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Governmental Accounting Standards Series

Statement No. 36 of the
Governmental Accounting
Standards Board

Recipient Reporting for Certain Shared Nonexchange Revenues

an amendment of GASB Statement No. 33

Governmental Accounting Standards Board
of the Financial Accounting Foundation

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Summary

This Statement provides symmetrical accounting treatment for certain shared revenues by superseding paragraph 28 of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.* Statement 33 requires governments that share portions of their derived tax or imposed nonexchange revenues to account for the sharing as a voluntary or government-mandated nonexchange transaction, as appropriate. However, paragraph 28 of that Statement required governments that receive those shared portions to account for the sharing as a derived tax or imposed nonexchange transaction—that is, differently than the provider government. As a result, in certain circumstances, the provider and recipient governments would recognize the sharing of revenues at different times. This Statement eliminates that timing difference by requiring recipient governments to account for the sharing of revenues in the same manner as provider governments.

Additionally, this Statement removes the prior guidance in paragraph 28 that required recipient governments to accrue revenues equal to cash received if notification of the amount was not available in a timely manner. This Statement allows other estimation methods by requiring recipient governments to use a reasonable estimate of the amount to be accrued.

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, and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 2 discusses the applicability of this Statement.

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GASB

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INTRODUCTION

1. GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* issued in December 1998, provides guidance on accounting and financial reporting for nonexchange transactions. Since the release of that Statement, questions have arisen concerning differences between the provisions of paragraph 28 and the recognition requirements for government-mandated and voluntary nonexchange transactions.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Amendment of Statement 33

2. This Statement removes the exception to the accounting and financial reporting requirements of Statement 33 for government-mandated and voluntary nonexchange transactions by superseding paragraph 28 of that Statement with the following paragraph:

> On the other hand, a government may share its own derived tax revenues or imposed nonexchange revenues with other governments. For example, a state (provider) may share a portion of the revenues resulting from its sales tax with local governments. Both the provider and recipient governments should comply with the requirements of this Statement for voluntary or government-mandated nonexchange transactions, as appropriate. Because some recipient governments receive these shared revenues through a continuing appropriation,[x] they may rely on periodic notification by the

[x]As used in this Statement, *continuing appropriation* refers to an appropriation that, once established, is automatically renewed without further legislative action, period after period, until altered or revoked.

provider government of the accrual-basis information necessary for compliance. If notification by the provider government is not available in a timely manner, recipient governments should use a reasonable estimate of the amount to be accrued.

EFFECTIVE DATE AND TRANSITION

3. This Statement should be implemented simultaneously with Statement 33.

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
Edward M. Klasny
Edward J. Mazur
Paul R. Reilly
Richard C. Tracy

Appendix A

BACKGROUND INFORMATION

4. Statement 33 describes the characteristics of nonexchange transactions and, based on those characteristics, establishes the following four classes: derived tax revenues (for example, sales and income taxes), imposed nonexchange revenues (for example, property taxes), government-mandated nonexchange transactions (for example, federal government mandates on state and local governments), and voluntary nonexchange transactions (for example, certain grants and most donations). Statement 33 also establishes accounting and reporting requirements for nonexchange transactions based on their class. Among other things, those accounting and reporting requirements cover the following nonexchange transaction: One government shares its revenues with another government.

5. Although governments share all types of revenues with other governments, the most typical nonexchange revenues shared are derived tax revenues and imposed nonexchange revenues. Sharing of these types of revenues involves two transactions: (a) the assessment of derived tax revenues or imposed nonexchange revenues by one government and (b) the sharing of a portion of those revenues with another government. Based on the characteristics of nonexchange transactions, the sharing of a portion of one government's revenues with another government is classified under Statement 33 as a government-mandated or voluntary nonexchange transaction, as appropriate. Accordingly, for the second transaction (the sharing), both the provider and the recipient governments would normally apply the accounting and reporting provisions applicable to government-mandated and voluntary nonexchange transactions. Thus, both the provider and the

recipient governments should recognize the sharing of revenues in the period *when all eligibility requirements have been met.*[1] However, during the deliberations leading to the issuance of Statement 33, the Board approved an exception to the general provisions for revenue sharing.

6. If a government shared its derived tax or imposed nonexchange revenues (for example, sales or property taxes), paragraph 28 of Statement 33, as it was originally issued, required the following exception: *Recipient* governments were to comply with the accounting and reporting requirements for derived tax or imposed nonexchange revenues instead of requirements for voluntary or government-mandated nonexchange transactions. Thus, paragraph 28 required the *recipient* government to recognize the sharing of those revenues when the *provider* government recognized, for example, the sales or property tax revenues, instead of when the provider government recognized the *sharing* of those revenues.[2] Specifically, the recipient government would have recognized shared derived tax revenues in the period *when the underlying exchange occurred* (for example, when the sales, on which taxes were assessed, occurred). For shared revenues from imposed nonexchange transactions, the recipient government would have recognized revenues in the period when *resources were required to be used* or the first period that use was permitted (for example, when the property tax year began). In certain circumstances, this exception in paragraph 28 required the provider and recipient governments to recognize the sharing of revenues at different times.

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[1]When modified accrual accounting is used, resources also should be “available.”

[2]See footnote 1.

7. After the release of Statement 33, questions arose concerning the application of the exception provisions of paragraph 28 for recipient governments versus the general accounting and reporting provisions for provider governments. A project to address these issues was added to the technical agenda in July 1999.

8. In November 1999, the Board issued an Exposure Draft (ED) with a comment period ending January 31, 2000. Twenty comment letters were received.

Appendix B

BASIS FOR CONCLUSIONS

Introduction

9. This appendix summarizes 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.

Amendment of Statement 33

10. The Board initially believed that the requirements of paragraph 28, as it was originally issued, would result in a more complete application of accrual accounting for governments that receive shared derived tax and imposed nonexchange revenues. Several factors, however, caused the Board to reconsider this provision.

11. As discussed in Appendix A, revenue sharing typically involves two transactions: (a) assessment of revenues by one government and (b) sharing of a portion of those revenues with another government. In the case of the second transaction (the sharing), Statement 33 requires *provider* governments to account for the transaction as a government-mandated or voluntary nonexchange transaction. However, paragraph 28 of that Statement, as it was originally issued, required *recipient* governments to account for the second transaction as a derived tax or imposed nonexchange transaction. In many cases the accounting treatment by the recipient government under paragraph 28 was the same as for voluntary and government-mandated nonexchange transactions. For example, when a state shares its sales taxes under the requirements of a continuing appropriation,

the recipient should record revenues and receivables *when the underlying sales occur,*[3] regardless of whether the guidance for derived tax revenues or for government-mandated and voluntary nonexchange transactions applies. (Examples 1 and 1b in Appendix C illustrate this scenario for voluntary and government-mandated nonexchange transactions.) At the same time, the state should record expenses/expenditures and liabilities for the amount to be shared.

12. In other cases, the application of paragraph 28, as it was originally issued, would result in inconsistency. Specifically, an inconsistency could arise when a continuing appropriation does not exist. In this case, revenues could be collected by the provider government in one period and be appropriated and remitted to the recipient government in the next period. Because the provider government accounts for the payment to the recipient as a voluntary or government-mandated nonexchange transaction, any applicable eligibility requirements (as noted in paragraph 20 of Statement 33) are required to be met before the provider government can recognize the transaction. If the eligibility requirements have *not* been met (for example, the period covered by the appropriation has not begun—a time requirement), the provider government would not report a liability and expense/expenditure regardless of whether the recipient government reported a receivable and revenue under paragraph 28, as it was originally issued. As a result, the recipient government could be required to report a receivable and revenue even though the provider government has not recognized a liability and expense/expenditure for the same transaction. As indicated in paragraphs 54 and 76 of Statement 33, the Board believes this would be inappropriate.

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[3]See footnote 1.

13. After further study, the Board believes that the general provisions of Statement 33 provide appropriate guidance and that the exception should be eliminated. As amended by this Statement, Statement 33 requires governments that receive a portion of another government's derived tax revenues or imposed nonexchange revenues to follow the accounting guidance for government-mandated and voluntary nonexchange transactions. Thus, a government that receives a portion of another government's derived tax or imposed nonexchange revenues (for example, sales or property taxes) should record revenues, and the provider government should record expenses (or expenditures), *when all eligibility requirements have been met.*[4] This follows the symmetrical recognition concept of Statement 33. Except for payments in advance of meeting eligibility requirements, the recipient and provider would record assets and liabilities, respectively, at the same time that they record revenues and expenses/expenditures.

14. Paragraph 28 of Statement 33, as it was originally issued, also stated that some recipient governments might not be able to obtain or reasonably estimate accrual information necessary to record a nonexchange transaction. In such situations, that paragraph required recipient governments to do the following:

> . . . 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.

This Statement removes that requirement. The Board believes that recipient governments are able to reasonably estimate the accrual information necessary to record the transaction.

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[4]See footnote 1.

The method in paragraph 28, as it was originally issued, is one way to reasonably estimate the accrual information, but the Board does not want to limit estimation methods or indicate a preference for one method over others.

Exposure Draft

15. Twenty comment letters were received in response to the ED. All of the respondents agreed with the intent of the ED.

Appendix C

ILLUSTRATIONS—DERIVED TAX AND IMPOSED NONEXCHANGE REVENUES ADMINISTERED OR COLLECTED BY ANOTHER GOVERNMENT

16. 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.

17. 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.

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

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

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

Recipients

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

Provider

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

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

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

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

Recipients

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

Provider

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

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

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

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

* * *

The next example is based on paragraph 27 of Statement 33. It is presented in this Statement to highlight the differences between a government's sharing its own revenue (the subject of this Statement) and a government's collecting and distributing revenue that belongs to another government (the subject of paragraph 27).

Example 2: Locally Imposed Sales Tax Collected by the State

A local government (recipient) imposes a tax on sales of goods by retail merchants. The tax is 1 percent of the sales amount. Additionally, the state imposes a sales tax. Both taxes are collected by merchants from customers (providers) at the time of sale. Most merchants are required to submit all 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. The state remits the locally imposed sales tax to the local government quarterly.

This example illustrates one government (the state) collecting and administering revenues imposed by another government. The locally imposed sales tax is not a revenue of the state. Further, this example illustrates the characteristics of derived tax revenues. (The sales are exchange transactions.) The local government should recognize receivables and revenues, net of estimated refunds, as each sales transaction occurs. (From a practical standpoint, the local government will likely base the amount to be recognized on notification from the state of net merchants' sales reported to or estimated by the state for the weeks or quarters that make up the local government's fiscal year.)

Appendix D

CODIFICATION INSTRUCTIONS

18. The section that follows updates the Codification instructions for Statement 33 to allow for the effects of this Statement. Only the paragraph number is cited if the entire paragraph is included.

* * *

NONEXCHANGE TRANSACTIONS **SECTION N50**

Sources: [Add the following:] GASB Statement 36

.125 [Replace current paragraph with GASBS 36, ¶2] [Change "Statement" to "section" and renumber subsequent footnotes.]

NONAUTHORITATIVE DISCUSSION

.902 [Add the examples in GASBS 36, ¶17 after Example 1 and renumber remaining examples.]