



**Accounting and Financial Reporting for Nonexchange Transactions: GASB 33
(Accounting Issue # 11)**

(As a result of implementation of Cash Management, information contained in this brief related to the Housing Choice Vouchers (HCV) program is superseded by Accounting Brief No. 19. Specifically, at the time of the issuance of Accounting Brief No. 11, Cash Management was not applicable for the HCV program since revenue was recognized up to the eligible expenses as a result of the HCV reconciliation process (HUD Form 52681). Please refer to Accounting Brief No. 19 to determine effect of Cash Management on the HCV program).

Background:

Prior to the issuance of Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (GASB 33), only limited guidance was available over the proper accounting treatment of non-exchange transactions (operating subsidies and grants). The following document was prepared in order to address the implications of adoption of GASB 33 upon Public Housing Authorities (PHA)s.

Issues:

1. What impact will the implementation of GASB 33 have upon the way that PHAs account for grants and subsidies?
2. Does the revenue recognition criterion under GASB 33 have an effect on equity and how should the effect, if any, be reported within the financial statements?

Analysis:

Current Accounting Treatment

GAAP currently dictates that “Grants, entitlements, or shared revenues received for proprietary fund purposes, should be recognized as “nonoperating” revenues in the accounting period in which they are earned and become measurable (accrual basis). Such resources restricted for the acquisition or construction of capital assets should be recorded as contributed capital” [NCGAS 2 ¶12].

Based upon current application of GAAP, operating subsidies (Low Rent and Section 8) are recognized as revenue in the month, in which they are earned. Advanced subsidies are recorded as deferred revenue until such time that they are earned and can be recognized as revenue.

For grant programs, once expended, the nature of the transaction will determine whether grant revenues will be recognized or whether there will be an addition to contributed capital. Generally, when grant funds are expended for allowable operating purposes, corresponding revenue will be recognized. When grant funds are expended for capitalized fixed assets, there will not be a corresponding recognition of revenue but instead an increase in contributed capital.



Accounting Treatment under GASB 33

Nonexchange transactions defined

Nonexchange transactions occur when PHAs receive (or give) value without directly giving (or receiving) equal value in return. GASB 33 identifies four classes of nonexchange transactions as follows:

- *Derived tax revenues*: result from assessments imposed on exchange transactions (i.e., income taxes, sales taxes and other assessments on earnings or consumption).
- *Imposed nonexchange revenues*: result from assessments imposed on nongovernmental entities, including individuals, other than assessments on exchange transactions (i.e. property taxes and fines).
- *Government-mandated nonexchange transactions*: 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 (i.e., federal programs that state or local governments are mandated to perform)
- *Voluntary nonexchange transactions*: result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement (i.e., certain grants and private donations)

Generally, PHA grants and subsidies will be defined as a *government-mandated or voluntary nonexchange transaction*.

Provider Imposed Stipulations

Generally, the provider of the resources attaches stipulations over their use. GASB 33 establishes two distinct standards depending upon the kind of stipulation imposed by the provider.

- *Time requirements* specify (a) the period when resources are required to be used 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. (i.e. capital grants used for purchase of capital assets) Purpose restrictions do not affect when a nonexchange transaction is recognized. However, PHAs 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 [GASB 33 ¶21-25]

Government-mandated and voluntary nonexchange transactions.

- PHAs should recognize assets (liabilities) when all applicable eligibility requirements are met or resources received whichever is first. Eligibility requirements established by the provider may stipulate the qualifying characteristics of recipients, time requirements, allowable costs, and other contingencies.
- PHAs should recognize revenues (expenses) when all applicable eligibility requirements are met. For transactions that have a time requirement for the beginning of the following period, PHAs should record resources received prior to that period as deferred revenue and the provider of those resources would record an advance.
- PHAs receive government-mandated or voluntary nonexchange transactions, which do not specify time requirements. Upon award, the entire subsidy should be recognized as a receivable and revenue in the period when all applicable eligibility requirements have been met.

Effective Date

The provisions of GASB 33 become effective for fiscal years that begin after June 15, 2000. Earlier application is encouraged.

Conclusion:

Based upon REAC's interpretation of GASB 33, the following guidance is provided;

1. Revenue recognition principles which remain the same,
 - a. Grants and subsidies will be recognized as revenue when all applicable eligibility requirements have been met. For example, revenue will be matched against administrative costs incurred under a Drug Elimination Grant, which are considered eligible under the provisions of the grant agreement.
 - b. For subsidy programs (i.e. Low Rent and Section 8 Certificate & Voucher Programs), the annual appropriation can be recognized upon approval of the annual budget. Subsidy revenues must be adjusted at year-end for contractual adjustments based on differences between estimated and actual funding requirements (for example when notification is received of the approved funding level for the subsidy program, the PHA may record a receivable and revenue for the award amount).
 - c. In instances where the resources are received prior to meeting the eligibility requirements, the PHA should record the nonexchange transaction as deferred revenue until such time as the eligibility requirements are met (for example under a grant program, when a request is made by a PHA for monies to be advanced prior to disbursement being made for eligible grant costs, these advanced funds would be recorded within cash with a corresponding deferred revenue).
2. Revenue recognition criteria which change under GASB 33,
 - a. For capital grants, which have a provision for the drawn down provision, the grant amount approved for draw down may be recognized in the period the approval is granted. For example, assuming the Field Office approves for a PHA to draw down \$100,000 of a \$300,000 capital grant award, in accordance with the Capital Funds Formula Funding, the PHA could record a receivable and revenue for the \$100,000 it has been approved to draw down.
 - b. All grants and subsidies are to be accounted for as "revenue", regardless of what the resources are being used for. For example, capital grant monies used to acquire or construct capitalized fixed assets will no longer be accounted for as contributed capital but instead as revenue within the program; however, note that contributed capital which has been recorded from prior years' activity will not be removed until application of GASB 34.