Chapter 3

Nonexchange Transactions

- Timing of Recognition
Nonexchange Transaction
Definition:

- Give (receive) value without directly receiving (giving) equal value in return.
Classes of Nonexchange Transactions

- Derived Tax Revenues
  - Assessments Imposed on Exchange Transactions
    E.G. Income Tax, Sales Tax
Classes of Nonexchange Transactions Cont.

- Imposed Nonexchange Revenues
- Assessments Imposed on Nongovernmental Entities in Nonexchange Transactions
  E.G. Property Taxes
Governmental-Mandated Revenues

- Different Levels of Government
- Resources Provided with Purpose Restrictions
  E.G. Federal Programs States Mandated to Perform
Voluntary Nonexchange Transactions

- Willingly Enter Legislative or Contractual Agreement
  E.G. Grants and Private Donations
Additional Factors

- **Time Requirements:**
  - When Resources Used or May Begin
  - Affects Timing of Recognition
Purpose Restrictions

- How to Use Resources
- No Effect on Timing of Recognition
- Net Assets, Equity, Fund Balance Restricted/Reserved
Basis of Accounting

- Accrual vs. Modified Accrual
- No Effect on Recognition Timing
  For Assets/ Liabilities and Expense/
  Expenditures
- Does Affect Revenue Recognition
Recognition Standards with Examples

- Derived Tax Revenues:
  - Underlying Transaction Occurs or Resources Received Whichever First
  - E.G., State Imposes Retail Tax; Weekly Remittance
Recognition Standards with Examples Cont.

- Recognize when Exchange Occurs, Measurable and Realizable for Assets and Revenues
- Requires Year-End Estimation
Recognition Standards with Examples Cont.

- E.G., City Imposes Hotel Tax on Guests; Weekly Remittance; Terminates in Decade, Use for Construction of Convention Center
- Recognize when Hotel used by Guest
Recognition Standards with Examples Cont.

- Estimation Procedures
- Purpose Restriction Requires Disclosure of Reserved/Restricted Fund Balance/Retained Earnings
Imposed Nonexchange Revenues

- Recognize Assets when Enforceable Legal Claim Exists or Resources Received Whichever First
- Recognize Revenues when use of Resources Required or Permitted
Imposed Nonexchange Revenues Cont.

- E.G., City Adopts Property Tax Levy Ordinance, FY end 4/30/20X2, Lien Date 1/1/X1, Tax Collected 3/1/X1 and Later
- Recognize Receivable and Liability on 1/1/X1
  - Recognize Revenue During 5/1/X1 – 4/30/X2
Imposed Nonexchange Revenues Cont.

- E.G., State Mandates Repairs and Upgrades for County Environmental Facilities, Grants on Per Capita Basis, Used During State F/Y Ending 6/30; Counties must Dedicate % of Property Tax Revenue
Imposed Nonexchange Revenues Cont.

- Recognize Revenue when Eligibility Met; July 1 Assuming Tax Dedication
- Reservation/Restriction in Financial Statements
Government-Mandated and Voluntary Nonexchange Revenues

- Recognize Assets When Eligibility Met or Resources Received, Whichever is First
- Recognize Revenues, Expenses/Expenditures When Eligibility Met
Government-Mandated and Voluntary Nonexchange Revenues Cont.

- E.G., State Reimburses School Districts for Special Education Costs Incurred at Local Level. Maximum Amount of Reimbursements Limited, Based on Quarterly Reports.
Government-Mandated and Voluntary Nonexchange Revenues Cont.

- Recognize Receivable and Revenue in School Year Allowable Cost Incurred
Government- Wide F/S Format

- Expenses 1st (Direct vs. Indirect)
- Revenues by Specific Program 2nd
- Net (Expense) Revenue 3rd
- General Revenues 4th