
FISCAL POLICIES MANUAL	1
PREPAYMENTS.....	1
PREFACE.....	1
DEFINITIONS	1
POLICY.....	1
ADMINISTRATIVE PROCEDURES	3

FISCAL POLICIES MANUAL

PREPAYMENTS

PREFACE

In general, State policy requires that payment cannot be made until after services are actually rendered or goods are actually received. It may be necessary or desirable in certain instances to pay for goods or services before delivery. This policy sets forth guidelines for determining when prepayment is allowable. This policy applies to all suppliers of goods or services including other State agencies.

DEFINITIONS

Prepayment - paying a vendor for goods or services in advance of the actual receipt of goods or performance of the service.

Industry Standard - prepayment is the normal and accepted practice for the particular charge and for the entity furnishing the good or service (e.g., insurance, rent, registrations, maintenance contracts).

Additional Benefit - identifiable and verifiable benefits including price breaks or guarantees of availability of service when needed.

Contingency - an event, or events, the occurrence of which cannot be foretold with certainty as to time, or intensity, or with an assurance of their happening.

POLICY

Idaho Code, Section 67-1024, regulates claims requiring payment in advance. When an expenditure authorized to be made by any State department, body or officer is of such a nature as to require payment in advance of performance or delivery, then the right of the officer to obtain such service or property on behalf of or in the service of the State shall constitute a claim against the State to be presented and allowed as are other claims.

The Board of Examiners may, at its discretion, prescribe rules with respect to the filing and allowance of such claims and the subsequent accounting therefore. Any money obtained upon such claim and not expended on behalf of or in the service of the State shall be repaid by the claimant to the State.

In accordance with the *Idaho Code*, Section 67-1024, the following rules are issued by the State Board of Examiners:

Prepayments are allowable only in the following circumstances:

- Industry standards require payment in advance of actual receipt of goods or services (e.g., insurance, rent, certain maintenance contracts)
- State will receive additional benefit for prepayment, for example, price breaks on prepaid maintenance contracts or registrations which would not be available if the charge was paid after delivery.

All prepayments must be for specified goods or services to be furnished or delivered at a specified time or within a specified timeframe. The timeframe must be reasonable and not unnecessarily long.

Prepayments are prohibited if the intent of the prepayment is to:

- Reserve a portion of the appropriation of one (1) fiscal year to be used in combination with the appropriation of the following year.
- Set aside funds for contingencies.
- Provide an operating loan to an individual or entity.

Administrative Procedures continue on the next page.

ADMINISTRATIVE PROCEDURES

All prepaid expenditures must be supported by a purchase order or contract, which states:

1. The goods or services to be furnished.
2. The date of delivery.
3. The payment terms.
4. Remedies for non-compliance.

The agency must have policies and procedures to insure that:

1. The prepaid goods or services are actually received.
2. The prepaid expenditure is recorded on STARS at fiscal year-end.

A prepaid expense is initially recorded in the same manner as any other expenditure. Usually this is done by paying a vendor using TC 230 or 236 if the expense was previously encumbered.

The effect of these transaction codes is a reduction of cash and appropriation. Since a prepaid expense is actually an asset that is periodically adjusted as it is used, two additional steps are required to record the activity:

3. After the expenditure is recorded, another transaction must be entered to establish the unused portion of the prepayment as an asset. This is done with TC 278.
4. As the asset is utilized enter TC 279 to record the expired portion, the TC 279 can be done at regular intervals throughout the fiscal year, or can be adjusted only at fiscal year end.