STATE ACCOUNTING OFFICE
CONTINGENT LIABILITIES
FISCAL YEAR 2005

Defined - A contingency, as defined by the Financial Accounting Standards Board's (FASB's) Statement No. 5, is "an existing condition, situation or set of circumstances involving uncertainty as to possible loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur."

Recognition Criteria

The following terms help to identify when and how the contingency should be recognized and reported in the CAFR:

Probable – The future events are likely to occur.
Remote – The Chance of the future event occurring is slight.
Reasonable possibility – The chance of the future event occurring is more than remote but less than likely.

A contingent loss should be accrued by a charge to expenditures if before the financial statements are issued, information becomes available that:

1. It is probable that an asset has been impaired or a liability incurred at the date of the financial statements, and
2. The amount of the loss can be reasonably estimated.

AGENCY PROCEDURES

Each agency should contact appropriate individuals within their agency and through other means determine whether there are any events that have occurred prior to fiscal year end which could result in a loss to the state after the occurrence of some future event.

Agencies should report any events considered to be possible contingent liabilities to the State Accounting Office using the attached form.