

TOWN OF BETHLEHEM

Albany County - New York

Comptroller's Office

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John M. Clarkson
Town Supervisor

Michael E. Cohen
Comptroller

MEMORANDUM

TO: Supervisor Clarkson & Members of the Town Board
FROM: Michael Cohen
DATE: July 23, 2014
SUBJECT: Revenue Recognition Policy Change

REQUESTED ACTION

The Comptroller's Office respectfully requests the approval of the Town Board to modify the Town's revenue recognition policy, to adjust the definition of "available" revenue for those Grants and Similar items from a 60-day criterion to one in which all eligibility requirements for each source have been satisfied.

Our auditors have made this recommendation in order for the Town to better match the expenses typically associated with our grants and the corresponding revenues.

CURRENT TOWN POLICY

Governments, including the Town, utilize the modified accrual basis of accounting. Using this method, revenues should be recognized in the accounting period in which they become available and measurable. "Available" means collectible within the current period or soon enough thereafter to be used to pay the liabilities of the current period. In GASB Interpretation 5, *Property Tax Revenue Recognition in Governmental Funds*, the GASB defines "availability" for property tax as 60 days or less. Many governments, including the Town, have also chosen to adopt this 60-day criterion for other revenue sources.

In GASB 38, *Certain Financial Statement Note Disclosures*, paragraph 42 states, "the length of time selected by a government during which revenues are considered available, which typically falls between thirty days and one year, defines the critical aspect of when revenues are recognized in a governmental fund. The selection of this time period may have an effect on financial position and changes in financial position of the governmental funds. The Board's research indicates that when users are made aware of the implications of different revenue recognition policies, they consider the information essential to their understanding of governmental financial statements." It goes on to state, "The selection of the revenue availability criterion is one of management's accounting policies, which according to APB Opinion 22 are —the specific accounting principles and the methods of applying those principles that are judged by the management of the entity to be the most appropriate in the circumstances."

CONCLUSION

The Town Board has the authority to determine how the Town recognizes revenues. This change will mean that the Town will no longer be required to book expenditures in one fiscal year with the related grant revenues affecting a subsequent year. Our financial statements will be more usable for the reader, as there will be proper matching of revenues and associated expenses.

Also of note, this policy would make us consistent with the revenue policy of the Bethlehem School District.