

Memo

To: ABE
From: Finance
CC:
Date: November 2, 2011
Re: Financial Definitions

To ensure that we are all talking the same language, the finance department is providing the definitions to some basic accounting terms that apply to the manner in which we handle our sub-recipients. These definitions come from various federal guidelines as well as the 2008 Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards.

Accrued Expense or Expenditures:

❖ **Definition**

- In general, total accrued expenditures are costs incurred for goods and services received regardless of whether payment has been made.
- Accrued expenditures mean the charges incurred by the grantee during a given period requiring the provision of funds for:
 - Goods and other tangible property received;
 - Services performed by employees, contractors, sub-grantees, subcontractors, and other payees; and
 - Other amounts becoming owed under programs for which no current services or performance is required, such as annuities, insurance claims, and other benefit payments.

❖ **Examples of this would include:**

- Books ordered and received on May 3rd – expense would be accrued on May 3rd, even if payment wasn't made until July 23rd;
- Phone bill for the month of June would be a June expense;
- Teacher's salary and benefits for the school year ending June 4th – expense would be accrued on June 4th if though their salary is broken out and they do not receive their final check for the school year until August;
- Teacher's salary for Summer school –
 - Worked June 15th through August 5th –
 - Expense for the period June 15th through June 30th is accrued at the end of June
 - Expense for the period July 1st through August 5th is accrued in July and August.
 - Date of pay does not affect the expense date.

Note, in both instances with the Teacher's salary and benefits above, the date of expense is based on the date worked, not on the date the teacher was paid.

- ❖ **NOTE:** An accrued expense can and must be adjusted if the actual payment does not equal the amount accrued.

Obligations:

❖ **Definition**

- Obligations as defined in 29 CFR 97.3, means the amount of orders placed, contracts, and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the grantee during the same or a future period.
- Obligation is a term that references actions where a legal commitment to pay exists. It may occur at the time the services are rendered or before the services are rendered when a binding agreement has been entered into. Obligations are legal requirements – not plans or budgets.

❖ **Examples of this would include:**

- Subgrant agreements or contracts;
- Purchase Orders;
- Cash disbursements; or
- Current expenditures (amount owed for previous or the current month) on a lease and the cancellation penalty, or amount due, if the lease is cancelled.

❖ **Examples of that would not meet the definition of obligation include, but are not limited to:**

- Projected staff time, wages, or benefits;
- Future or projected rent payments;
- Items that are budgeted during the grant period;
- Prepayment for items where goods or services have not been received;
- Encumbrances that have been set aside for a reason but for which no legal document has been issued; or
- Balances on a lease – see above

Disbursements (or Liquidation):

❖ **Definition**

- Transfer of cash either by check, voucher or an electronic transfer issued for an expenditure made. (goods or services received).

❖ **Examples of this would include, but are not limited to:**

- Issuing Payroll
- Processing and issuing checks or bank transfers for invoices for supplies, etc.

Reimbursement:

❖ **Definition**

- The act of repaying or refunding funds paid out for a legitimate expenditure (goods or services received).

❖ **Examples of this would include, but are not limited to:**

- Payment by DWD for payroll costs issued for time worked during the allowable period of the grant.
- Payment by DWD for payments issued for invoices for supplies, etc.