

# OREGON ACCOUNTING MANUAL

**SUBJECT:** Accounting and Reporting

**Number:** 15.80.00

**DIVISION:** Chief Financial Office

**Effective date:** July 1, 2011

**Chapter:** Accounting and Financial Reporting

**Part:** Commitments

**Section:**

**APPROVED:** George Naughton, Chief Financial Officer

Signature on file

**PURPOSE:** This policy provides guidance on accounting and financial reporting for commitments, including applicable disclosure requirements.

**AUTHORITY:** **ORS 293.590**  
 NCGA Statement No. 1  
 NGCA Interpretation No. 6  
 GASB Statement No. 13  
 GASB Statement No. 54

**APPLICABILITY:** This policy applies to all state agencies included in the state’s annual financial statements, except for those agencies specifically exempted by [OAM Policy 01.05.00](#).

**DEFINITIONS:** **Commitment:** An existing arrangement to enter into future transactions or events; it represents an obligation not expected to be fully paid from current financial resources. Entering into a contract does not result in immediate recognition of a liability. Until performance under the contract has occurred, the contract represents a commitment. Examples include:

- Long-term construction contracts
- Long-term contractual obligations with suppliers for the future purchase of goods or services at specified prices or quantities
- Long-term contracts for personal services, equipment purchases, and systems development
- Other long-term arrangements such as operating leases, grants, loans

**Encumbrance:** A formal commitment of resources to purchase goods or services within the current biennium.

**Operating lease:** A type of lease agreement that does not transfer the risk of ownership to the lessee.

**POLICY:**

101. Agency management is responsible for the proper accounting and reporting of commitments.

102. Agencies must disclose significant commitments by completing the appropriate forms included in the yearend General Disclosures package. Agencies that prepare audited financial statements must disclose their own commitments in the notes to the financial statement.
103. Agencies should consider the encumbrance accounting criteria established in OAM 20.20.00 to determine if a long-term contract or other arrangement is more appropriately recorded as an encumbrance or disclosed as a commitment. Agencies must be careful to report the obligation only once. If the long-term contract or other arrangement is recorded as an encumbrance, do not also disclose it as a commitment.

## **PROCEDURES:**

### **Construction Commitments**

104. If your agency signs a long-term construction contract or issues a construction-related purchase order that covers an extended period and represents a significant dollar amount, and the obligation is unencumbered at the end of the reporting period, disclose the following information at yearend:
  - a. A description of the commitment
  - b. The dollar amount and basic terms of the commitment, including the amount spent to date and the amount remaining under the commitment
  - c. The funding source expected to liquidate the commitment (general funds, federal funds, lottery funds, or other funds)

### **Other Commitments**

105. If your agency has significant loans, grant agreements, equipment purchase contracts, personal service contracts, or systems development contracts that are outstanding and unencumbered at the end of the reporting period, disclose the following information at yearend:
  - a. A description of the commitment
  - b. The dollar amount remaining under the agreement or contract
  - c. The funding source expected to liquidate the commitment

### **Operating Leases**

106. If your agency has entered into significant noncancelable operating lease agreements as the lessee, disclose the following information at yearend:
  - a. Rental costs applicable to the current fiscal year.
  - b. Future minimum rental payments for each of the next five years and, thereafter, in five-year increments.

*(NOTE: Do not consider a lease to be cancelable simply because it contains a "fiscal funding clause" which states that the lease is cancelable in the event funds are not appropriated to cover the required lease payments. The likelihood of the lease being canceled must be evaluated. The potential for cancellation of most government lease agreements is remote.)*