It is generally recognized that a liability exists when goods or services have been received prior to a fiscal reporting period, but for which those goods or services have not been paid.

It is not as clear that a liability exists when an agency is providing funding through grants, appropriations or specified revenue sources to cities, towns, counties and school districts, when the State is not receiving any goods or services in return. These types of transactions are referred to as either government mandated nonexchange transactions or voluntary nonexchange transactions.

These nonexchange transactions are governed by provisions contained in Governmental Accounting Standards Board (GASB) Statement 33—Accounting and Financial Reporting for Nonexchange Transactions.

These transactions continue to present audit issues and our external auditors have provided the State guidance on this issue which is provided here:

- An audit issue has been raised regarding whether or not the State is required to record a liability for grant payments to other governments when the State is dependent upon the other government to submit a request for reimbursement. Reimbursement based (expenditure driven) grant programs are operated out of nearly every State Agency, however, the area where this liability has been raised is in the Wyoming Department of Education (Agency 005) and their grants to local School Districts and Non-Profits, the School Facilities Commission (Agency 027) and their grants to local School Districts for capital construction, and the Office of State Lands & Investments (Agency 060) and their Mineral Royalty Grant (MRG) program. The State agencies claim that they have no control over the local governments or the contractors providing services to the local governments, so it's an unrealistic expectation for the State to demand that the local governments provide them the information in a timely manner so that the State can record a liability.

- The situation in question deals with nonexchange transactions, which are identified and discussed in GASB 33 – Accounting and Financial Reporting for Nonexchange Transactions, specifically:

- *Government-mandated nonexchange transaction* (GASB 33, Paragraph 7.c) – which is defined as when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose, or a

- *Voluntary nonexchange transaction* (GASB 33, Paragraph 7.d) – which is defined as a transaction resulting from legislative or contractual agreements, other than exchanges, entered into willingly by two or more parties (examples include certain grants, entitlements). Both parties may be governments, or one party may be a nongovernmental entity, including an individual.

- Essentially GASB 33, paragraph 21 states that "Providers (which in this case is the State of Wyoming) should recognize liabilities and expenses from government-mandated or voluntary nonexchange transactions when all applicable eligibility requirements are met. Those eligibility requirements include: (a) Required characteristics of recipients – the recipient and secondary recipients, if applicable, has the characteristics specified by the provider (Not an issue in this case); (b) Time Requirements – time requirements specified by enabling legislation or the provider have been met (Not an issue in this case); (c) Reimbursements – The provider offers resources on a reimbursement ("expenditure-drive") basis and the recipient has incurred allowable costs under the applicable program (Applicable in this case); and (d) Contingencies (applies only to voluntary nonexchange transactions) – the provider's offer of resources is contingent upon a specified action of the recipient is required to raise a specific amount (Not an issue in this case).

- The question is – is there an enforceable legal claim against the Provider (the State of Wyoming) until the Secondary Recipient has submitted a request for reimbursement? Is the submission of a request for reimbursement an eligibility requirement? The reason for these questions is the fact that the Provider (State of Wyoming) has no control over when the Secondary Recipient (local government or school district) will submit a claim for reimbursement. For example, if a Secondary Recipient elects not to submit a claim for reimbursement until the project is complete, how is the provider expected to record a liability/expense for these services? For that matter, how is a Secondary Recipient expected to record a liability to a vendor when the vendor doesn't bill them in a timely manner; and thus the provider has no ability (or knowledge) that a liability exists.

RESOLUTION:

- GASB 33, paragraph 54 states "The Board believes that, when both parties to a nonexchange transaction are governments,[20] recognition generally should be symmetrical.[21]" This would indicate that if the secondary recipient recorded an asset for the reimbursable expenses then the Provider should record a corresponding liability. However, footnote 21 states "Symmetrical recognition does not necessarily mean *simultaneous* recognition, which may not occur for practical reasons or because one party is recognizing expenses on the accrual basis of accounting and the other is recognizing revenues on the modified accrual basis of accounting."

- This issue has also been addressed by the GASB in the comprehensive implementation guide found at Chapter Z, question Z.33.15, which documents the following:

  Q – A state reimburses local governments for certain grant expenditures. Should the state accrue a liability for reimbursement based on (a) claims submitted or (b) claims submitted and claims incurred but not reported? (Q&A34B-163)

  A – For reimbursement-based (expenditure-driven) grants, paragraph 21 of Statement 33 requires providers to recognize liabilities (or decreases in advances) when all eligibility requirements are met. Reimbursement eligibility requirements are met when recipients **incur** allowable costs, not when those costs are submitted for reimbursement. Therefore, on either the accrual or the modified accrual basis of accounting, the state should recognize a liability for the *estimated amount* of allowable costs incurred by potential recipients, based on both claims submitted and estimated claims incurred but not reported, provided that all other eligibility requirements are met.

- CONCLUSION:

  Based on the above analysis the State will need to recognize a liability for known and estimated costs incurred to date for the various grant programs.

This means agencies must communicate with these local governments prior to fiscal year end, to ensure they have requested their reimbursements in a timely manner and, if necessary, the documents processed after fiscal year close, are coded to allow the SAO to run reports and make necessary adjustments to the State's financial statements.