

Guidelines for Expenditure Recognition in Governmental Funds

State of Rhode Island
Office of Accounts & Control
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Expenditures

- Expenditures are the foundation of planning, authorizing, controlling and evaluating the activities of governmental funds such as the General Fund, Intermodal Surface Transportation Fund and various capital project funds.
- Expenditures are the costs incurred during the fiscal year related to the acquisition of good and services, whether or not payment has been made. Governmental fund liabilities are reasonably expected to be paid using existing, available fund financial assets.
- Typically for:
 - Current Operations
 - Capital Outlay
 - Debt Service

Recognition Criteria—Record Expenditures in RIFANS

- For operating, capital outlay, or debt service liabilities that are to be paid from current resources of governmental funds they are recorded when incurred.
- For debt service (principal and interest) payments on long-term liabilities they are recorded when due.
 - Due at year-end
 - Due shortly after year-end (within 30 days) if dedicated financial resources are provided in the current fiscal year, such as in a debt service reserve account

Funding Source Irrelevant

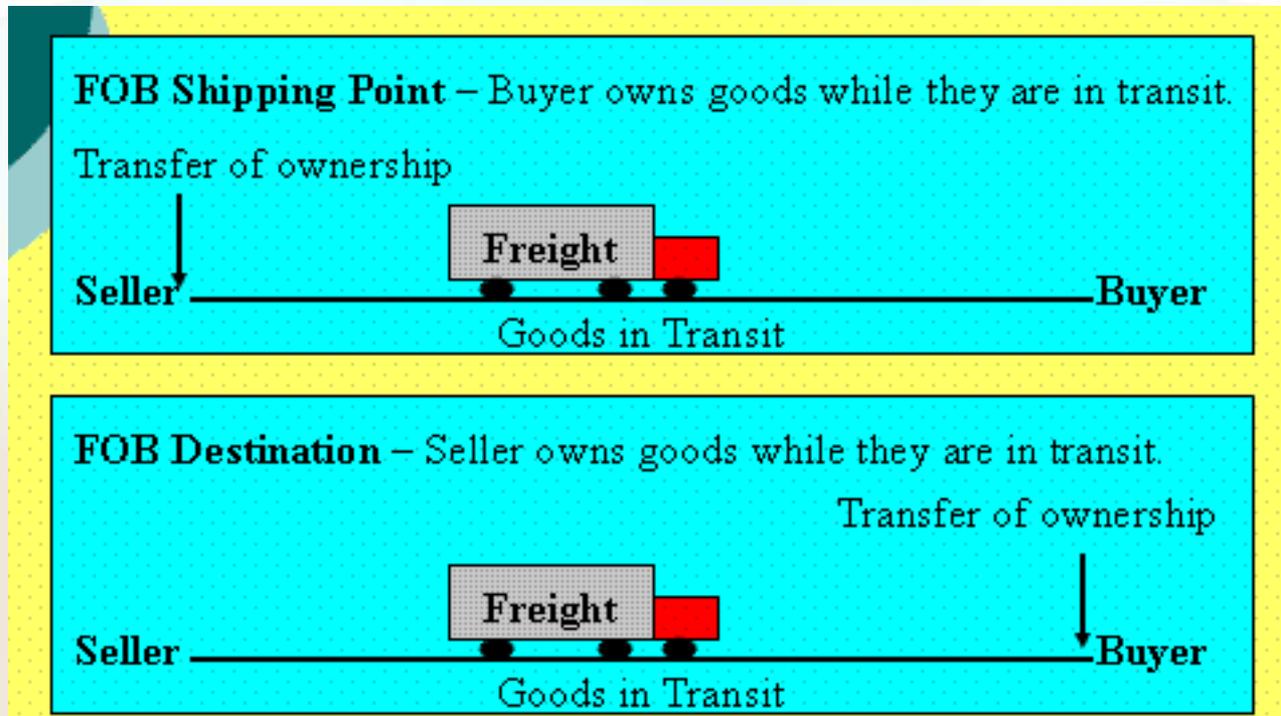
- The recognition (or accrual) of expenditures at fiscal year end does not depend on the funding source—items funded with General Revenue, Federal, Restricted and RI Capital funds all must be accrued.
- Payables should be recorded even if they cause expenditures in a line item to exceed its appropriation.

**MORE ABOUT WHEN
EXPENDITURES SHOULD BE
RECORDED**

Timing of Expenditure Recognition

- **When acquired/performed:** upon delivery/performance for goods or services (including professional services), contractual services, capital outlays.
- **When used:** certain inventories and prepaid items.
- **When due:** principal and interest on general long-term liabilities, claims and judgments.

Goods Acquired: Expenditure Recorded When Legal Title Passes to the State



Construction in Progress: Retainage Payable

- Retainage is a portion of the agreed-upon contract price withheld until the work is substantially complete to assure that contractor or subcontractor will satisfy its obligations and complete the project.
- Retainage should be accrued as a payable at year-end, for those invoices applicable to the current or prior periods.

Debt Service Accruals

- Debt service expenditures (principal and interest) in practice are normally not accrued at year-end as the State's old year debt service obligations are fully paid at that date.

RECORDING CLAIMS AND JUDGEMENTS

Liabilities For Claims and Judgments

- Grant recoveries/fines/penalties - For example, imposed due to non-compliance with Federal grant award stipulations.
- Contractual actions - claims for delays or inadequate specifications.
- Employment-related- employee lawsuits against state, e.g. wrongful discharge, discrimination and arbitration awards.
- Government properties - claims related to personal injuries.

May be Difficult to Estimate the Ultimate Liability

- Unreasonably high damages sought.
- Long time between occurrence and filing.
- Time between filing, settlement and payment.

Standards Regarding Claims and Judgments

- Claims against the State are “contingencies” .
- A liability is recorded if:
 - It is probable that an asset has been impaired or a liability has been incurred, as of year-end. “Probable” in this context means the event is “likely to occur” .
- **AND**
 - The amount of loss can be reasonably estimated. If a probable loss is within a range of estimated amounts, the minimum amount should be recorded as a liability, and the potential for additional losses over that amount should be disclosed in the notes to State’s financial statements (if material).
- If both criteria are not met, outstanding claims, if material, are disclosed in the notes to State’s financial statements.

If Criteria Are Met

- Amount calculated is reported as a fund liability if the amount is payable from expendable current (within next fiscal year) financial resources - amount would include legal and other related costs and the settled or adjudicated amount, net of any insurance recoveries. This adversely impacts your budget in year recorded.
- Any remaining liability would be recorded as a general long-term liability in the government-wide statements.

Expenditures and Liabilities

To summarize:

- The state should accrue a governmental fund liability and expenditure, for expenditures in the period in which the government incurs the liability.
- At year-end, governmental fund expenditures and liabilities should be recognized to the extent the liabilities are expected to be liquidated with expendable available financial resources in the next fiscal year.

Questions?