a government offers a certain amount of resources to another government for a particular purpose provided that the potential recipient dedicates a specified portion of its own revenues to the same purpose. Respondents who commented on the treatment of reimbursements and other contingencies generally agreed with it. However, some respondents asked the Board to clarify the distinction between (a) reimbursements and (b) awards that have purpose restrictions. The Board has added language in paragraph 15 to clarify that distinction, in addition to clarifying the distinction between time requirements and purpose restrictions in paragraphs 12 through 14.

Recognition of Revenues and Expenses

83. The Board believes that, for derived tax revenue transactions, recipients should recognize revenues in the period when the underlying exchange occurs, which generally is the same period that the assets are recognized. These transactions generally do not have time requirements, but if they do, revenues should be deferred until the time requirements are met. Generally, however, only the receipt of assets before the underlying exchange occurs justifies (and requires) delaying revenue recognition.

84. Imposed nonexchange revenues often have time requirements. When they do, revenue recognition should be delayed until the applicable period begins. The Board's reasoning is similar to that discussed in paragraphs 73 through 75. That is, when enabling legislation specifies that the imposed resources are required to be used *in* or *beginning in* a particular period, the government has placed a constraint on the timing of the use of the resources, and revenues should not be recognized until that constraint has been met (the applicable period has begun). For these reasons, the Board concluded that property taxes should be recognized as revenues *in the period for which they are levied* because the purpose of the levy is to help finance operations in or beginning in that period. The Board rejected alternative revenue recognition points, such as the beginning of the homeowner's tax year (calendar year) or the period when the enforceable legal claim arises and property taxes receivable should be recognized, unless the property taxes were levied for use in or beginning in those periods. Other kinds of imposed nonexchange transactions—those resulting in revenues from fines, penalties, and property forfeitures, for example—also may have time requirements (or advance receipt of assets) that would require delaying revenue recognition. If not, then revenues from those transactions should be recognized at the same time as the assets—when an enforceable legal claim arises or assets are received, whichever is first.

85. For government-mandated and voluntary nonexchange transactions, providers and recipients generally should recognize expenses and revenues at the same time that they recognize, respectively, liabilities and receivables—that is, when all applicable eligibility requirements are met. The Board believes that no requirements of the provider, other than eligibility requirements, justify delaying recognition. For example, delay is not justified because of purpose restrictions (discussed in paragraphs 62 and 63) or pending completion of purely routine requirements (footnote 10 to paragraph 21). Recognition of advances by providers and of deferred revenues by recipients is required if assets are received before eligibility requirements are met. However, advance receipts of resources for permanent endowments, term endowments, and similar agreements (transactions that meet the criteria of paragraph 22) should be recognized as expenses when paid and as revenues when received. These kinds of transactions are discussed further in the next section.

Permanent Endowments, Term Endowments, and Similar Agreements

86. The Board redeliberated whether the recognition of revenues should be deferred when a provider in a government-mandated or voluntary nonexchange transaction gives cash or other assets with the stipulation (time requirement) that the resources should be maintained intact permanently, for a specified number of years, or until a specific event has occurred, such as the donor's demise. In these kinds of transactions, when disbursement is permitted (or required), it generally is subject to the donor's purpose restrictions. Until that time (or permanently, for permanent endowments), the recipient is required to invest the resources (purpose restriction) or is able to invest them. The resulting income may or may not be subject to purpose restrictions, depending on the donor's specifications. (The earning of income is an exchange transaction and is outside the scope of this Statement.) Similar donor stipulations may apply to some contributions of works of art and similar collection items; that is, the recipient is required to maintain the items until a specified date or event, usually several years after the items are received, after which the recipient is permitted (or required) to sell them and use the proceeds in accordance with the donor's specifications. (Footnote 11 to paragraph 22 provides that recipients of contributed collection items should not recognize them as revenues if the collection has not been capitalized. The Board will address the issue of capitalization of collections in one or more Statements resulting from its financial reporting model projects.)

87. The Board concluded that, generally, the same requirements should apply for all government-mandated and voluntary nonexchange transactions, whether the provider is a governmental or a nongovernmental entity. However, the Board has distinguished between two kinds of advance provisions of resources: (a) the transmittal of cash or other assets for permanent endowments, term endowments, and similar agreements—transactions that meet the criteria of paragraph 22—and (b) the advance provision (usually for administrative or practical reasons) of financial or capital assets that are required or permitted to be used in or beginning in the next period. In the former case, recognition of expenses and revenues should occur when the resources are, respectively, paid and received, which is when the recipient begins to meet the time requirement. In the latter case, however, the time requirement is not met until the beginning of the period when use is required or may begin, and providers and recipients should not recognize expenses and revenues before that time.

88. The Board has established different recognition requirements for transactions that meet the criteria of paragraph 22 because the Board believes that these particular kinds of nonexchange transactions are substantively different from those, such as most grants and many donations, in which a provider permits or requires the recipient to use (sell, disburse, or consume) the resources immediately or soon after receiving them. When the provider is a government, the period of use or when use may begin generally is specified, as previously discussed, in enabling legislation, in regulations, or through the appropriations process. Use is generally required or permitted to begin in the same period or in the next period after the resources have been appropriated, so that the provision and use of the resources are closely tied. When a recipient receives cash or other assets in advance of the period of use, the early provision is generally for the convenience of the governmental provider or for other administrative reasons. Although the recipient may benefit from the advance receipts by investing them (usually for a short term) until they are required to be used, investment is incidental to the transaction and is not a primary objective of the provider government's provision of resources. The situation is similar for most grants and many donations of nongovernmental entities—for example, those given to finance particular activities or general operating expenses of or beginning in the next period.

89. In contrast, the Board believes that the characteristics of the advance provision of cash or other assets in permanent endowments, term endowments, and similar agreements and of certain contributions to collections of works of art are different. In these transactions, the period of required use (sale, disbursement, or consumption) or when use may begin generally is quite far removed—sometimes many years or an unknown number of years—from the period when the cash or other assets are provided, or use is permanently precluded. The early provision of resources is not simply a matter of convenience or purely administrative, although the provider may benefit from the timing of the gift. Rather, the provider wishes to require or enable the recipient to invest or otherwise benefit from the resources (for example, by exhibiting a collection item or leasing out a building) permanently, for a specific number of years, or until a specified event occurs. This objective is a purpose restriction if investment, exhibition, or lease is required. There also is a time requirement because sale, disbursement, or consumption of the resources is prohibited either permanently or for a number of years. For term endowments and similar agreements, part of the time requirement is to ensure that at the specified time—and not before—the recipient will use (sell, disburse, or consume) or begin to use the principal for the purpose specified by the provider (or for any purpose, if there is no further purpose restriction attached). Considering all stipulations of the provider, the Board believes that revenue is appropriately recognized when cash or other assets are received, provided that all other eligibility requirements have been met. At that point, the recipient can begin to invest or otherwise benefit from the gift and to meet the time requirement by maintaining the gift intact. Because the recipient cannot begin to comply with the time requirement before the

cash or other assets are received, the Board believes that potential providers and recipients in these kinds of transactions should not recognize, respectively, liabilities and receivables.

Exposure Draft Proposal for Permanent Endowments

90. In the ED, the Board proposed that gifts that establish or add to the principal or corpus of permanent endowments and other trusts should be reported as direct additions to net assets (or equity or fund balance), rather than as revenues. The Board's reasoning was that, because those amounts are required to be maintained intact in perpetuity, they will never meet the eligibility requirements (time requirements) for revenue recognition. That is, there never is a period when disbursement of permanently restricted resources is required or permitted. Over one-half of the respondents to the ED commented on this provision. A majority favored the provision, but a significant minority opposed it. A similar provision was included in both the reporting model EDs, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities* (issued, respectively, in January and April 1997). No respondents to the governmental model ED commented on the issue. However, although few respondents to the college and university model ED commented on the provision, almost all of those who did opposed it.

91. Most of the opposing respondents on this issue to the ED of this Statement or the college and university model ED said that, in their view, additions to permanent endowments and other trusts conceptually are revenues or should be reported as revenues for practical reasons. Other reasons for opposing the reporting of permanent endowments as direct additions were given primarily by respondents to the ED of this Statement and included (a) possible confusion if some resource inflows are reported as direct additions (balance-sheet-only transactions) when most are reported as revenues and (b) reporting permanent endowments as direct additions seems inconsistent with the proposal to report contributed collection items (for example, contributions of works of art to permanent collections) and contributed capital (physical) assets as revenues.

92. Conceptually, some respondents disagreed that permanent additions to the principal of endowments and other trusts cannot meet time requirements. In their view, the "period or periods when resources are required to be used or when use may begin" (paragraph 12) can be interpreted to mean the period in which the permanent additions are required or first permitted to be invested, rather than the period when sale, disbursement, or consumption of the resources is required or first permitted. The Board does not accept that interpretation of the term *use* in the definition of time requirements without qualification, because investment is not unique to permanent endowments and other trusts. Most advance receipts of financial resources can be invested, if only for a few days or hours, regardless of the class of nonexchange transaction. The Board does not believe that this ability meets the provider's objective in establishing time requirements. Rather, as discussed earlier, the Board believes that most governmental providers and many nongovernmental entities provide resources for the purpose of financing the activities of or beginning in a particular period, and the provision and required timing of use of resources are closely tied. For investment to affect the timing of recognition, it should be clear that the provider's objectives in advancing cash or other assets include the requirement or ability of the recipient to invest or otherwise benefit from them for at least several years, whether the number of years is specified or uncertain, before a requirement or ability to disburse the principal begins. Additions to permanent endowments (permanently nonexpendable additions) are a special case of that kind of transaction because the recipient is permanently precluded from disbursing principal, rather than being required or permitted to disburse it after a certain date or event. However, similar to term endowments, the recipient of a permanent endowment meets the time requirement as long as the principal is maintained intact in accordance with the provider's stipulations. If the recipient violated this agreement, then the requirements of paragraph 26 for recognizing contraventions of a provider's purpose restrictions or eligibility requirements would apply. This is because the recipient would have contravened both the purpose restriction (investment) and the time requirement (maintaining the principal intact). Contraventions are discussed in paragraphs 98 and 99.

93. The Board spent considerable time redeliberating whether permanently nonexpendable additions to endowments and other trusts should be reported as revenues or direct additions to net assets (balance-sheet-only transactions). The Board acknowledges that there is diversity of opinion on this issue and that sound arguments can be made in support of either reporting approach. The Board has concluded that the reasons for reporting permanently nonexpendable additions as revenues outweigh those for reporting them as direct additions. Therefore, the Board has deleted the ED provision that would have established additions to permanent endowments as the *only* exception to reporting inflows from nonexchange transactions as revenues. Because by their nature permanently nonexpendable additions have purpose restrictions, resulting net assets should always be reported as restricted.

94. The reasons in favor of a revenue treatment include the fact that, as previously discussed, the time requirement should ensure that the contributed principal is maintained intact in perpetuity and not, as is the case with most time requirements, to require disbursement of resources to finance a particular activity or period. Provided that the principal is indeed maintained intact, the time requirement is met. Although the investment of principal is required (purpose restriction), it is not the act of investment that meets the time requirement, but rather the recipient's continuing compliance with the provider's stipulation that the principal should be maintained intact. As previously discussed, the Board believes that the appropriate recognition point for revenue is when the cash or other assets are received because, until they are received, the recipient cannot begin to meet the time requirement (maintaining the principal intact in perpetuity). In adopting the revenue approach, the Board also considered the desirability of consistency with the treatment of contributed capital assets and contributed collection items as revenues; the practical difficulties that sometimes arise in distinguishing different kinds of nonexpendable resources when permanently nonexpendable inflows are commingled with resources subject to other kinds of time requirements; and the

desirability of reporting all inflows of resources from nonexchange transactions as revenues at some point, thus simplifying the standards for preparers, attestors, and users.

95. Notwithstanding the decision to report permanently nonexpendable additions as revenues, the Board believes that the inability to sell, disburse, or consume them is important information. To ensure that users receive this information, it may be appropriate to separately display revenues that are required to be added to endowment principal or to disclose in the notes the amount of those revenues recognized in the financial statements for the period. The Board intends to provide guidance on this issue in Statements resulting from its financial reporting model projects or its note disclosures project. Pending issuance of that guidance, the Board encourages governments to report the nature of revenues resulting from permanently nonexpendable additions through separate display, disclosure, or both.

Promises of Resources

96. Some believe that “pledges” or “promises to give” that governments receive from nongovernmental entities in voluntary nonexchange transactions, including (perhaps, especially) promises from individuals, should never be recognized as receivables because, as a group, these promises are unreliable. The Board believes, however, that promises of resources by nongovernmental entities are neither conceptually different nor inherently less reliable as a group than other potential receivables. The same as for other transactions, recognition should occur when all applicable recognition criteria are met, provided that the promise is verifiable, measurable, and probable of collection. Two-thirds of the respondents to the ED commented on the Board's proposal not to require or accept only the cash basis of accounting for promises of resources by nongovernmental entities. A significant majority of the respondents who commented agreed with the Board's position.

97. In this Statement, the applicable criteria for recognizing receivables from nongovernmental entities in voluntary nonexchange transactions are the same as those for recognizing receivables from governments (paragraph 21). As stated in paragraph 25, promises of private donations should be recognized as receivables and revenues (net of estimated uncollectible amounts) when all applicable eligibility requirements have been met, provided that the promise is verifiable and the resources are measurable and probable of collection.

Contraventions of Provider Stipulations

98. Frequently, providers indicate before providing resources that recipients are or may be required to return unused resources or to reimburse the provider for resources used for purposes other than those specified by the provider. The Board considered whether, if the provider's offer of resources mentions the possibility of return, recognition should be delayed until the purpose restrictions are met. In other words, does a recipient have a liability to the provider (and the provider an asset) until the purpose restrictions are met? The Board concluded that it does not. In the Board's view, there are two separate events or transactions: The first is the provision or promise of resources and occurs when an enforceable legal claim arises or all eligibility requirements are met. The second (which may not occur) is the recipient's contravention of the purpose restrictions or inability to meet them within a specified time limit. The same reasoning applies to the recognition of provider claims or cancellations and recipient liabilities or reductions of assets when eligibility requirements for a transaction that already has been reported are no longer met.

99. In addition to the requirements discussed in the previous paragraph, for recognition of a potential reimbursement to occur, it should be *probable* that the provider will require the return of resources. In these circumstances, the recipient has a liability (or a reduction of a receivable) and an expense, and the provider has an asset (or a reduction of a liability) and a revenue. That is, the standards in this Statement require the recipient and the provider to recognize a requirement to return resources (or the cancellation of amounts not yet paid by the provider) as soon as it is apparent that (a) the purpose restrictions will not be met within the specified time limit and (b) it is probable that the provider will reclaim (or cancel) the resources. The Board believes that unless those circumstances arise, the contravention of purpose restrictions and the return of resources are not probable and should not affect recognition of the original transaction. Indeed, if contravention and return were probable, the provider would not provide the resources. The Board believes, therefore, that purpose restrictions are in the nature of “following through” on commitments that, when the resources are provided or promised, both the provider and the recipient expect to be fulfilled.

Recognition Using the Modified Accrual Basis of Accounting

Expenditures

100. With regard to expenditure recognition for government-mandated and voluntary nonexchange transactions, this Statement requires expenditures to be recognized when eligibility requirements are met. In applying the modified accrual basis of accounting to government-mandated and voluntary nonexchange expenditures, the Board believes that under existing standards these transactions are “normally liquidated with expendable available financial resources” and, therefore, no modification to the accrual basis of accounting is considered necessary.

Revenues

101. The Board believes that the approach for recognizing nonexchange revenues should be similar for both the accrual and the modified accrual bases of accounting, although application will differ. For modified accrual accounting, the “availability” criterion needs to be factored into recognition requirements. The Board also is retaining the specific guidance for property tax

revenue recognition provided in NCGA Interpretation 3, as amended, which includes the availability criterion. Although few respondents commented specifically on the modified accrual provisions of the ED, one or two suggested that the Board clarify the meaning of *available*. The Board has done so for property tax revenue recognition in paragraph 4 of GASB Interpretation No. 5, *Property Tax Revenue Recognition in Governmental Funds*, which was issued in November 1997 (after release of the ED of this Statement). Footnote 16 of this Statement includes the definition of *available* from that Interpretation. That definition now is consistent with the definition in paragraph 62 of NCGA Statement 1.

Effective Date and Transition

102. The effective date and transition guidance in this Statement have been established to allow governments an adequate period of time to determine the classifications of existing nonexchange transactions and to review the applicability of the standards in this Statement under the existing financial reporting models. The provisions of this Statement for the recognition of nonexchange revenues on the accrual basis of accounting cannot become effective for governmental activities until one or more Statements requiring accrual-basis accounting for those activities become effective. For that reason, the Board considered whether the effective date of this Statement should be the same as the effective date (not yet decided) of the Statements that are expected to result from its financial reporting model projects. However, the Board decided to retain the effective date that had been proposed in the ED of this Statement—years beginning after June 15, 2000, with earlier application encouraged. The same effective date applies for Interpretation 5, also with earlier application encouraged. Although the effective date of the financial reporting models may be later, the Board concluded that there is no compelling reason that governments should not implement this Statement under the existing models. That is, the modified accrual provisions should be used for governmental funds and expendable trust funds, and the accrual provisions should be used for proprietary funds; nonexpendable, pension, and investment trust funds; colleges and universities; and entities that use proprietary fund accounting. As noted in the Introduction (paragraph 2) to this Statement, without this Statement little guidance exists on accrual-basis accounting for the nonexchange transactions of governments, and existing standards of accounting for those transactions using the modified accrual basis are limited in scope and require clarification. For those reasons, the Board believes that governments should implement this Statement as soon as possible.

Appendix C: Summary Chart

103. This exhibit summarizes the four classes of nonexchange transactions established in paragraph 7 of this Statement and the timing of recognition required for each class. Refer to the paragraphs cited in the exhibit and to paragraphs 11 through 15 and 26 through 29 for more detailed—and authoritative—guidance.

CLASSES AND TIMING OF RECOGNITION OF NONEXCHANGE TRANSACTIONS	
Class	Recognition
Derived tax revenues Examples: sales taxes, personal and corporate income taxes, motor fuel taxes, and similar taxes on earnings or consumption	Assets * Period when *underlying exchange has occurred* or when resources are received, whichever is first. Revenues Period when *underlying exchange has occurred*. (Report advance receipts as deferred revenues.) When modified accrual accounting is used, resources also should be "available." See paragraphs 16 and 30a.
Imposed nonexchange revenues	Assets Period when an *enforceable legal claim has arisen* or when resources are received, whichever is first.

Examples: property taxes, most fines and forfeitures	**Revenues** Period when *resources are required to be used* or first period that use is permitted (for example, for property taxes, the *period for which levied*). When modified accrual accounting is used, resources also should be "available." (For property taxes, apply NCGA Interpretation 3, as amended.) See paragraphs 17, 18, 30b, and 30c.
Government-mandated nonexchange transactions Examples: federal government mandates on state and local governments	**Assets** * **and liabilities** Period when *all eligibility requirements have been met* or (for asset recognition) when resources are received, whichever is first.
Voluntary nonexchange transactions Examples: certain grants and entitlements, most donations	**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 [for example, 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.) When modified accrual accounting is used for revenue recognition, resources also should be "available." See paragraphs 19 through 25 and 30d.

Appendix D: Illustrations—Application of Accrual Accounting to Nonexchange Transactions

104. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the situations illustrated. Application of the provisions of this Statement may require assessment of facts and circumstances other than those illustrated here.

General

This appendix illustrates application of the standards in this Statement to certain transactions using the accrual basis of accounting. Application using the modified accrual basis of accounting is not separately illustrated because the same standards apply, except for the timing of revenue recognition. For revenue recognition on the modified accrual basis, existing standards continue to apply, including those in NCGA Interpretation 3, as amended.

Examples 1 through 5, 11, 12, 14 through 16, 19 through 21, and 23 through 25 illustrate recognition requirements only for recipients and Example 17 illustrates recognition only for the provider, because the other parties to the transactions are not state or local governments. Examples 6 through 10 and 18 illustrate recognition requirements for both recipients and providers. Examples 13 and 22 are not nonexchange transactions.

The standards for most nonexchange transactions require resources transmitted before the revenue and expense recognition criteria are met to be recognized as ◆deferred revenues (liabilities) by recipients and as advances (assets)◆ by providers. Examples 5, 10, and 12 illustrate or refer to those requirements. Advance receipts and payments in government-mandated or voluntary nonexchange transactions that meet the provisions of paragraph 22 should be recognized immediately as, respectively, revenues and expenses, provided that all eligibility requirements have been met. Examples 24 and 25 illustrate those requirements. All other examples assume that there are no advance collections or payments.

The standards state that the existence of a provider's purpose restrictions does not justify delaying the recognition of revenues and expenses, even if the failure to meet those restrictions may result in a refund to the provider. Recipients should report resulting net assets as restricted until the resources are used for the specified purpose or, for permanent and term endowments and similar transactions, for as long as the provider requires the resources to be invested or otherwise maintained in accordance with the provider's stipulations. After a recipient has recognized revenues (and a provider has recognized expenses), it may become apparent that the purpose restrictions have not been met and will not be met within the provider's preestablished time limit. If so, and if it is probable that the provider will require reimbursement, the recipient should recognize an expense and a liability (or a reduction in assets), and the provider should recognize a revenue and an asset (or a reduction in liabilities), in the amount of the required reimbursement.

Example 1: Sales Tax

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

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

Example 2: Hotel Tax

A city (recipient) is assessing a special 1 percent tax on hotel charges for a ten-year period. Hotels collect the tax from guests (providers) and remit receipts to the city on a monthly basis. The enabling legislation for the tax requires the proceeds to be used to finance a new convention center.

> This example illustrates the characteristics of derived tax revenues. (Hotel room rentals are exchange transactions.) The city should recognize assets and revenues, net of estimated refunds, for each night a guest stays at a hotel. (From a practical standpoint, the city will likely base the amount to be recognized on total room rentals for the fiscal year.) The requirement to use tax proceeds for the convention center is a purpose restriction, and resulting net ◆assets (or equity or fund balance) should be reported as restricted until used.

Example 3: Income Tax

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

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

Example 4: Property Tax with Late Collections

A city (recipient) through its council adopts a property tax levy ordinance that explicitly links the taxes to the appropriation ordinances for the fiscal year May 1, 20X1 through April 30, 20X2. In accordance with state statutes, the city has an enforceable legal claim to the taxes as of the assessment date, which is defined in the statutes as the first day of the fiscal year to which the appropriation ordinance applies (May 1, 20X1 in this example). However, none of the taxes are collected until July 1, 20X2 or later.

This example illustrates the characteristics of imposed nonexchange revenues. (The tax is imposed on property ownership, which is not an exchange transaction.) The city should recognize property taxes receivable on May 1, 20X1 (the date that the enforceable legal claim arises), and it should recognize revenues over the period May 1, 20X1 through April 30, 20X2 (the period for which the tax is levied).

Example 5: Property Tax with Early Collections

A city (recipient) through its council adopts a property tax levy ordinance that explicitly links the taxes to the appropriation ordinances for the fiscal year May 1, 20X1 through April 30, 20X2. State statutes indicate that the city's enforceable legal claim to the taxes arises on the lien

date, defined as the January 1 preceding the start of the fiscal year for which the taxes are levied. Taxes are collected March 1, 20X1 or later.

> This example illustrates the characteristics of imposed nonexchange revenues. (The tax is imposed on property ownership, which is not an exchange transaction.) The city should recognize property taxes receivable on January 1, 20X1 (the date that the enforceable legal claim arises), and it should recognize revenues over the period May 1, 20X1 through April 30, 20X2 (the period for which the tax is levied). (For the period from January 1, 20X1 until May 1, 20X1, the city should recognize ◆deferred revenues for property taxes recognized as receivable or received.)

Example 6: Educational Programs

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

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

Recipients

After the school year has begun, the school districts should recognize receivables and revenues as they incur allowable costs, up to the maximum specified for the year.

Provider

After the school year has begun, the state should recognize liabilities and expenses as the school districts incur allowable costs, up to the maximum specified for the year.

Example 7: Environmental Improvement Program

A state (provider) grants money to counties (recipients) to cover the costs of repairing and mandatory upgrading of environmental facilities within county boundaries. Counties are required to dedicate 15 percent of property tax revenues (based on the assessed value of taxable property in the county) to county conservation purposes. The state allocates money to the counties on a per capita basis to be used during the state's fiscal year, which ends June 30. Some counties have a concurrent fiscal year; others have a fiscal year that ends April 30.

This example illustrates the characteristics of government-mandated nonexchange transactions. (The state mandates the upgrading requirements and the dedication of county property taxes to a state-specified purpose.) [However, the applicable period (state's fiscal year) should have begun for a transaction to occur (in addition to the requirement that recipients be counties). The requirement for the county to dedicate the property taxes is not an eligibility requirement for government-mandated nonexchange transactions.] The requirement that the counties use the resources for environmental purposes is a purpose restriction.

Recipients

> [The counties should recognize the total amount to be received as receivables and revenues when the state’s fiscal year begins—that is, on July 1.] The fact that some counties have fiscal years that differ from the state's fiscal year does not affect recognition in this example. Because of the purpose restriction, the counties should report resulting net ◆assets (or equity or fund balance) as restricted until used.

Provider

[The state should recognize the total amount of resources to be provided as liabilities and expenses on July 1.]

Example 8: Road Improvements

A state (provider) distributes money to counties and cities (recipients) for use in county road repairs and city street repairs, respectively. Part of the money is allocated to the counties and cities based on population. The remainder is awarded on a competitive basis to certain small cities. Potential recipients of the competitive awards apply for funding for specific safety improvement projects, and the state, in consultation with certain representative organizations, determines which projects to finance. For the competitive awards only, the state indicates that the resources may be used at any time after the awards are made. The state's fiscal year ends on June 30. County and city fiscal years end on December 31.

This example illustrates the characteristics of voluntary nonexchange transactions. (The program is not a mandate on the state or the counties and cities.) However, fulfillment of certain eligibility requirements is necessary for a transaction to occur: For the awards based on population, the recipients are required to be counties or cities and the applicable period should have begun. (Unless the state specifies otherwise, the applicable period begins on the first day of the state's fiscal year.) For the competitive awards, the eligibility requirements are that (a) the recipients are required to be small cities, (b) the state should have selected the recipients, based on the selection criteria, and

(c) the applicable period should have begun. (In this case, the applicable period begins when the award is made and may continue into subsequent periods; there is no time limit on the use of the resources.) The requirement to use the resources for road and street repairs and improvements is a purpose restriction.

Recipients

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

Provider

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

Example 9: Drug and Alcohol Abuse Prevention

The federal government (provider) distributes money to states (recipients) for spending on programs to educate students about preventing drug and alcohol abuse. Twenty percent of the money is to be used by the state. The provider mandates that the remainder be passed through to local school districts and certain community-based (private) organizations (secondary recipients).

The federal government allocates awards to states based on enrolled student population for the school districts' previous fiscal year. The states allocate awards to secondary recipients using a similar formula. (This is not a conduit situation, as discussed in Statement 24.) The applicable period for the provision of resources to the states begins on the first day of the federal government's fiscal year (October 1), unless the federal government has specified otherwise. The applicable period for the pass-through of resources from the states to the secondary recipients begins on the first day of the state's fiscal year, unless the federal or the state government has specified otherwise. Most of the states and school districts in the program have fiscal years that run from July 1 to June 30.

This example illustrates the characteristics of government-mandated nonexchange transactions. (The federal government mandates participation in the program by the states and the school districts.) However, fulfillment of an eligibility requirement is necessary for a transaction to occur (in addition to the recipients' being states and school districts): The applicable period should have begun. The requirement to use the resources for certain health education purposes is a purpose restriction.

Recipients and Secondary Recipients

> The states (recipients) should recognize the entire award from the federal government as receivables and revenues when the federal government's fiscal year begins (October 1). The school districts (secondary recipients) should recognize their entire awards as receivables and revenues when their state's fiscal year begins (in most cases, July 1). Because of the purpose restriction, states and school districts should report resulting net ◆assets (or equity or fund balance) as restricted until used.

Providers

The states should recognize liabilities and expenses for the entire amounts to be passed to the secondary recipients, in accordance with this Statement and Statement 24, when their fiscal years begin (in most cases, July 1).

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 11: Developer Contribution—Voluntary

A developer (provider) completes construction of an industrial park and turns over the water, sewer, and power lines to the city utility (recipient), in accordance with an agreement made the previous year. Under the agreement, the city utility is not required to assume responsibility for the power lines until the industrial park is completed; the developer is responsible until completion.

This example illustrates the characteristics of voluntary nonexchange transactions. (The developer is not required to enter into the agreement.) There is one eligibility requirement: completion of the industrial park. The city utility should recognize capital assets and revenues for the water, sewer, and power lines when the industrial park is completed.

Example 12: Developer Contribution—Required

A developer (provider) is near completion of an industrial park. In accordance with city laws and regulations, the developer is required to make a one-time contribution of resources to the city (recipient) when the industrial park's infrastructure is substantially complete, to assist the city in maintaining the infrastructure. The resources required to be contributed are based on the assessed value of the developed property.

> This example illustrates the characteristics of imposed nonexchange transactions. (The contribution is imposed on developers, but the assessment is not on an exchange transaction.) The city should recognize a receivable and a revenue when an enforceable legal claim arises—that is, when the infrastructure is substantially complete. Because the city is required to use the contribution to maintain the infrastructure (purpose restriction), the city should report resulting net ◆assets (or equity or fund balance) as restricted until used.

Example 12a: Payment in Installments—Not an Eligibility Requirement

The basic facts of the original example are the same, except that the city agrees to an installment payment plan. The developer is required to pay one-half of the contribution when the infrastructure is substantially complete and the remainder by the end of the following year. The payment plan does not alter the enabling legislation, which does not require the resources to be used in any particular period. Because use is permitted at any time, the payment plan is not an eligibility (time) requirement. The city should recognize a receivable and a revenue for the entire contribution requirement, less estimated uncollectible amounts, in the period when the infrastructure is substantially complete.

Example 12b: Annual Contributions—Eligibility Requirement

> The basic facts of the original example are the same, except that the required developer contribution is not a one-time lump sum. Rather, the enabling legislation requires the developer to make annual contributions for five years, beginning in the year that the infrastructure is substantially complete. The legislation also indicates that the city is required to use each year's contribution for maintenance of the infrastructure in the year that the contribution is required. The latter (time period) requirement is an eligibility requirement; a transaction should not be recognized until the applicable period has begun. The city should recognize a receivable and a revenue each year for that year's contribution. Contributions received in advance should be reported as ◆deferred revenues until the period when the related enforceable legal claim arises.

Example 13: Developer Contribution—Infrastructure

A city (recipient) gives land valued at $10 million to a developer (provider) to construct an industrial park. In return, the developer assumes the cost of installing the roads, power lines, water and sewer lines, and other infrastructure on the site. When the industrial park is completed, the developer is to give the infrastructure (excluding the land), which has a total cost of approximately $9.5 million, to the city.

This is an exchange-like transaction (land for constructed infrastructure, of approximately equal values) and should be accounted for as an exchange transaction—assets and revenues should be recognized when the exchange occurs. This Statement does not apply.

Example 14: Mass Transit

The federal government (provider) distributes money to states (recipients) for use in improving and maintaining mass transit systems. Specifically, the money is required to be used as follows: 40 percent for existing guideway system modernization, 40 percent for new guideway systems, and 20 percent for bus purchases and improvements. States wishing to participate are required to apply for the resources and to include in their applications a program for the use of the money. Once a state's application has been approved and the resources have been awarded, the state may use the money over an indefinite period of time. However, states are required to file periodic reports with the federal government on the status of their mass transit projects.

This example illustrates the characteristics of voluntary nonexchange transactions. (Participation in the program is not a mandate on the states.) However, fulfillment of two eligibility requirements is necessary for a transaction to occur: The federal government should have approved a state's application for an award and the applicable period should have begun. The applicable period begins with the first day of the federal fiscal year to which the award applies and extends indefinitely. The requirement to file periodic reports with the federal government is a routine requirement and does not affect the timing of revenue recognition.

> States should recognize receivables and revenues for the full amount of their approved awards when the award has been approved and the federal fiscal year to which it applies has begun. Because there are purpose restrictions, the states should report resulting net ◆assets (or equity or fund balance) as restricted until used.

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 17: Homeowner Assistance

A city (provider) offers assistance to certain homeowners (recipients) for safety and beautification repairs. The city selects ten recipients each year based on applications submitted by homeowners who have household incomes below a certain level. Each homeowner receives a standard amount of $10,000 and is required to use the award within one year, after which a city inspector verifies that the repairs have been made in accordance with specifications. Past experience shows that 80 percent of recipients use the funds as intended within the time limit. The city generally is successful in reclaiming unused amounts.

This example illustrates the characteristics of voluntary nonexchange transactions. (The program is not a mandate on the city and participation is not imposed on homeowners.) However, fulfillment of two eligibility requirements (in addition to the status of applicants as low-income homeowners) is required for a transaction to occur: The city should have selected the recipients and the period when use is required should have begun.

The city should recognize liabilities and expenses of $100,000 when both eligibility requirements are met. The possibility that some resources may not be used within the time limit should not be recognized at this time. Rather, the city should recognize receivables (or a reduction of liabilities) and revenues in the amount that the city expects to reclaim only if and when it becomes probable that amounts will not be used for the specified purpose within the time limit.

Example 18: Awards from Biennial Appropriation

A state (provider) gives money to counties (recipients) for road maintenance. The state has a biennial budget, and appropriates the amounts for the two-year period beginning July 1, 20X6. Approximately one-half of the total is to be provided in the first fiscal year of the biennium and the remainder in the second fiscal year. The state and the counties have concurrent fiscal years.

This example illustrates the characteristics of voluntary nonexchange transactions. (The program is not a mandate on the state or the counties.) However, fulfillment of an eligibility requirement (in addition to the requirement that the recipients be counties) is necessary for a transaction to occur: The applicable period for use of the resources should have begun. In this case there are two applicable periods because the appropriation occurs in the year beginning July 1, 20X6 but applies to the next fiscal year as well.

Recipients

> The counties should recognize receivables and revenues for approximately one-half of the resources on July 1, 20X6. The remainder should be recognized in the following fiscal year. Because there is a purpose restriction, the counties should report resulting net ◆assets (or equity or fund balance) as restricted until used.

Provider

The state should recognize liabilities and expenses for approximately one-half of the resources on July 1, 20X6. The remainder should be recognized in the following fiscal year.

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

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

Example 22: Research Grant

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

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

Example 23: Status as Potential Beneficiary

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

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

Example 24: Permanent Endowment

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

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

Example 25: Term Endowment

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

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

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[1]In this Statement, the terms *transaction* and *transactions* refer only to *external* events in which something of value (benefit) passes between two or more parties. The difference between exchange and exchange-like transactions is a matter of degree. In contrast to a "pure" exchange transaction, an exchange-like transaction is 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 transaction are strong enough to justify treating the transaction as an exchange for accounting recognition.

[2]The terms *government, governments,* and *governmental* in this Statement do not include the federal government, unless otherwise indicated.

[3]This Statement does not apply to the use of resources resulting from grants or other nonexchange transactions when that use is an *exchange* transaction (for example, the use of grant monies to purchase goods or services).

[4]Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers).

[5]Unfunded mandates are not transactions (no value passes from one party to another); therefore, this Statement does not apply to them.

[6]Contractual agreements include oral as well as written contracts, provided that they are verifiable.

[7] In this Statement, the term *probable* has the meaning assigned in ◆paragraph 3a of Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*— that is, "[t]he future event or events are likely to occur."

[8]Derived tax revenues generally do not have time requirements. However, if they apply, asset and revenue recognition should be consistent with the requirements for imposed nonexchange revenue transactions.

[9]◆For a governmental fund, recipients should report a reservation of fund balance. Accounting for contraventions of purpose restrictions is discussed in paragraph 26.

[10]Recognition of assets and revenues should not be delayed pending completion of purely routine requirements, such as the filing of claims for allowable costs under a reimbursement program (paragraph 20c) or the filing of progress reports with the provider.

[11] Governments should not capitalize contributed collection items if the collection has not been capitalized. ◆The Board will address the issue of capitalization of collections in one or more Statements resulting from its financial reporting model projects.

[12]For transactions that meet the criteria of this paragraph, the time requirement is met as soon as the recipient begins to honor the provider's stipulation not to sell, disburse, or consume the resources and continues to be met for as long as the recipient honors that stipulation.

[13]◆For a governmental fund, recipients should report a reservation of fund balance.

[14]For secondary recipients, the fiscal year of the immediate provider, rather than the originating provider, applies. For example, the state government's fiscal year would apply for a local government receiving federal resources via the state government.

[15]See footnote 12. For transactions that meet the criteria of paragraph 22, the recipient does not begin to meet time requirements until the cash or other assets are received.

[16]NCGA Statement 1, paragraph 62. GASB Interpretation No. 5, *Property Tax Revenue Recogition in Governmental Funds*, paragraph 4, states that the term *available* means "collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period." With respect to property taxes only, NCGA Interpretation 3, paragraph 8, as amended, states that "such time thereafter shall not exceed 60 days." Measurability and probability of collection are discussed in paragraph 11 of this Statement.

[17]The provisions of this Statement for accrual-basis revenue recognition cannot become effective for governmental activities until one or more Statements requiring accrual-basis accounting for those activities become effective. Under the existing financial reporting models, the modified accrual provisions of this Statement should be used for governmental funds and expendable trust funds, and the accrual provisions should be used for proprietary funds; nonexpendable, pension, and investment trust funds; colleges and universities; and entities that use proprietary fund accounting.

[18]This Statement requires governments to recognize capital contributions to proprietary funds and to other governmental entities that use proprietary fund accounting as *revenues* , not contributed capital. However, governments should not restate contributed capital arising from periods prior to implementation of this Statement until the Board issues one or more Statements requiring restatement of those prior-period balances.

[19]The Board is considering an amendment to paragraph 57 of Statement 14 and intends to address the issue in a Statement or Statements resulting from its financial reporting model projects.

[20]As indicated in footnote 2, the terms *government, governments,* and *governmental* in this Statement do not include the federal government, unless otherwise indicated.

[21]Symmetrical recognition does not necessarily mean *simultaneous* recognition, which may not occur for practical reasons or because one party is recognizing expenses on the accrual basis of accounting and the other is recognizing revenues on the modified accrual basis of accounting.

[22]Unless otherwise indicated, the discussion of recognition requirements assumes that the accrual basis of accounting is used. The discussion also applies for asset, liability, and expenditure recognition when the modified accrual basis of accounting is used; the term *expenses* should be read as *expenditures* , when appropriate. Revenue recognition on the modified accrual basis is discussed in paragraph 101.

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

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