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HIGHER EDUCATION	Last Revised 07/01/99	
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TITLE: EXCHANGE, EXCHANGE-LIKE AND NONEXCHANGE TRANSACTIONS

Governments engage in two types of transactions: (a) exchange and exchange-like transactions, in which each party receives or gives up essentially equal values, and (b) nonexchange transactions, in which a government gives (or receives) value without directly receiving (or giving) equal value in return. Statement No. 33 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Nonexchange Transactions*, establishes accounting and financial reporting standards for state and local governments with respect to nonexchange transactions.

The timing of revenue recognition for a transaction depends on if the activity results in exchange, exchange-like or nonexchange transactions. In some instances, the transaction may have characteristics of both exchange and nonexchange transactions, and if material, should be accounted for and reported separately.

Exchange, Exchange-Like Transactions

Exchange transactions occur when each party receives or gives up essentially equal values.

- Providing instruction (educational services) in exchange for tuition revenue is the most common exchange transaction for Higher Education.

- Fee for Service Contracts (excluding Economic Development) between the institution and the Colorado Commission on Higher Education are exchange transactions.

Exchange-like transactions are similar to exchange transactions in that the parties can give or receive value, but it may not be equal, or the direct benefit of the exchange is not exclusive to the parties. These types of transactions need to be documented and evaluated on a case by case basis to ensure they are properly accounted for.

State sponsored programs may meet the definition of an exchange or an exchange-like transaction. The terms of the agreement must be reviewed to determine the appropriate accounting treatment.

For reporting purposes, the recognition of revenue is the same for exchange and exchange-like transactions and occurs as the earnings process is completed.

Nonexchange Transactions

Nonexchange transactions occur when the institution receives value without directly giving equal value in return. Considering shared characteristics, nonexchange transactions are grouped into four classes which affect the timing of recognition of assets, liabilities, revenues and expenditures:

1. Derived tax revenues result from assessments imposed on exchange transactions. Examples include taxes on personal income, corporate income, and retail sales of goods and services. Assets are recognized when the underlying exchange transaction occurs or resources are received, whichever is first. **Revenue is recognized when the underlying exchange transaction occurs.**

    - No current applicability to higher education.

2. Imposed nonexchange revenues result from assessments imposed on nongovermental entities, other than assessments on exchange transactions. Examples include property taxes, fines and penalties, and property forfeitures. Asset recognition occurs when an enforceable legal claim exists or the resources are received, whichever is first. **Revenue recognition occurs when use of the resources is required or first permitted.**

    - Higher education examples include parking fines, late payment charges, late registration charges, bad check fees, room damage fines, library fines, forfeiture of room deposit, etc.

3. Government mandated nonexchange transactions occur when government at one level provides resources to a government at another level and requires that the resources be used for a specific purpose. Federal programs that state or local governments are mandated to perform is one example. Recipients recognize assets and providers recognize liabilities when the applicable eligibility requirements are met or resources are received, whichever is first. **Revenues (recipients) and expenditures (providers) are recognized when all applicable eligibility requirements are met.** State of Colorado programs mandated to institutions of Higher Education are considered within the same level of government and therefore, GASB 33 does not apply. (GASB 33 Footnote 1)

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4. Voluntary nonexchange transactions result from legislative or contractual agreements, other than exchanges, entered into willingly by two or more parties. Examples include certain grants, certain entitlements, and donations by nongovernmental entities. Assets (recipients) and liabilities (providers) are recognized when the applicable eligibility requirements are met or resources are received, whichever is first. **Recipient revenues and provider expenditures are recognized when all eligibility requirements are met.**

- Higher education examples include State Appropriations (operating and capital), institutional scholarships, tuition waivers or remissions, donations and gifts whether received directly or from the foundation, grants and/or contracts that do not produce a result or product, Pell Grants.

- Grants and/or contracts which qualify as nonexchange transaction and for which an institution receives advance funding require an accounting treatment in which revenue is deferred until the eligibility requirements (required characteristics, time, reimbursement and/or contingencies) are met. (GASB 33 P20)

- Economic Development revenue received from the Colorado Commission on Higher Education is a nonexchange transaction and the revenue is recognized on the effective date of the transaction (i.e. the effective date of the contract).

Restricted/Unrestricted Net Assets

Net Assets may result from the above transactions. However, the requirements of GASB 33 do not determine whether those net assets are restricted or unrestricted. A separate analysis of the restricted/unrestricted classification of net assets is required in accordance with GASB 34/35.