Government Guide

Spring 2017

Revenue recognition, GASB style
By Brian J. Hemmerle, CPA, CFE

There has been a lot of talk in the accounting world on the upcoming changes to revenue recognition with the FASB. So, I thought we could take a little time to refresh our GASB users on the revenue recognition pertaining to governments, and more specifically, what GASB Statement 33 has to say about it.

In governmental accounting, we have to deal with transactions that are nonexchange in nature more often than exchange transactions. GASB Statement 33 focuses on nonexchange transactions, which are defined as a government giving (or receiving) value without directly receiving (or giving) equal value in return. Value can be in the form of cash or other financial/capital resources. Because equal value is not being exchanged, it can often be difficult to determine when the transaction should be recognized; hence the need for GASB Statement 33.

To complicate things more, governmental entities use both the accrual method of accounting and the modified accrual method of accounting. This is important for revenue recognition in the Standard. The big difference between the two types of accounting for revenue recognition is the concept of the resources being "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.

There are four types of nonexchange transactions: derived tax revenue, imposed nonexchange revenues, government-mandated nonexchange transactions and voluntary nonexchange transactions. Derived tax revenues are transactions that result from taxes imposed on outside exchange transactions such as sales, assessments, earnings and consumption. You may remember this type as tax on items that move or have been exchanged between parties.

Imposed nonexchange revenues are transactions that result from assessments imposed on entities for items that do not have an underlying exchange transaction, such as property taxes or fines. You may remember this one as a tax on wealth or behavior.

Government-mandated nonexchange transactions occur from transactions between two governments on different levels, in which one government is mandating another government to provide services or use resources for a specific purpose. You may remember this as the federal government requiring, say a local school district, to provide school lunches, in which those monies provided by the federal government must be used for that purpose.

Voluntary nonexchange transactions result from both parties willingly entering into an agreement, other than exchanges. You may remember this one as being most grants, donations and or contributions.

The depth of this Statement goes far beyond this article. I encourage you to sign up for our two hour CPE presentation or webinar on March 21, 2017 to learn more. Go to **www.hhcpa.com/cpeopportunities** to sign up.

If you have any questions, Brian can be reached at (480) 839-4900 or BrianH@hhcpa.com.

Fast Facts

- Founded 1957
- 18 Partners
- 150+ team members
- 50% are CPAs
- Arizona's largest locally owned accounting firm
- Your money stays in the state
- Serving the government industry since 1957
- Average 10+ years of experience per auditor
- Your team works exclusively on government audits

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Are you ready for tax abatements?
By Jeffery W. Patterson, CPA, MBA

The Governmental Accounting Standards Board (GASB) has issued what seems to be a record number of statements in recent years. To keep up with all the changes can be difficult, and the updated pension standards seem to have gotten most of our attention in recent years. With all the time and effort spent complying with the pension standards, it is important to not overlook some of the other changes that have been issued. In August of 2015, GASB issued GASB Statement 77, Tax Abatement Disclosures, that addresses the disclosures associated with tax abatements. GASBS 77 became effective for periods beginning after December 15, 2015. In other words, you may have additional disclosures in your next set of financial statements.

The first thing to do is to determine if one or more tax abatement agreements exist within your entity. A tax abatement is an agreement between one or more governments and an individual or entity. Often, a state or local government will employ some program that reduces an individual's or entity's taxes if certain conditions are met, such as redevelopment of a certain neighborhood, increase in local employment or some other type of indirect benefit to the government. Any agreement where your entity is foregoing tax revenue to which you are entitled and another individual or entity promises to take a specific action after the agreement has been entered into, is considered a tax abatement. Tax abatements do not include programs that provide for deductions, credits, rebates or loans, but are more focused on a government's individual decision to accept less revenue for something of value from an individual or entity.

If a tax abatement agreement exists, the next step will be to gather the information needed in order to properly disclose the abatements in the financial statements. The information required to be disclosed includes the name and purpose of the tax abatement program, the specific tax being abated, authority under which the tax abatement agreement was entered into, criteria required to make the recipient eligible, provisions for recapturing the abated taxes and the types of commitments made by the recipient of the tax abatement. Additionally, your entity will need to disclose how the recipient's taxes are reduced, and how the amount of the tax abatement is determined, along with the gross dollar amount by which your entity's tax revenues were decreased.

It is also important to note that there is some information that is not required to be disclosed. These items include: the names of tax abatement recipients, the number of tax abatement agreements entered into, future amounts to be abated under existing agreements, duration of tax abatements, recipient's compliance with commitments and amount of abated taxes recaptured or eligible for recapture during the reporting period.

The GASB Standard provides example disclosures that may be helpful in preparing your financial statements, but it is important to begin to capture the information before the end of your fiscal year.

If you have any questions, Jeffery can be reached at (480) 839-4900 or JeffP@hhcpa.com.

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Henry+Horne has performed several audits of our annual financial statements, and each year they have submitted the reports on or before deadline. All members of the engagement team are very knowledgeable, extremely responsive and professional.