

# Special Considerations at Fiscal Year End

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STATE OF RHODE ISLAND

OFFICE OF ACCOUNTS AND CONTROL

MAY 2018

REVENUE RECOGNITION AND  
CASH RECEIPTS CUT-OFF  
AT FISCAL YEAR END

# Revenue Recognition in Modified Accrual Accounting

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Revenues and related accounts receivable of governmental funds must be:

- Earned, Measurable and Available
- Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period (i.e., within the next 12 months).

# Recognition of Cash Deposits as Revenue - Year End Cash Cut-off

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In order for a cash deposit to be recorded as revenue at fiscal year end, the cash must be deposited in a State bank account on or before June 30.

The related journal entry must be dated as of the date the deposit was physically made.

Any deposits posted by the bank after June 30 must have a correlating journal entry date in the new fiscal year.

# Exception to Cash Deposits Cut-Off

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## Division of Motor Vehicles and Division of Taxation

- If funds are received on the last business day of the fiscal year, these two divisions may deposit funds on the first business day of the new fiscal year, yet record the revenue in the prior fiscal year. This is a consistent practice and is due to the material nature of their transactions.
- The effective date of the journal entry is the date the monies were physically received by those divisions.

# Integrity of Data in Federal Accounts

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It is very important that all federal drawdowns be performed as close to year end as possible.

Before the June period closes, agencies should review charges in Federal accounts to ensure they are proper.

If expenses are recorded that exceed grant awards, transfer them to a general revenue account before the June period closes.

# Federal Receivables at Year End

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Accounts & Control will debit federal accounts receivable and credit federal revenue at year end for any federal CFDA cluster of accounts with a net red balance.

Conversely, if a cluster has a net black balance, Accounts and Control will debit federal revenue and credit the liability of unearned revenue.

This process is performed after all other entries have been recorded in August.

GUIDELINES FOR  
EXPENDITURE  
RECOGNITION IN  
GOVERNMENTAL FUNDS



# Expenditures

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- Expenditures are the costs incurred during the fiscal year related to the acquisition of goods 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

# Criteria for Recognizing and Recording Expenditures in RIFANS

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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

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The recognition (or accrual) of expenditures at fiscal year end does not depend on the funding source—items funded with General Revenue, Federal Revenue, Restricted Revenue or RI Capital Funds all must be accrued.

Payables should be recorded even if they cause expenditures in a line item to exceed its appropriation.

# Timing of Expenditure Recognition

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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.

# Construction in Progress: Retainage Payable

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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.

# RECORDING CLAIMS AND JUDGMENTS

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# Liabilities For Claims and Judgments

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- 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

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



# Standards Regarding Claims and Judgments

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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

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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 the year recorded.

Any remaining liability would be recorded as a general long-term liability in the government-wide statements.

ACCRUAL FOR PAYROLL  
COSTS  
AT FISCAL YEAR END

# Last Payroll Period in Fiscal Year

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- Usually crosses current and new fiscal year.
- According to generally accepted accounting principles (GAAP), must recognize payroll expenditures in the period the related services are performed.
- Must accrue payroll expense related to “unpaid” days at end of the fiscal year.

# Payroll Accrual Method

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- Record accrued payroll as a percentage of the last payroll period's actual payroll expense.
- Percentage correlates approximately to the number of the pay period's weekdays that relate to the fiscal year just ended.
- Over the course of an eleven-year cycle, the unpaid days will accumulate to a full pay period. At the end of the cycle, the State experiences a 27<sup>th</sup> payroll which the accrual covers.
- Charging the full pay period ratably as an expense to each of the eleven fiscal years prevents an "extra" pay period's worth of expense every eleven years.

# Accrual Process

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The payroll accrual is assessed at the end of each fiscal year, and reversed in each subsequent fiscal year in accordance with the following table.

# Accrual Schedule: 2016-2028

Accrual Year	No. of Payroll Periods	Prior Year Accrual	Current Year	Payrolls Charged to Current Year
2016	26	-1.3	1.4	26.1
2017	27	-1.4	0.5	26.1
<b>2018</b>	<b>26</b>	<b>-0.5</b>	<b>0.6</b>	<b>26.1</b>
2019	26	-0.6	0.7	26.1
2020	26	-0.7	0.8	26.1
2021	26	-0.8	0.9	26.1
2022	26	-0.9	1.0	26.1
2023	26	-1.0	1.0	26.0
2024	26	-1.0	1.1	26.1
2025	26	-1.1	1.2	26.1
2026	26	-1.2	1.3	26.1
2027	26	-1.3	1.4	26.1
2028	27	-1.4	0.5	26.1

# Also Accrued

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- Overtime Expense
- Employer Share of FICA
- Employer Share of Retirement and Retiree Health Contributions
- Employer Contributions to the Assessed Fringe Benefit Fund



# Certain Benefits Not Accrued

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- The employer (State's) contribution toward active employee medical, dental and vision benefits, which are all funded through an internal service fund, are consistently recorded entirely as expenditures for the fiscal year in which the associated pay date actually occurs.
- For example, for a payroll paid on July 6, the active employee medical, dental, and vision benefits expenditures would be recorded entirely in July.

