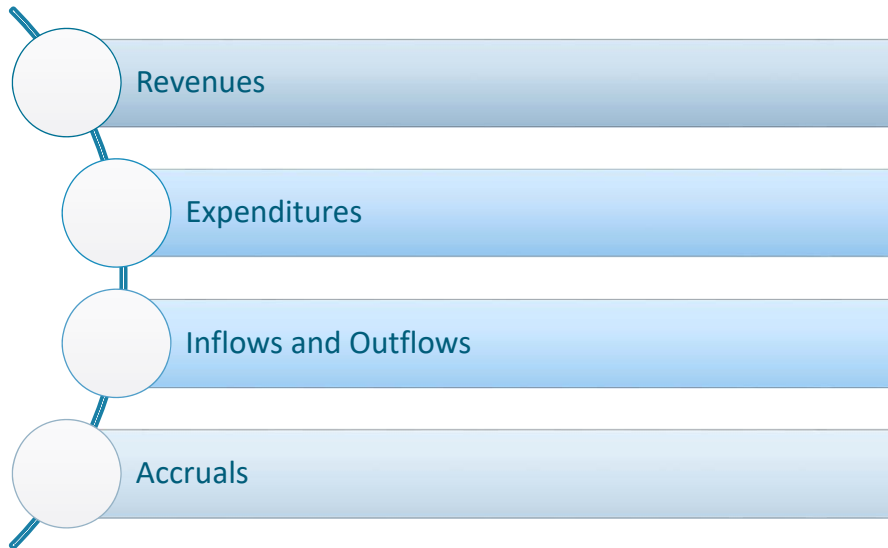


Revenue and Expenditure Recognition – Governmental Funds

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Agenda



Statement of Revenues, Expenditures, and Changes in Fund Balances



QUICK DETOUR: What is a Major Fund?

Report **Major** Funds

- * Major funds
 - 10% of Governmental Fund Types
-- AND--
 - 5% of Governmental and Enterprise Fund Types
 - General Fund is ***always*** major

- * Non-major funds
 - All other funds – single column presentation in the aggregate

Revenue Recognition Under Basis of Accounting

Modified Accrual Basis

- Current financial resources measurement focus – used in governmental fund financial statements
 - *Recognize revenues when they become measurable and available*

Accrual Basis

- Economic resources measurement focus – used in government-wide and proprietary financial statements
 - *Recognize revenues when earned*

All revenues are reported net of related discounts and allowance for uncollectible amounts.

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Deferred Inflows and Unearned Revenue

Under Modified Accrual revenues not meeting recognition criteria are accounted for in two ways:

Revenues that do not meet the availability criteria

- Deferred Inflow of Resources
 - Revenue is recognized on the government wide statements

Revenues received prior to meeting eligibility criteria

- Unearned Revenues
 - Revenue is not recognized on the government wide statements.

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Types of Revenues



Exchange vs. Nonexchange Revenues

Exchange

- Transaction between two parties in which things that are *equal* value are exchanged
- Revenue is recognized *when the exchange takes place*

Nonexchange

- Transaction in which the government receives a benefit from another party without directly receiving equal value in exchange
- Revenue is recognized in accordance with GASB 33

Four Classes of Nonexchange Transactions

Derived-Tax

- assessments on exchange transactions
- examples include income, sales, and use taxes

Imposed Nonexchange

- assessments on nongovernment, nonexchange transactions
- examples include property taxes and fines

Government-Mandated

- funding received from another government for a specific purpose
- examples include state mandated road improvements

Voluntary Nonexchange

- Legislative or contractual agreements entered into willingly by the parties of the agreement
- examples include certain grants and donations

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Derived-Tax

- Asset – When *underlying exchange has occurred* or resources are received, whichever is first
- Revenue – When the *underlying exchange occurs*

Imposed Nonexchange

- Asset – When *enforceable legal claim has arisen* or resources are received, whichever is first
- Revenue – The period when the resources are required or first permitted to be used (for example, period for which levied)

Government-Mandated & Voluntary Nonexchange

- Asset – When *eligibility requirements are met* or resources are received, whichever is first
- Revenue – When *eligibility requirements are met*

Revenue Sources for Local Governments

- Taxes
 - Property taxes
 - Sales taxes
- Special Assessments
- Licenses, permits, fees, fines and forfeits
- Intergovernmental revenues (entitlements, shared revenues, grants, and on-behalf payments)
- Contributions
- Sales and services charges
- Miscellaneous revenues

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Property Taxes

- Imposed nonexchange revenue
- Also called *ad valorem* taxes
- Levied on real (land, buildings) or personal property (vehicles, machinery)
- Property is subject to a lien
- Allowances are generally minimal

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Property Tax Calendar in Arizona

August – 3rd Monday of the Month – Taxes are levied

October 1 – First half of taxes are due

November 1 – First half of taxes are delinquent if not paid

March 1 – Second half of taxes are due

May 1 – Second half of taxes are delinquent if not paid

January 1 - Lien attaches to the property

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Accounting for Property Taxes

Modified Accrual basis

- Receivable should be recognized for unreceived revenue in the period for which it is levied
- Revenue is recognized when levied, provided the revenue is also *available*
- GASB Cod. Sec. P70 defines availability period – should not exceed 60 days after year-end
- Report *deferred inflows* for assets not received within period of availability

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Property Tax Financial Reporting Considerations

1. Since property taxes are collected by the County, there is a lag in receipt of the revenues.
2. Receivable and unavailable should be reported for revenues not received within the period of availability.
3. Review receivable to ensure it is adjusted when the County adjusts the levy.

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Sales Taxes

- Derived-tax revenue
- Imposed by government based on underlying exchange transaction (such as sale of retail items)
- May be imposed on all good or services sold (except those that are exempt)
- May be imposed on specific items (ex. hotel occupancy)

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Accounting for Sales Taxes

Modified Accrual basis

- Should be recognized when the underlying exchange (sale of goods) takes place **and** the resources are available
- Purpose restrictions do not affect revenue recognition, but may require reporting in a specific fund
- Report revenues net of estimated refunds and uncollectible amounts

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Sales Tax Financial Reporting Considerations

1. Receivable and unavailable should be reported for revenues not received within the period of availability. This may require consultation with sales tax department regarding delinquent accounts/tax audits.
2. Review lag schedule of sales taxes receivable to determine if allowance is reasonable

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Special Assessments

- Service-type – Exchange Transactions
 - Examples include: charges for street cleaning, snow removal, landscape maintenance
- Capital – May be Exchange or Imposed Nonexchange
 - Improve or add infrastructure related to specific properties
 - Examples include: roads, sidewalks, curbs

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Accounting for Service-Type Special Assessments

Modified Accrual basis

- Report revenue when the service is provided **and** amounts are available
- Report deferred inflows for revenues not received during period of availability

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Accounting for Capital Special Assessments

Modified Accrual basis

- If debt is issued and government is obligated in some manner for the debt – record receivable and unavailable revenue/revenue
- If government is not obligated – no receivable is recorded, activity is recorded in an agency fund
- If capital improvements are financed with existing funds – record receivable and unavailable revenue/revenue in the fund that provided the resources
- Recognize prepayments as revenue when collected

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Intergovernmental Revenues

- Government-mandated or voluntary nonexchange transactions
- Revenues should be recognized when all four types of eligibility requirements specified in GASB No. 33
 - Required characteristics of recipients
 - Time requirements
 - Reimbursements
 - Contingencies

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Intergovernmental Revenue Types

- Shared Revenues
 - Example – Highway User Revenues, State Shared Sales Tax
- Entitlement
 - Payment based on an allocation formula
- Grants and Other Financial Assistance
 - Usually restricted
 - Generally must be applied for
 - Example – federal grant for police equipment

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Shared Revenues

Considered continuing appropriations “once established, are automatically renewed without further legislative action, period after period, until altered or revoked”.

- The time eligibility is continuously (automatically) met and revenues are reported in the period in which the sales take place.

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Accounting for Intergovernmental Revenues

Modified Accrual basis

- Report revenue when all eligibility requirements have been met **and** amounts are available
- Report unearned revenues for resources received prior to meeting eligibility requirements
- GASB No. 33 provides that governments should not delay revenue recognition pending completion of purely routine requirements such as filing of claims for allowable costs for reimbursement-type grants

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Intergovernmental Revenue Financial Reporting Considerations

1. Review receivables at year end to ensure all are included even if the revenues did not come in by FYE or shortly thereafter
 - Unrecorded receivables have unfortunate side effects on recognition of federal awards
2. Investigate funds with deficit balances at fiscal year end to ensure that no receivable exists.

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Licenses, Permits, Fees, Fines and Forfeits

- Revenue can be reported on the cash basis in the governmental fund financial statements
- Typically not a significant source of revenues
 - Exception could be courts
- Fines – GASB Implementation Guide No. 2015-1
 - Undisputed fines should be recognized when they are paid or when the statutory time allowed for dispute lapses, whichever occurs first.

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Contributions

- Most are voluntary nonexchange transactions

- Revenues should be recognized when all eligibility requirements are met (and available in governmental funds)

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Sales and Service Charges

- Exchange Transactions
- Recognize revenue when the exchange takes place
- Report revenues net of discounts and allowances
- Primary source of revenue for proprietary funds
- Unbilled services charges require accrual

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Revenue – Walkthrough Example

Modified Accrual Basis – Revenue Example

Entity A (Fiscal year end June 30, 2017) receives property tax revenue on July 20, 2017 related to the FY 17 levy (during the period of availability).

The Entity records the following in the FY 17 cash basis accounting records:

Debit: CASH
Credit: PROPERTY TAX REVENUE

Modified Accrual Basis – Revenue Example

Is this ok?

Yes – This is valid revenue to recognize, as it was earned in FY 17, and received within 60 days (period of availability) of year end so it is both measurable and available.

Modified Accrual Basis – Revenue Example

What if Entity A does not receive these property tax revenues until September 15, 2017?

Modified Accrual Basis – Revenue Example

**Is this still valid revenue of
FY 17?**

No – Under modified accrual, revenues must be BOTH measurable and available/

The Agency cannot record these revenues in FY 17.

Modified Accrual Basis – Revenue Example

What happens to the revenue received on September 15, 2017?

The property taxes are recorded as a receivable at year end, however rather than recording property tax revenue, unavailable revenue (a deferred inflow of resources) is recorded.

Types of Expenditures

Expenditures

- *Current expenditures
- *Debt service expenditures
 - Principal
 - Interest and fiscal charges
 - Issuance costs
- *Capital outlay
 - Expenditures in capital projects funds are generally categorized as capital outlay in the financial statements
 - Capital expenditures in non-capital funds categorized as capital outlay in the financial statements
- *Intergovernmental

Expenditure Recognition Basics

Governmental Funds

Modified Accrual Basis of Accounting (when expenditures are reported)

- Recognize expenditures in the period in which a liability has incurred; typically this is also interpreted as “when goods or services have been received”

Expenditure Recognition Basics

Governmental Funds

Current Financial Resources Measurement Focus
(*what expenditures are reported*)

- Use stems from the importance of appropriations and budgetary control
- A focus of providing services for the year
- Expenditures are outflows that are expected to be liquidated with expendable available financial resources

Exceptions That Put The “Modify” in Modified Accrual Basis of Accounting

- Debt service on general long-term debt
 - Recognized when *due*
- Compensated absences, claims and judgments, OPEB, pensions and many others
 - Recognize these when *matured* (due for payment)

Exceptions that put the “modify” in Modified Accrual Basis of Accounting

Type of Expenditure	When Due	When Liability Incurred
Bonded debt service payment	According to debt retirement schedule (typically 7/1 & 1/1)	Upon closing date for bond
Compensated absences	At time of resignation	At time of sick/vacation leave accrual
Claims and judgments	When settlement has been reached (due and payable)	When loss is probable and reasonable estimable
OPEB	When payments are made	Liability based on actuarial valuations and includes all persons eligible for benefits
Pensions	When employer contributions are made	

Presentation of Expenditures

Expenditures are reported by function:

Counties:

- General government
- Public safety
- Highways and streets
- Health, welfare and sanitation

Municipalities:

- General government
- Public safety
- Public works
- Transportation

Expenditures categorized at a minimum by “function”