

OREGON ACCOUNTING MANUAL		Number 15.40.00.PR
Oregon Department of Administrative Services State Controller's Division	Procedure	Effective Date February 8, 2002
Chapter	Accounting and Financial Reporting	.1 OF .5
Part	Expenses, Expenditures and Payables	
Section		Approval Signature on file at SCD

- .101 This procedure describes **generally accepted accounting principles (GAAP)** for exchange transactions and for nonexchange transactions involving financial or capital assets. It does not apply to interfund transactions and interagency transactions.

Liability Recognition

- .102 In **governmental funds**, liabilities are recognized only to the extent they are normally expected to be liquidated with available financial resources. Accordingly, the following liabilities are not reported in governmental funds, but are reported as general long-term liabilities in the **government-wide reporting fund** only:
- a. Unmatured principal of long-term debt, such as bonds, notes, or capital leases.
 - b. Accrued interest on long-term debt.
 - c. Liabilities related to compensated absences, claims and judgments, or special termination benefits when not payable from current financial resources.
 - d. Liabilities associated with operating leases containing scheduled rent increases.
- .103 Liabilities that will be paid with available financial resources are current liabilities of the governmental fund. Liabilities that will not be paid with available financial resources are considered general long-term liabilities of the government and are reported only in the government-wide reporting fund. However, for government-wide financial statement reporting purposes, the current portion of certain liabilities, compensated absences for example, will be that portion that is expected to be paid within one year of the balance sheet date rather than the portion to be paid with current financial resources. For this reason, additional entries may be needed in the government-wide reporting fund to properly reflect these liabilities.
- .104 In **proprietary funds** and **fiduciary funds**, liabilities should be recognized when incurred.
- .105 When a state agency is the provider in either a **government-mandated nonexchange** or **voluntary nonexchange transaction**, the agency should recognize a liability as soon as the recipient meets all eligibility requirements.

- .106 When a state agency is the recipient in either a government-mandated nonexchange or voluntary nonexchange transaction, it is possible that, as a result of failing to continue to comply with eligibility requirements or purpose restrictions, the agency is no longer entitled to resources that have already been recognized in the financial statements. In this case, the agency should recognize an expense and a liability for the amount of resources that the provider is expected to reclaim or cancel.

Recognition of Expenses or Expenditures

- .107 Expenses are recognized in proprietary and fiduciary funds as soon as the related liability is incurred, regardless of the timing of the related cashflow. The same is also generally true for expenditure recognition in governmental funds. However, under modified accrual accounting used in governmental funds, there are several exceptions to this general rule. At fiscal year end, liabilities and the related expenditures may be accrued with the following entry:

TC 437 To establish expenditure accrual (auto reverses)

DR 3505 Expenditure Control – Financial Statement Accrual	XXX	
CR 1215 Accounts Payable		XXX

- .108 Some expenditures are recognized in governmental funds only when due and payable (matured). These typically are related to general long-term indebtedness and include:
- Debt service principle and interest payments on formal debt issues.
 - Compensated absences.
 - Claims and judgments.
- .109 Financial resources that have been accumulated for eventual payment of the unmatured portion of the liabilities in .107 does not represent an outflow of current financial resources and therefore should not be recognized as an additional governmental fund expenditure or liability.

Prompt Payment

- .110 Invoices from vendors and contractors should be paid promptly. The date of the check or warrant is used to determine if the claim was paid timely. Overdue charges are recorded separately from other expenses or expenditures.
- .111 For private vendors providing goods and services, payment will be made within 45 days. Overdue charges are paid at a rate of two-thirds of one percent per month, not to exceed eight percent per annum. Overdue claims are those that have not been paid within 45 days from the latest of the following dates:
- The date of receipt of the invoice.
 - The date of the initial billing statement, if no invoice is received.
 - The date the claim is made certain by agreement of the parties or by law.
- .112 For contractors performing on **public contracts**, payment will be made within 30 days. If not paid within 30 days, interest is paid on the amount due the contractor, not including retainage. Overdue charges are paid at a rate of three times the discount rate on 90-day commercial paper in effect at the Federal Reserve Bank, not to exceed thirty percent. The date from which interest shall be calculated is the earlier of the following dates:
- Thirty days after receipt of the invoice from the contractor.
 - Fifteen days after the payment is approved by the agency.

Merchant Fees

- .113 Merchant fees are discount fees paid by agencies to financial institutions. Financial institutions charge merchant fees, which generally are a small percentage of each credit card transaction, when accepting credit card payments. Merchant fees should be recorded as an expense in comptroller object 4730 and the related credit card revenue should be recorded at the gross amount. However, agencies currently have the option to record only the net revenue from these transactions. (NOTE: Beginning in the 2003-05 biennium, merchant fees must be recorded separately as an expense.)

Collection Fees

- .114 Collection fees are amounts paid to collection agents for the cost of collecting accounts receivable. Either the Department of Revenue or a private collection firm may be hired by state agencies to pursue collection of past due accounts receivable. Collection agents generally charge a percentage of each accounts receivable balance, although a specific dollar amount may be agreed upon. Collection fees should be recorded as an expense and the related revenue should be recorded at the gross amount. When recording the fee as an expense, specific comptroller objects should be used to track the cost of collection agents: 4720 if collected by the Department of Revenue and 4725 if collected by a private collection agent. However, agencies currently have the option to record only the net revenue from these transactions. (NOTE: Beginning in the 2003-05 biennium, collection fees must be recorded separately as an expense.)

- .115 If an agency referred a \$1,000 accounts receivable to a private collection firm that charged a 10 percent fee, the following entries would be recorded when collection fees are recorded as an expense (assume the receivable is still on the books):

TC 176 To record collection of an accounts receivable

DR 0065 Unreconciled Deposit	1,000	
DR 3101 Revenue Control-Accrued (CO 0407 Charges for Services)	1,000	
CR 0501 Accounts Receivable Other - Billed		1,000
CR 3100 Revenue Control-Cash (CO 0407 Charges for Services)		1,000

TC 222 To record payment of collection fee to private firm

DR 3501 Expenditure Control-Accrued (CO 4725 Private Collection Agent)	100	
CR 1211 Vouchers Payable		100

Food Stamps

- .116 Food stamp expenditures should be recognized when the benefits (cash or food stamps) are distributed. In an electronic benefit transfer (EBT) system, distribution takes place when the individual recipients use the benefits.

Bad Debt Expense

- .117 Bad debt expense should be recorded only in conjunction with transactions in which there is no revenue associated with the receivable, for example loans receivable. For receivables that have an associated revenue, such as taxes receivable, uncollectible amounts should be reflected as a reduction of revenue rather than bad debt expense (see [OAM 15.35.00.PR](#) for appropriate entries). In either case, the receivable should be recorded at gross amount, with an offsetting entry to Allowance for Doubtful Accounts reflecting the estimated uncollectible amounts. Bad debt expense may be recorded using the following entry:

TC 461R To record estimated uncollectible amounts when there is no revenue object associated with the receivable to reduce

DR 3600 GAAP Expenditure Offset (CO 7479 Bad Debt Expense) XXX
CR 0934 Allowance for Doubtful Accounts-Noncurrent XXX

Other Items

.118 GAAP require that certain items be displayed separately in the financial statements. In order to ensure that these items are properly reported, separate comptroller objects have been assigned to them. The following items should be recorded using the comptroller objects indicated:

- **Extraordinary Items** 2450
- **Special Items** 2500

Financial Statement Presentation

- .119 In governmental funds, expenditures are presented in the statement of revenues, expenditures and changes in fund balances by function. Other decreases in financial resources such as transfers to other funds are presented in the "other financing sources (uses)" section of the financial statement. Special items and extraordinary items are presented separately after "other financing sources (uses)".
- .120 In fiduciary funds, expenses are reported as deductions from net assets in the statement of changes in fiduciary net assets. In proprietary funds, expenses are reported in the statement of revenues, expenses and changes in fund net assets. Proprietary fund expenses are segregated into **operating expenses** and **nonoperating expenses** and are classified by major category.
- .121 Operating expenses generally result from providing services and producing or delivering goods. Operating expenses include payments to acquire materials for providing goods or services, payment to employees for services, payment for distributions to other governments or organizations for specific activities that are considered to be operating activities of the grantor government, payment for internal service goods and services, as well as payment for interest on long-term debt.
- .122 Nonoperating expenses are presented below the line item for operating income and include items not directly associated with agency operations such as a loss on the disposition of assets. Reported separately after the net total of nonoperating revenues and expenses are capital contributions, additions to permanent and term endowments, special items, extraordinary items, and transfers to and from other funds.
- .123 In the government-wide statement of activities, expenses are reported by function except those that meet the definition of special or extraordinary items. Direct expenses of a function are those that are specifically associated with a specific service, program, or department and, thus, are clearly identifiable to a particular function. Special items, extraordinary items, and transfers to and from other funds are reported separately below **general revenues**.

Required Disclosures

- .124 The notes to the financial statements should specify the basis of accounting and measurement focus used in each fund type and in the **government-wide financial statements**.
- .125 The State's policy for defining operating and nonoperating revenues and expenses for proprietary funds must be disclosed in the summary of significant accounting policies. The summary must also disclose the State's policy for eliminating internal service fund activity in the government-wide statement of activities.

.126 Note disclosure of information pertaining to long-term debt and other long-term liabilities is required by GAAP. Agencies will provide needed disclosure information to Statewide Accounting and Reporting Services (SARS) for financial statement note disclosure purposes. Agencies with audited financial statements should include disclosures required for long-term liabilities in the notes to their financial statements.