

Department of Finance and Administration
Policy 4 – Recognition of Revenues and Expenditures
Definitions and Guidance
(Revised July, 2015)

Introduction and Background

1. This Policy Statement provides guidance in recording receipts and expenditures and describes the state's policy for order of spending for restricted and unrestricted resources. This Policy Statement is issued in accordance with the authority granted under T.C.A §4-3-1007.

General Rule and Applicability

2. All receipts of funds, and all disbursements of funds, including funds that pass through State government to other entities shall be recorded in the State's general ledger at the fund level in accordance with this Policy Statement and in accordance with accounting principles generally accepted (GAAP) in the United States of America as prescribed by the Governmental Accounting Standards Board.

3. All state departments, agencies, boards and commissions are hereby required to comply with this Policy Statement. This Policy Statement is applicable when approved.

Definitions

4. **Revenue:** Revenue is the income of a government entity from taxation, fees, or other sources. There are two types of revenue which will potentially be received by those entities affected by this Policy Statement 4: non-departmental revenue and departmental revenue.

For financial reporting purposes, in accordance with GAAP, revenues are also required to be classified by source. Major revenue classifications are taxes, licenses and permits, intergovernmental revenues, charges for services, fines and forfeits, and miscellaneous.

Taxes include revenues generated from amounts levied on individuals, organizations and businesses by the State Legislature. Some taxes are based on or derived from assessments imposed on exchange transactions (for example, income taxes, sales taxes, and other assessments on earnings or consumption).

Licenses and Permits are amounts paid by individuals, organizations, and businesses to engage in certain specified activities such as operating a business, driving a car, or hunting and fishing.

Federal revenues are intergovernmental revenues received from the federal government under grants or similar arrangements.

Departmental Services are revenues that arise from charges to customers, applicants, or others, who purchase, use or directly benefit from the goods, services or privileges provided or are otherwise directly affected by the services. Revenue in this classification includes current services, or in other words, fees charged for specific services such as water use, golf course fees or garbage collection. This also includes private/local contributions toward supported expenditures and interdepartmental revenue.

Fines and Forfeitures include amounts imposed by the State on an act committed or omitted by the provider (such as the contravention of a law or regulation) that is not an exchange transaction.

Miscellaneous includes amounts not recorded elsewhere and are generally not associated with a state program such as a legal settlement.

5. **Refunds of Expenditure**: Refunds of expenditure are adjustments of amounts previously paid. The most common type of refund of expenditure involves overpayment to vendors, in the same fiscal year, where a check may be redeposited or the vendor returns all or a portion of an incorrect payment. Policy 2 provides general guidance covering the accounting of recoveries and refunds.

6. **Expenditures/Expense**: Disbursement of government funds through a cost or a charge. The general fund, special revenue fund, capital projects fund, and debt service fund, refer to funds spent as expenditures. Internal service and enterprise funds refer to funds spent as expenses.

7. **Improper Payments**: An improper payment means any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. This includes any payment to an ineligible party, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), any payment for a good or service that does not account for credit for applicable discounts, and any payment where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper.

8. **Restricted resources**: Resources in which constraints are placed on use, either by external entities such as creditors (in debt covenants), grantors, contributors, federal laws, regulations or by constitutional provisions or enabling legislation of the State.

9 **Unrestricted resources**: Resources that do not meet the definition of “restricted.” In governmental fund types (general fund, special revenue fund, capital project fund, and debt service fund), unrestricted resources are broken down into four other classifications:

Nonspendable amounts cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Examples include pre-paid items and inventories.

Committed amounts can be used only for the specific purposes determined by formal action of the government’s highest level of decision making authority. The General Assembly is the highest level of decision-making authority for the State that can, by adoption of legislation prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the legislation remains in place until the same action is taken (i.e. adoption of other legislation) to remove or revise the limitation.

Assigned amounts are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. Typically these assignments are expressed in the annual General Appropriations Act.

Unassigned amounts represent the residual amount for the general fund not included in the categories described above.

General Guidance Recording Revenue and Expenditures

10. The agency shall record the accounting entry for all receipts of funds in the State's general ledger. Receipts should be deposited in accordance with Policy 25 - Deposit Practices Policy. In no circumstances should the deposit wait until the accounting entry has been made. If funds are received but the agency does not know the appropriate account to credit, it may temporarily credit a deposit suspense account so that the funds can be timely deposited. The agency should research and then debit the deposit suspense account and credit the appropriate account before the close of the accounting month when the funds were received.

11. When an agency receives funds in the current fiscal year that should have funded expenditures of a prior year and no accounts receivable was established in the prior year, contact the Division of Accounts for recording instructions.

12. **Expenditures/Expenses**: All expenditure/expense of funds shall be recognized and recorded in the accounting records as such. Expenditures and expense are generally recorded when a liability is incurred regardless of the timing of the cash flow. Generally, a liability is incurred when the event that created the liability has taken place or upon receipt of a good or service. When a disbursement of funds is a refund, refer to Policy 2 - Accounting for Recoveries and Refunds.

13. **Order of Spending**: When both restricted and unrestricted resources are available for use and allowable, restricted resources are generally used first and then unrestricted as necessary. Of the unrestricted resources, the state considers that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

For projects funded by tax-exempt debt proceeds and other sources, debt proceeds are typically used first.

Finance & Administration Policy 4

Established June 1988

First revision August 2012

Second revision July 2015

Approval of the Commissioner of Finance and Administration

I, Larry B. Martin, hereby approve the revisions to Policy Statement 4 of the Department of Finance and Administration and authorize actions to effect its implementation.

Signed



Date

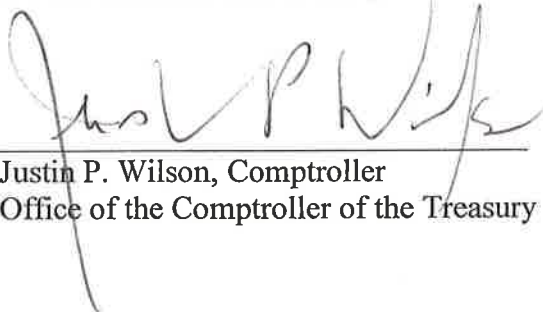
7/28/15

Larry B. Martin, Commissioner
Department of Finance & Administration

Approval of the Comptroller of the Treasury

I, Justin P. Wilson, hereby approve the revisions to Policy Statement 4 of the Department of Finance and Administration and authorize actions to effect its implementation.

Signed



Date

7/30/15

Justin P. Wilson, Comptroller
Office of the Comptroller of the Treasury