



# Revenue Recognition Policy

**Effective: January 1, 2005**

The following are responsible for the accuracy of the information contained in this document: **Controller**

**Responsible Department:** Finance

## **Reason For Policy**

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To establish a consistent method for recognizing and reporting revenue.

## **DEFINITIONS**

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### **Governmental Funds (G) - Modified Accrual**

Governmental funds recognize revenue in the accounting period in which they become susceptible to accrual. Susceptible to accrual means that revenues are both measurable and available to finance expenditures of the fiscal period. Financial resources are available only to the extent that they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The availability period used for revenue recognition is generally 60 days.

### **Proprietary Funds (P) - Full Accrual**

Proprietary funds recognize revenue from the financial effect of transactions, events, and interfund activities when they occur (earned), regardless of the timing of related cash flows (availability).

## **Policy**

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**Revenue Recognition for Major Revenue Sources**

Revenue Source	Type	Revenue Recognition Policy	GASB Guidance (GASB 11, GASB 33, and NCGA Interpretation 3)	Change for GASB 34 Statement of Net Assets and Statement of Activities
Real estate and personal property taxes	G	<p>City property taxes are recognized as revenues when they become measurable and available to finance expenditures of the current period. Taxes levied in a given year are recorded as revenue in that fiscal year at the time that cash is received. Taxes are typically remitted in three installments during the year for which they are levied— May, November, and December. Delinquent are determined to be taxes remaining uncollected at the end of the year for which the taxes were levied. Delinquent taxes should be recognized as revenue in the <i>government-wide statements of net assets and activities</i> subject to an allowance for uncollectible amounts.</p> <p>Delinquent taxes should continue to be reported as deferred revenue in the</p>	<p><b>National Council on Governmental Accounting Interpretation 3 (paragraphs 5-8)</b>  <b>Revenue Recognition — Property Taxes</b></p> <p>NCGAI3 - After having reviewed information and recommendations received during the exposure draft period of a proposed interpretation on this subject, the NCGA has drawn the following conclusions:</p> <ul style="list-style-type: none"> <li>• Property tax revenue should be recognized in the fiscal year for which taxes have been levied, provided the "available" criteria (detailed below) are met. When a property tax assessment is made, it is to finance the budget of a particular period, and the revenue produced from any property tax assessment should be recognized in the period for which it was levied.</li> <li>• When property taxes receivable are recognized, or when property taxes are collected in advance of the year for which they are levied, they should be recorded as deferred revenue and recognized as revenue in the year for which they are levied.</li> <li>• Property tax revenues are recognized when they become available. Available means then due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. If, because of unusual circumstances, the facts justify a period greater than 60 days, the governmental unit should disclose the period being used and the facts that justify it.</li> </ul>	<p><b>No change for the current year levy.</b></p> <p><b>Delinquent taxes should be recognized as revenue subject to an allowance for uncollectible amounts.</b></p>

Revenue Source	Type	Revenue Recognition Policy	GASB Guidance (GASB 11, GASB 33, and NCGA Interpretation 3)	Change for GASB 34 Statement of Net Assets and Statement of Activities
Special Assessments	G/P	<p><i>fund statements.</i></p> <p>Revenue recognized in the period for which the special assessment is payable.</p>	<p><b>Governmental Accounting Standards Board Statement 33 (paragraphs 12-13, 29, 30c)</b></p> <p><b>Revenue Recognition</b></p> <ul style="list-style-type: none"> <li>• Enabling legislation or providers of resources in nonexchange transactions frequently stipulate time requirements, purpose restrictions, or both. Time requirements specify the period or periods when resources are required to be used or when use may begin. (For example, a provider may stipulate that the resources it provides are to be disbursed during a specific fiscal year or over a specified number of years, or cannot be disbursed until after a certain date or event has occurred, if ever.) Purpose restrictions specify the purpose or purposes for which the resources are required to be used. (For example, a provider may specify that its resources are to be expended for road and street repairs or, in the case of an endowment, that the principal is required to be held in income-producing investments.)</li> <li>• GASB 33 establishes different standards for time requirements than for purpose restrictions. Time requirements affect the timing of recognition of nonexchange transactions. Also, the effect on the timing of recognition is different, depending on whether a nonexchange transaction is (a) an imposed nonexchange revenue transaction or (b) a government-mandated or voluntary nonexchange transaction.</li> <li>• GASB 33 does not change the requirements of NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, as amended, and subsequent NCGA and GASB pronouncements for revenue recognition using the modified accrual basis of accounting, except as indicated in paragraph 6 of this Statement. Therefore, revenues from nonexchange transactions should be recognized "in the accounting period when they become available and measurable."</li> <li>• Imposed nonexchange revenues—other than property taxes. Recipients should recognize revenues in the period when an enforceable legal claim</li> </ul>	<p><b>Yes</b></p> <p>Revenue recognized in full in the year assessed for capital special assessments. All special assessments will be subject to an allowance for uncollectible accounts.</p>

Revenue Source	Type	Revenue Recognition Policy	GASB Guidance (GASB 11, GASB 33, and NCGA Interpretation 3)	Change for GASB 34 Statement of Net Assets and Statement of Activities
Tobacco Licenses	G	Revenue is recognized when the license is issued and the cash is received, unless funds are restricted for specific uses or time periods, in which case, revenue will be recognized when the allowable uses or time periods occur.	<p>has arisen and the resources are available.</p> <p><b>Governmental Accounting Standards Board Statement 11 (paragraphs 40-67)</b></p> <p><b>Revenue Recognition</b></p> <ul style="list-style-type: none"> <li>• <b>Licenses and Permits</b> - Citizens and others pay fees for licenses and permits for the privilege of engaging in a regulated activity. Often, the fee is intended to cover a privilege granted to cover a particular period of time. Because the grantee of a license or permit generally has no legal right to exercise the privilege until the fee is paid, it is considered that, for purposes of revenue recognition, a government's enforceable legal claim to license and permit fees arises when the fee is paid, provided the government has no obligation to refund amounts paid. Therefore, unless the entity wants to allocate the revenue over a period based on the criteria in the paragraph below, fees from licenses and permits should be recognized as revenue when received, provided there is no obligation to refund the amount.</li> <li>• In some cases, a government uses the fees from a license (or permit) to finance expenditures associated with the regulated activity during the license period. For example, a state may use annual professional licensing fees to finance the regulation of the professions during the same license year. In certain situations a government may want to defer and allocate the revenue from these fees over the license period because, for example, the revenue and expenditures are reported in a separate special revenue fund and the license fee is due in the period preceding the license period or the fee is for more than one fiscal period. In these cases, fees received should be deferred and recognized as revenue over the license period.</li> </ul>	No

Revenue Source	Type	Revenue Recognition Policy	<b>GASB Guidance (GASB 11, GASB 33, and NCGA Interpretation 3)</b> <b>Governmental Accounting Standards Board Statement 33 (paragraph 7b)</b>	<b>Change for GASB 34 Statement of Net Assets and Statement of Activities</b>
			<ul style="list-style-type: none"> <li data-bbox="905 451 1734 1032">• Imposed nonexchange revenues result from assessments by governments on nongovernmental entities, including individuals, other than assessments on exchange transactions. Examples include property (ad valorem) taxes; fines and penalties; and property forfeitures, such as seizures and escheats. The principal characteristic of these transactions is that the required transmittal of resources to the assessing government is imposed by that government on an act committed or omitted by the provider (such as property ownership or the contravention of a law or regulation) that is not an exchange transaction. Enabling legislation sometimes places purpose restrictions on the use of the resources. Alternatively, or in addition to purpose restrictions, the government may specify the period when the resources are required to be used or when use may begin. For example, property taxes generally are required to be used in or beginning in a particular period—the period for which the taxes are levied—which may not be the same period that payment is due or the period when the government has a right to place a lien on the property. Stipulations concerning the time period when resources are required to be used or when use may begin are referred to in GASB 33 as time requirements.</li> <li data-bbox="905 1057 1734 1422">• As indicated above, enabling legislation or providers of resources in nonexchange transactions frequently stipulate time requirements, purpose restrictions, or both. Time requirements specify the period or periods when resources are required to be used or when use may begin. (For example, a provider may stipulate that the resources it provides are to be disbursed during a specific fiscal year or over a specified number of years, or cannot be disbursed until after a certain date or event has occurred, if ever.) Purpose restrictions specify the purpose or purposes for which the resources are required to be used. (For example, a provider may specify that its resources are to be expended for road and street repairs or, in the case of an endowment, that the principal is required to be held in income-producing investments.)</li> </ul>	

Revenue Source	Type	Revenue Recognition Policy	GASB Guidance (GASB 11, GASB 33, and NCGA Interpretation 3)	Change for GASB 34 Statement of Net Assets and Statement of Activities
Liquor licenses	G	Revenue is recognized when the license is issued and the cash is received, unless funds are restricted for specific uses or time periods, in which case, revenue will be recognized when the allowable uses or time periods occur.	<b>Governmental Accounting Standards Board Statement 11 (paragraphs 40-67)</b> <b>Revenue Recognition</b> <ul style="list-style-type: none"> <li>• <i>Licenses and Permits</i> – see tobacco licenses above</li> </ul>	No
Franchise fees (NSP, Minnegasco, Time Warner Cable, TransStop)	G	Revenue is recognized when the franchise fees are received on the 25 <sup>th</sup> of each month that pertains to franchise fees imposed in the previous month. Except, December franchise fees received in January are recognized as revenue in the previous fiscal year, unless funds are restricted for specific uses or time periods, in which case, revenue will be recognized when the allowable uses or time periods occur.	<b>Governmental Accounting Standards Board Statement 11 (paragraphs 40-67)</b> <b>Revenue Recognition</b> <ul style="list-style-type: none"> <li>• <i>Licenses and Permits</i> – see tobacco licenses above</li> </ul>	No

Revenue Source	Type	Revenue Recognition Policy	GASB Guidance (GASB 11, GASB 33, and NCGA Interpretation 3)	Change for GASB 34 Statement of Net Assets and Statement of Activities
Investment income	G/P	Revenue is recognized when the interest has been earned. Any premium or discount is amortized and recorded as interest income. For governmental fund types the revenue must also be available for the revenue to be recognized. Securities are marked to market value at the end of the fiscal year.	<p><b>Governmental Accounting Standards Board Statement 11 and Statement 31 Revenue Recognition</b></p> <ul style="list-style-type: none"> <li>• In general, governmental entities, including governmental external investment pools, should report investments at fair value in the balance sheet (or other statement of financial position).</li> <li>• All investment income, including changes in the fair value of investments, should be recognized as revenue in the operating statement (or other statement of activities). When identified separately as an element of investment income, the change in the fair value of investments should be captioned net increase (decrease) in the fair value of investments. Realized gains and losses should not be displayed separately from the net increase (decrease) in the fair value of investments in the financial statements, except that realized gains and losses may be separately displayed in the separate reports of governmental external investment pools.</li> <li>• Investment income (interest and dividends) should be recognized in the period earned.</li> </ul>	<p><b>No</b></p> <p>The only change for the government-wide statements would be the amortization of the investment premium/discin to investment income on the statement of net assets and activities.</p>

Revenue Source	Type	Revenue Recognition Policy	GASB Guidance (GASB 11, GASB 33, and NCGA Interpretation 3)	Change for GASB 34 Statement of Net Assets and Statement of Activities
Civil fines (Circuit Court and City Court) Parking fines/fees (City Court)	G	Revenue is recognized when the cash settlement from the county is received on or about the 20 <sup>th</sup> of the month. Except, the cash settlement received in January pertains to fines imposed in the previous month and is recorded as revenue in the previous fiscal period, unless funds are restricted for specific uses or time periods, in which case, revenue will be recognized when the allowable uses or time periods occur.	<p><b>Governmental Accounting Standards Board Statement 11 (paragraphs 40-67)</b></p> <p><b>Revenue Recognition</b></p> <ul style="list-style-type: none"> <li>• <b>Fines</b> - Fines are monetary penalties imposed by governments against those that commit statutory offenses or violate administrative rules. Revenue from fines should be recognized in the period the entity has an enforceable legal claim to the amounts, regardless of when cash is received. Conditions that constitute an enforceable legal claim for fines include (a) the date by which an individual may contest a court summons expires and the fine is automatically imposed, (b) the offender pays the fine before a court date, or (c) a court imposes the fine. Appropriate allowances should be made for uncollectible fines and fines expected to be waived through an appeals process.</li> <li>• If the accrual-basis recognition of fines as provided above is not practicable, revenue from fines may be recognized on a cash basis.</li> </ul>	No

Revenue Source	Type	Revenue Recognition Policy	<b>GASB Guidance (GASB 11, GASB 33, and NCGA Interpretation 3)</b> <b>Governmental Accounting Standards Board Statement 33 (paragraph 7b)</b>	<b>Change for GASB 34 Statement of Net Assets and Statement of Activities</b>
			<ul style="list-style-type: none"> <li data-bbox="905 451 1734 1032">• Imposed nonexchange revenues result from assessments by governments on nongovernmental entities, including individuals, other than assessments on exchange transactions. Examples include property (ad valorem) taxes; fines and penalties; and property forfeitures, such as seizures and escheats. The principal characteristic of these transactions is that the required transmittal of resources to the assessing government is imposed by that government on an act committed or omitted by the provider (such as property ownership or the contravention of a law or regulation) that is not an exchange transaction. Enabling legislation sometimes places purpose restrictions on the use of the resources. Alternatively, or in addition to purpose restrictions, the government may specify the period when the resources are required to be used or when use may begin. For example, property taxes generally are required to be used in or beginning in a particular period—the period for which the taxes are levied—which may not be the same period that payment is due or the period when the government has a right to place a lien on the property. Stipulations concerning the time period when resources are required to be used or when use may begin are referred to in GASB 33 as time requirements.</li> <li data-bbox="905 1057 1734 1424">• As indicated above, enabling legislation or providers of resources in nonexchange transactions frequently stipulate time requirements, purpose restrictions, or both. Time requirements specify the period or periods when resources are required to be used or when use may begin. (For example, a provider may stipulate that the resources it provides are to be disbursed during a specific fiscal year or over a specified number of years, or cannot be disbursed until after a certain date or event has occurred, if ever.) Purpose restrictions specify the purpose or purposes for which the resources are required to be used. (For example, a provider may specify that its resources are to be expended for road and street repairs or, in the case of an endowment, that the principal is required to be held in income-producing investments.)</li> </ul>	

Revenue Source	Type	Revenue Recognition Policy	GASB Guidance (GASB 11, GASB 33, and NCGA Interpretation 3)	Change for GASB 34 Statement of Net Assets and Statement of Activities
Building permits	G	Building permit revenues are recognized when the permit is issued and the cash is received, unless funds are restricted for specific uses or time periods, in which case, revenue will be recognized when the allowable uses or time periods occur.	<b>Governmental Accounting Standards Board Statement 11 (paragraphs 40-67)</b> <b>Revenue Recognition</b> <ul style="list-style-type: none"> <li>• <i>Licenses and Permits</i> – see tobacco licenses above</li> </ul>	No
Certificates of inspection	G	Certificates of inspection revenues are recognized when the permit is issued and the cash is received, unless funds are restricted for specific uses or time periods, in which case, revenue will be recognized when the allowable uses or time periods occur.	<b>Governmental Accounting Standards Board Statement 11 (paragraphs 40-67)</b> <b>Revenue Recognition</b> <ul style="list-style-type: none"> <li>• <i>Licenses and Permits</i> – see tobacco licenses above</li> </ul>	No

Revenue Source	Type	Revenue Recognition Policy	GASB Guidance (GASB 11, GASB 33, and NCGA Interpretation 3)	Change for GASB 34 Statement of Net Assets and Statement of Activities
Grant revenue	G	Revenue is recognized when eligible expenditures have been incurred against a fully executed grant agreement.	<p><b>Governmental Accounting Standards Board Statement 33 (Summary and Appendix C paragraph 103)</b>  <b>Revenue Recognition - Grants</b></p> <ul style="list-style-type: none"> <li>• Voluntary nonexchange transactions, which result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement (for example, certain grants and private donations).</li> <li>• For the timing requirement of revenue recognition for grants to occur on the modified accrual basis, the criteria established in this Statement for accrual-basis recognition should have been met and the revenues should be 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.</li> <li>• Period when all eligibility requirements have been met. (Report advance receipts or payments for use in the following period as deferred revenues or advances, respectively. However, when a provider precludes the sale, disbursement, or consumption of resources for a specified number of years, until a specified event has occurred, or permanently [for example, permanent and term endowments], report revenues and expenses or expenditures when the resources are, respectively, received or paid and report resulting net assets, equity, or fund balance as restricted.) When modified accrual accounting is used for revenue recognition, resources also should be "available."</li> </ul>	No

Revenue Source	Type	Revenue Recognition Policy	GASB Guidance (GASB 11, GASB 33, and NCGA Interpretation 3)	Change for GASB 34 Statement of Net Assets and Statement of Activities
Water sales	P	Revenue is recognized when the amounts are billed. Meters read in December are recorded as December revenue.	<p data-bbox="856 386 1705 443"><b>Governmental Accounting Standards Board Statement 11 (paragraphs 40-67)</b></p> <p data-bbox="856 448 1098 475"><b>Revenue Recognition</b></p> <ul data-bbox="905 513 1728 660" style="list-style-type: none"> <li data-bbox="905 513 1728 660">• <i>Exchange Revenues - General Recognition Criteria</i> - Governmental fund revenues from exchange transactions—such as from charges for services—should be recognized when earned, regardless of when cash is received. When earned means when the entity has done what it must do to complete its side of the transaction.</li> </ul>	No

Revenue Source	Type	Revenue Recognition Policy	GASB Guidance (GASB 11, GASB 33, and NCGA Interpretation 3)	Change for GASB 34 Statement of Net Assets and Statement of Activities
State tax aid	G	The cash settlement from the County semi-annually (in July and December) is recorded as revenue in the year it pertains to and is received.	<p><b>Governmental Accounting Standards Board Statement 33 (paragraphs 27-28)</b></p> <p><b>Revenue Recognition</b></p> <ul style="list-style-type: none"> <li>• Sometimes, a government collects derived tax revenues or imposed nonexchange revenues on behalf of the government (recipient) that imposed the revenue source. For example, a state may administer and collect a local option sales tax at the same time that the state collects the state sales tax; the state subsequently remits the appropriate amount of the collections to the participating local government recipients. Because those recipients impose the tax or other revenue source, they should have or can reasonably estimate the accrual-basis information necessary to comply with the requirements of this Statement for derived tax revenues or imposed nonexchange revenues.</li> <li>• On the other hand, a government may share its own derived tax revenues or imposed nonexchange revenues with other governments. For example, a state may share a portion of the revenues resulting from its sales tax with local governments. The recipient governments should comply with the requirements of GASB 33 for derived tax revenues or imposed nonexchange revenues, as appropriate. However, because they do not impose the tax or other revenue source, they may neither have nor be able to reasonably estimate the accrual-basis information necessary for compliance, and they may be unable to obtain sufficient information in a timely manner from the administering or collecting government. If so, the recipient governments should recognize revenues for the period equal to cash received during the period. Cash received after the end of the period also should be recognized as revenues of the period (less amounts recognized as revenues in the previous period) if reliable information is consistently available to identify the amounts applicable to the current period.</li> </ul>	No

Revenue Source	Type	Revenue Recognition Policy	GASB Guidance (GASB 11, GASB 33, and NCGA Interpretation 3)	Change for GASB 34 Statement of Net Assets and Statement of Activities
Charitable gambling tax	G	A cash settlement of 3% of the gross profits (receipts net prizes) obtained from gambling in the City of Minneapolis is recorded as revenue when received. The tax is due the 20 <sup>th</sup> of the month following the tax. Except, the December tax received in January is recorded as revenue for the previous fiscal year.	<p><b>Governmental Accounting Standards Board Statement 33 (paragraphs 7a) Revenue Recognition</b></p> <ul style="list-style-type: none"> <li>Derived tax revenues result from assessments imposed by governments on exchange transactions. Examples include taxes on personal income, corporate income, and retail sales of goods and services. The principal characteristics of these transactions are (1) the assessing government imposes the provision of resources on the provider (the entity that acquires the income, goods, or services) and (2) the government's assessment is on an exchange transaction, such as the exchange of an employee's services for a wage or salary or the exchange of motor fuel for the market price of the fuel. Enabling legislation<sup>4</sup> sometimes requires a particular source of derived tax revenues to be used for a specific purpose or purposes. For example, revenues resulting from a motor fuel tax may be required to be used for road and street repairs. Stipulations concerning the purpose for which resources are required to be used are referred to in GASB 33 as purpose restrictions.</li> <li>In contrast to time requirements, purpose restrictions do not affect the timing of recognition for any class of nonexchange transactions. Rather, recipients of resources with purpose restrictions should report resulting net assets (or equity or fund balance, as appropriate) as restricted until the resources are used for the specified purpose or for as long as the provider requires the resources to be maintained intact (for example, endowment principal).</li> </ul>	No

Revenue Source	Type	Revenue Recognition Policy	GASB Guidance (GASB 11, GASB 33, and NCGA Interpretation 3)	Change for GASB 34 Statement of Net Assets and Statement of Activities
Charges for Service	G/P	Revenue is recognized under the modified accrual and full accrual basis depending on the fund type.	<p><b>Governmental Accounting Standards Board Statement 11 (paragraphs 40-67)</b></p> <p><b>Revenue Recognition</b></p> <ul style="list-style-type: none"> <li>• <i>Charges for Services</i> - Citizens or others pay user fees as charges for specific goods or services. Revenues from user fees should be recognized in the period earned, regardless of when cash is received. Revenues from some user fees (for example, golf and swimming fees) are earned at the time they are collected. Revenues from other user fees, however, are not earned at the time they are collected. For example, a monthly garbage removal fee may be received in advance of the month of service. If so, the entity should report the receipt as deferred revenue until the service is provided. In other cases, the entity may provide the service before the fee is charged, for example, for snow removal. In these cases, the entity should recognize fee revenue and receivables when the service is performed.</li> </ul>	No

Revenue Source	Type	Revenue Recognition Policy	GASB Guidance (GASB 11, GASB 33, and NCGA Interpretation 3)	Change for GASB 34 Statement of Net Assets and Statement of Activities
Sales and Use Tax, Entertainment Tax, Liquor Tax, Food Tax, and Lodging Tax	G	Revenue is recorded when the underlying exchange occurs. Cash is received in the following month. Amounts collected in January are recognized as revenues in December.	<p><b>Governmental Accounting Standards Board Statement 33 (paragraphs 7a) Revenue Recognition</b></p> <ul style="list-style-type: none"> <li>Derived tax revenues result from assessments imposed by governments on exchange transactions. Examples include taxes on personal income, corporate income, and retail sales of goods and services. The principal characteristics of these transactions are (1) the assessing government imposes the provision of resources on the provider (the entity that acquires the income, goods, or services) and (2) the government's assessment is on an exchange transaction, such as the exchange of an employee's services for a wage or salary or the exchange of motor fuel for the market price of the fuel. Enabling legislation sometimes requires a particular source of derived tax revenues to be used for a specific purpose or purposes. For example, revenues resulting from a motor fuel tax may be required to be used for road and street repairs. Stipulations concerning the purpose for which resources are required to be used are referred to in GASB 33 as purpose restrictions.</li> <li>In contrast to time requirements, purpose restrictions do not affect the timing of recognition for any class of nonexchange transactions. Rather, recipients of resources with purpose restrictions should report resulting net assets (or equity or fund balance, as appropriate) as restricted until the resources are used for the specified purpose or for as long as the provider requires the resources to be maintained intact (for example, endowment principal).</li> </ul>	No
Rents, Commissions, and Privileges	G	Revenue is recorded when the underlying exchange occurs.	<p><b>Governmental Accounting Standards Board Statement 11 (paragraphs 40-67) Revenue Recognition</b></p> <ul style="list-style-type: none"> <li><b>Exchange Revenues - General Recognition Criteria</b> - Governmental fund revenues from exchange transactions—such as from charges for services, investments, and operating leases—should be recognized when earned, regardless of when cash is received. When earned means when the entity has done what it must do to complete its side of the transaction.</li> </ul>	No

