

RULE 6.1 – REVENUE RECOGNITION - ACCRUALS AND DEFERRED REVENUE

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PURPOSE

Generally Accepted Accounting Principles (GAAP) require revenue be recognized according to the nature of revenue and the fund type. In addition, **GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions** gives guidance on revenue recognition. It is critical the City and County of Denver (city) ensures the proper application of its revenue in order to have accurate financial statements.

FUND TYPES AND CLASSIFICATIONS

Proprietary Funds – Enterprise funds and Internal Service funds.

Fiduciary Funds – Pension funds, Investment Trust funds, Private-Purpose Trust funds, and Agency funds.

Governmental Funds – General fund, Special Revenue funds, Capital Projects funds, Debt Service funds and Permanent funds.

RULES

1. Agencies shall recognize revenue in accordance with Generally Accepted Accounting Principles (GAAP).
2. Proprietary funds and fiduciary funds shall recognize revenue on an accrual basis; using the same criteria used for private business organizations.
 - A. Generally this requires recognition of revenue when it is measurable and earned, regardless of when the cash is received.
3. Governmental fund types shall recognize revenue on the modified accrual basis.
 - A. Property taxes, sales and use taxes, franchise taxes, occupational privilege taxes, interest revenue, grant revenue and charges for services are recognized in the period they are susceptible to accrual; when they become both measurable and available to finance the expenditures of the fiscal period. Grant revenue is considered available

if it is expected to be collected within one year and all eligibility requirements are met.

- B.** Other receipts, fines, licenses, permits and parking meter revenues become measurable and available when cash is received by the city and are recognized as revenue at that time.
- 4.** Each agency shall prepare a year-end entry to record any accrual or deferred revenue related to revenue. In addition, a reversing entry must accompany the original entry.
- 5.** When an agency receives revenue that is not defined above or may have unusual characteristics, the following Key Concepts and criteria shall be followed:

KEY CONCEPTS

GAAP revenue recognition criteria vary depending on the nature of the revenue and fund type involved. Key concepts to be used in applying the revenue recognition criteria include measurability, availability, matching, materiality, practicality, variability and consistency. These terms are broadly defined by GASB. Governments are allowed some latitude in applying the criteria. GASB requires each government to “...adopt revenue accounting policies that appropriately implement the susceptibility to accrual criteria, apply them consistently and disclose them...” (GASB Cod. 1600.108). **Apply criteria using the following:**

- 1. Measurability:** To be accruable, it must be possible to record the actual amount receivable or an estimated amount. If an estimation approach is justified, methods used must be documented, objective, reasonably reliable, practical and consistently applied. If these criteria cannot be achieved, the receivable is not reasonably estimable and an asset should not be recognized.
- 2. Availability:** GASB defines “available” as collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (GASB Cod. 1600.106). “Current period” refers to the fiscal period being reported upon. How this criterion is applied depends on the nature of the revenue.
 - A.** Unearned revenue sources such as taxes are recognized as receivables when revenue is legally an asset (due or receivable) of the city. Revenues of governmental funds that accrue to the city, independent of when expenditures are incurred by the city (such as taxes, licenses, and permits), are considered “available” if the payer incurs the obligation to the city before year-end and payment is received within 60 days of year-end. Exception: revenue related to delinquent taxes receivable is recognized in the amount expected to be received within 12 months.
 - B.** If revenue will not be received until after February 28 (60 day rule), record the portion beyond 60 days as deferred revenue as it is not considered available.

- C.** Revenues that the city earns by incurring obligations (such as matching federal grants) are generally recognized in the same period that the related obligations are recognized. Such accrued revenue is considered available even if it is not received within 60 days of year-end. This method provides improved reporting and control at the program level because it appropriately matches funding sources and uses.
- 3. Matching and Earning Concepts:** Revenues which the city earns by providing a service or incurring an expenditure are generally recognized using the matching concept, i.e., related revenues and expenditures being recognized in the same accounting period.
- 4. Materiality and Practicality:** In developing accounting methods to apply to various revenue sources, materiality and practicality are important considerations. The degree of precision and reliability required depends on an item's materiality. Material revenue sources may justify using sophisticated and costly methods. Smaller revenue sources might be appropriately accounted for using more practical, but less accurate methods.
- A.** Using the cash basis may be justified if a revenue item is too impractical or immaterial to accrue, or if recording the accruals would be inappropriate.
- B.** Use professional judgment in applying the materiality concept. Consider materiality as it relates to your operations. This includes assessing the impact of an item from a budgetary control, accounting control or program level reporting point of view.
- C.** As CAFR preparation progresses at year-end, Controller's Office materiality focus increases from the agency level to CAFR level. The Controller's Office may decline to make adjustments requested after deadlines have passed.
- D.** Record accruals within established time frames. Responsibility for deciding not to make adjustments based on CAFR immateriality rests solely with the Controller's Office. Unless informed otherwise, continue to notify the Controller's Office of adjustments which are material for your purposes, even if deadlines have passed.
- E.** Certain types of revenues are more difficult to accrue than others. When analyzing alternative accrual methods, consider cost, timeliness, objectivity, precision and reliability.
- 5. Variability:** The degree to which an accrual will fluctuate from year to year is important in considering whether revenue should be accrued and in selecting estimation methods. The impact of accruals on revenues is greater for accounts if the amount is likely to fluctuate from year to year. The need for reliable estimates is greater if large year-to-year fluctuations are expected.
- 6. Consistency:** If changing an accrual method, obtain prior written approval from the Controller's Office. Only changes to an accrual method that are clearly preferable will be approved. If submitting a request for change to the Controller's Office, allow adequate time for review. A change to the accrual method may be considered preferable if it results in increased reliability and precision, improved practicality, better compliance with GAAP or other city accounting policy.

AUTHORITY AND ACCOUNTABILITY

The **Manager of Finance** and the **Controller's Office** are responsible for this fiscal accountability rule and any procedures, guides, job aids, forms, and one-page summaries associated with this rule.

Unless otherwise specified at the beginning of the document, printed copies are UNCONTROLLED. Always refer to the online Fiscal Accountability Rules on City and County of Denver website prior to use to ensure you are using the most current copy.