COUNTY OF CALAVERAS

YEAR-END MANUAL

For Fiscal Year Ending June 30, 2016

Important Year-end Dates

June 24
Deadline to reissue stale dated checks before fiscal year end

June 24
Deadline for Account Payable for 2015-2016 FY AND deadline for NEW POs to Administration Department

June 27
Reminder to submit Department signature list for new fiscal year

July 15
Submit Schedule K to Administration

August 31
Year-end schedules due

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County of Calaveras Auditor-Controller

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Preface

The Office of the Auditor-Controller has prepared this manual to help facilitate, coordinate, and help make year-end closing procedures more efficient. Prolonged and sometimes complicated accounting concepts have been condensed to the main ideas necessary for year-end closing purposes.

For a more comprehensive treatment of governmental accounting standards and procedures, please log onto the California State Controller's website at http://www.sco.ca.gov/ard/manual/cntyman.pdf . Of particular value at that website is an extensive Glossary of Accounting Terms.

Acronyms used in this manual

CAFR Comprehensive Annual Financial Report
GAAP Generally Accepted Accounting Principles
GASB Governmental Accounting Standards Board
IFAS Integrated Financial Accounting System (Bi-Tech). County Financial System.

Chapter 1 Introduction

Purpose of the Manual
The purpose of the Year-end Manual is to provide guidance to the organizational units of the County with the goal of ensuring uniformity and consistency in the procedures to be followed for reporting year-end financial data.

Retention of Manual
We encourage you to make copies of this manual and to use applicable sections for the training of County personnel. Updated versions of this manual are issued annually and older versions should be discarded.

Organizational Units Affected
All organizational units controlled by agencies that are **governed by the County Board of Supervisors** are affected by the requirements contained within this manual.

Reasons for Closing Procedures
1. To provide internal users of the County financial system with accurate, timely and reliable information.

Accuracy is served by ensuring that transactions are represented in the appropriate accounting period. The goal of timeliness is met by adhering to a set schedule of deadlines. Reliable information on year-end closing transactions is maintained by the supporting documentation provided by participating departments. With this information management can make better decisions regarding the County's assets, liabilities, revenues, expenditures, and fund balance/net position.

2. To provide external users of County Financial Statements with accurate, timely and reliable information.

Lending institutions, bond rating agencies, and other major users of the County's financial statements also make decisions based on the information included in County financial reports. All organizational units of the County benefit by participating in the year-end closing procedures.

3. To provide independent auditors with information that conforms to generally accepted accounting principles (GAAP).

The goal of the independent auditor is to obtain reasonable assurance that the financial statements are fairly presented and free from material misstatement. The schedules and supporting documentation provide this assurance to them.

Chapter 2 Fiscal Year-End Budgetary Control Procedures

Budget Deficits at Year-End

Governmental Code §29120 limits expenditures to only those amounts approved by the Board of Supervisors in the annual budget (as originally adopted, or through amendments to the budget as approved by Board action). Therefore, budgetary organizations cannot legally exceed their Board-approved appropriations.

1. Since the County Budget Act (Government Code § 29009 through § 30200) requires annual operating budgets for governmental funds, the Auditor-Controller's Office cannot close the fiscal year until all appropriation budget deficits are eliminated by Board-approved budget action. Proprietary funds can also have legally-prescribed budgets, subject to Board discretion, and must also have appropriation budget deficits eliminated by Board-approved budget action.

2. It is the responsibility of each organizational unit to prevent excessive expenditures or to immediately resolve such budget deficits when they occur.

3. Should the organizational budget unit be under in expenditures, but also under in revenue, creating a net increase over what was approved at budget, you may have to go before the Board to request a draw on contingencies to close the year end.

Cash Deficits at Year-End

1. It is the policy of the Auditor-Controller's Office not to close the fiscal year until all County funds, with monies deposited in the County treasury, and is cleared of any cash deficit positions, which could be Board action with contingent funding.

2. The Auditor-Controller's Office shall not issue warrants for any expenditures or other disbursements resulting in a budget that would exceed the approved appropriation limit.

3. It is the responsibility of the organizational unit to prevent cash deficits or to immediately resolve such occurrences.

Chapter 3 Preparing and Submitting Closing Documents

General

This manual serves as a single source of information for fiscal year-end closing procedures. All organizational units must follow the procedures set forth in this manual.

The fiscal accounting period for all organizational units is July 1 through June 30.

Basis of Accounting
State and local governments account for Internal Service Funds, Enterprise Funds, and Fiduciary Funds for year-end closing transactions on the ***accrual basis of accounting***. All other funds are required to use the ***modified accrual basis of accounting***.

Schedule Instructions
1. Submit the original of each schedule to the Auditor-Controller's Office no later than the deadline specified in the Year-end Closing Calendar. Exceptions to deadlines must be approved by the Auditor-Controller's Office in advance of the cutoff date. The organizational unit must make its request in writing to the year-end coordinator and receive written approval. The use of e-mail (ccauditor@co.calaveras.ca.us) for making these requests is acceptable. In addition, any request requiring an increase in budgeted appropriations requires the approval of the County Administrative Office AND the Board of Supervisors.

2. The Transmittal Letter (Schedule N) summarizes the closing schedules submitted for each budgetary unit (Fund/Dept. ID) and must accompany their closing package. Schedule N provides positive verification of the applicability of each schedule. **A transmittal letter must be returned for each budgetary unit even if there are no closing schedules.** (A budgetary unit represents a high-level Fund/Org Key combination where the Board of Supervisors establishes an official budget). Check the appropriate box in each column to indicate what schedule(s) and journal(s) are included in the packet. (See Appendix A).

3. Schedules are required to be signed by the person preparing them and **must be approved by the department head or their management level designee.**

4. Copies of the schedules must be retained by the organizational unit along with supporting documents for future audits.

5. Report all dollar figures in whole dollars. Do not include cents.

6. If an amount is estimated, an explanation must accompany the schedule as to how the amount was determined. Indicate amounts estimated by inserting "(**E**)" in the estimate (**EST**) column.

7. Include the Org Key on the top of all schedules in the appropriate fields.

8. All schedules are available in Excel format from the Auditor-Controller's website: http://auditor.calaverasgov.us under Fiscal Year End

10. If you have any questions regarding the year-end process, E-mail at ccauditor@co.calaveras.ca.us or call the Auditor's Office at 754-6343.

Chapter 4 Receivables

Definitions and Accounting Treatment

The term accounts receivable includes a variety of claims that will result in future inflow of cash to the County. Accounts receivable come into existence as (1) a result of goods sold or services rendered between organizational units within the County or between the County and outside entities, (2) from a legal liability on the part of the homeowners to pay property taxes, (3) from the state or federal government in the form of grants or subventions, administrative claims, mandated cost claims and (4) various other amounts due to County organizational units for goods and services rendered on or before June 30, 2016.

Revenue Recognition
Revenue and receivables can result from exchange or non-exchange transactions.
In exchange transactions, a County organizational unit provides goods or services to individuals, private businesses, organizations or other governmental entities in exchange for value. Generally, the County recovers revenue in an amount equal to the cost of providing goods or services; however, in some instances a lesser amount, as authorized by the Board of Supervisors, is recovered.

Non-exchange transactions are the result of the County receiving value without giving equal value in exchange. The most significant portion of the County's revenue is derived from non-exchange transactions such as property taxes, state and federal grants, entitlements, and other financial revenues. GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transaction*, provides the governmental accounting and financial reporting standards for non-exchange transactions.

For revenue recognition to occur, the County must be entitled to the revenue. In order to be entitled, the following criteria must have been met: (1) the underlying exchange has occurred, (2) taxes have been levied, (3) the claim is legally enforceable or (4) all applicable eligibility requirements have been met.

Availability Period
For Governmental Funds, revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The County has adopted the following availability periods for accruing Governmental Fund revenues:

1. Property and sales taxes are considered available for the year levied and are accrued when received within sixty (60) days after fiscal year-end.

2. Revenue received from expenditure driven (cost-reimbursement) grants, as defined by GASB Statement No. 33, are considered available and accrued if expected to be received within twelve months after fiscal year-end. A copy of the grant documentation, such as a claim form, demonstrating that the grant is "Expenditure Driven" should be included with the applicable

Schedule(s).

3. All other revenue streams are considered available and accrued if they are expected to be received within ninety (60) days after the fiscal year-end.

For revenue received in advance, a deferred revenue liability should be recorded and released upon revenue entitlement. Revenue received in advance is revenue that has not yet been earned and which the County is not entitled. For revenue that the County is entitled to, but receipt is not expected until after fiscal year-end but within the availability period, the revenue should be recognized (credited) with an offsetting entry (debit) to a receivable account. See Chapter 8, Deferred Revenue for more information.

Instructions: Schedules A, B, & C for Reporting Receivables
When a County organizational unit is entitled to receive measurable amounts of $500 or greater, Schedules **A, B, & C** are required to record the asset and accrue revenue. Substantiate each item on Schedules **A, B, & C** by a formal claim for reimbursement or billing and attach a copy of the claim or billing to the back of the schedule on which it is listed. If estimated, attach an explanation of how the estimate was determined.

Receivable Categories
1. Taxes Receivable (No Schedule Required)
Property taxes are imposed non-exchange revenue transactions that the County is entitled to recognize as revenue in the period for which the taxes are levied and assessed–even if an enforceable claim or the due date for payment occurs in a different period. The amounts owed by property owners for property taxes, which are received within 60 days after fiscal year-end are available to accrue to the old fiscal year. Therefore, the amount of property taxes received and apportioned through August 30 for lien dates prior to July 1, qualify as measurable and available for revenue recognition to the old fiscal year.

Since the Auditor-Controller's Office performs an apportionment in July, the revenue is posted and recognized to the old fiscal year and organizational units require no accrual. Taxes receivables are accounted for under asset section (1053).

2. Interest Receivable (No Schedule Required)
Treasurer's Pooled Cash Investment: After June 30 each fiscal year, interest apportionment transactions are posted for 4th quarter interest earnings for cash held in the County Treasury.

If there are **other** interest earnings receivable separate from the Treasurer's Pooled Cash Investments, you may report these as **Operating Accounts Receivable (Schedule C)**.

3. Due from Other Funds (Schedule A Required)
When a receivable and corresponding liability exists between operating funds at June 30 **and cash is not available** to satisfy the liability, an internal receivable "Due from Other Funds" should be established for the entitled amount. In addition, a corresponding liability "Due To Other Funds" is required in the other fund for the same amount.

The organizational unit entitled to the revenue should prepare Schedule A and must coordinate the receivable and payable transaction to ensure both parties are in agreement on the amount and account.

Example:
The Ag Department provides services to Public Works. The Ag (Governmental Fund) is entitled to receive the revenue and record the receivable (Due From) and applicable revenue. Public Works Department (Special Revenue Fund) is the liable department that will incur a payable (Due To) and an applicable expense account.

4. Due from Other Governments (Schedules B Required)

When a County organizational unit is entitled to revenue from a federal, state, city or other local governmental entity (external to the County), **and payment has not been received by June 30**, a receivable Due from Other Governments(DFOG) should be established for the entitled amount. The receivable could be the result of services rendered, or a non-exchange transaction such as sales tax revenue. The County is entitled to accrue the receivable and recognize the revenue in the old fiscal year when services are rendered, eligibility requirements are fulfilled, and the amount earned is measurable.

If revenue is earned, but not available because of availability period rule described in Chapter 4, then revenue should be deferred. The accrual of revenue to specific DFOG receivable account should be posted in the old fiscal year, segregating the DFOG accounts by source (federal, state, city, other).

In Governmental funds, if the “Deferred Revenue” account is recorded rather than the “Revenue” account, the accrual will not be reversed until the revenue is recognized.

5. Operating Accounts Receivable (Schedule C Required)

Operating Accounts Receivables are amounts owed to the County from private individuals, businesses or organizations for goods and services provided by the County. These receivables exclude amounts due internally (from other County funds), from other government entities, or amounts based on assessment–such as, property taxes, interest, and special assessments, which are all separately classified. Accounts receivable accruals should be captured through routine billings.

A journal entry will be needed to accrue for amounts entitled to as of June 30.

Chapter 5 Accounts Payable

Definitions and Accounting Treatment

Accounts payable are current (short-term) liabilities that are the result of goods or services received by a County organizational unit for which payment is not going to be made until a subsequent accounting period. For year-end accrual purposes, goods or services received as of June 30 and expected to be paid within the next 12 months should be expended/expensed and accrued in the old fiscal year.

Throughout the fiscal year vendors' vouchers are routinely recorded through the accounts payable module. Expenditures/expenses are recorded in the operating funds through voucher processing and cash is transferred to a warrant-clearing fund. The warrant-clearing fund records the liability account and receipts the cash until the warrants are honored or approved for payment by the Treasurer.

Accruals for payroll and vendors are posted at year-end by the Auditor-Controller's office. However, at fiscal year-end, additional accruals are required to account for short-term liabilities such as due to other funds maintained in the County Treasury (Governmental and Proprietary Funds), due to other government entities, and due to outside entities such as private parties and businesses.

When entering Accounts Payable items that are reportable in the prior fiscal year in IFAS, enter **FY15** in the MISC code on that AP item.

Accounts Payable Categories—Schedules A, G, and I
In the financial system, the County has five types of short-term liability (payable) categories available for recording the amounts owed as of June 30:

- **Operating Accounts Payable** (No Schedule Required)
- **Salaries and Benefits Payable** (No Schedule Required)
- **Due To Other Funds** (Schedule A Required)
- **Due To Other Governments** (Schedule G Required)
- **Accounts Payable Other** (Schedule I Required)

An explanation for each category follows:

1. Operating Accounts Payable (No Schedule Required)

Creating accounts payable vouchers with an accounting date in fiscal year 2015 will be disallowed beginning July 1. Instead, departments have been instructed to create claims with a new fiscal year accounting date, but an old fiscal year invoice date. The invoice date field will determine which period the amount is reported. The Auditor-Controller's Office will create the Operating Accounts Payable accrual journal entries by AP Business Unit based on the following criteria:

a. Invoice date must be equal to June 30 or prior. Departments should review transactions very carefully in July and August to ensure that invoice dates are correct. For assistance in selecting appropriate invoice date, see Appendix B.

2. Salaries and Benefits Payable (No Schedule Required)

Biweekly employee payroll is paid through the IFAS system. For services rendered by employees through the end of the fiscal year, County organizational units have a liability for the amounts due for salaries, benefits, compensating absences as well as other accrued payroll liabilities. Other examples of such liabilities are the County's share of Social Security, Medicare taxes, and contributions to retirement plans.

The journal date corresponds to the pay date for the given pay period, with the exception of the dates used for the accrual journals at year end. Below are the scheduled accrual journals for FY 2015.

Pay Period	Dates Covered	Pay Date	FY 15 Accrual
#13 (100%)	6/11/16 to 6/24/16	7/1/16	6/30/16
#14 (42%)	6/25/16 to 7/8/16	7/15/16	6/30/16

3. Due To Other Funds (Schedule A Required)

When a liability and corresponding receivable exists between funds at June 30 and cash is not available to satisfy the liability, but it is expected to be paid within the next fiscal year, an internal liability "Due To Other Funds" should be established for the amount due. In addition, a corresponding receivable "Due From Other Funds" is required in the other fund for the same amount.

See Receivables Chapter for procedures regarding Due from Other Funds. **Do not prepare Schedule A if your organizational unit is responsible for the liability and the related expenditure.**

4. Due To Other Governments (Schedules G Required)

When an amount is due to a federal, state, city, or other local governmental entity outside the County and has not been paid as of June 30, a liability "Due To Other Governments" should be recorded for the amount due. The liability could be the result of services received (an exchange transaction) where a County organizational unit received resources/funding from another governmental entity for specific programs such as those outlined in agreements or legislation (non-exchange transaction).

In the accounting period when services are received, the amount is due, and is expected to be paid within the next fiscal year, the County should accrue the payable and record the expense in the appropriate fiscal year. If services are received in the old fiscal year, the accrual should be posted to 06/30/2016 and to the specific “Other Government” payable account, which is identified in the financial system under liability account number “2004”.

5. Accounts Payable Other (Schedule I Required)

For amounts due by a County organizational unit which will be settled within the next fiscal year and the amount does not specifically fall into one of the four liability accounts described above, this “Other” account should be used for accrual journal entries. The accrual should also be listed on Schedule I.

No Accounts Payable accruals required for the following

1. Recurring Charges Due to the General Fund: Do not include amounts due to General Fund for recurring charges such as central mail or payroll related charges. They will be determined and reported by the General Fund organization.

2. Encumbrances are commitments related to unperformed contracts for goods or services. Since the commitments have not been fulfilled at fiscal year-end, these amounts should not be included on any accounts payable schedules and they should not be accrued as liabilities at year-end. In order to reserve old year fund balance to satisfy these commitments once they have been fulfilled, Board of Supervisors approval must be obtained. See Chapter 6, Reserve for Encumbrances, for requirements on reserving fund balance for encumbrances at fiscal yearend.

Chapter 6 Encumbrances (Governmental Funds)

Definitions and Accounting Treatment

When the Board of Supervisors approves a contract or a purchasing buyer authorizes a Purchase Order for goods or services, a legally binding commitment has been created by that organizational unit. However, until the goods or services are received, the County has no obligation to pay and therefore the accounting entry to record the expenditure and related liability are not yet necessary.

Schedule K Required
At fiscal year-end, numerous commitments exist related to unfulfilled contracts for goods or services. These commitments are referred to as **Encumbrances**. If the organizational unit waits until the next fiscal year when the commitments are fulfilled (goods or services are received) to record the related expenditures, the unit may not have appropriations available to satisfy the

payments. Therefore, in order to use budgeted appropriations from the fiscal year when the commitment was established, Board of Supervisor approval must be obtained to increase the appropriation. When encumbering amounts for specific purposes for which the resources have already been assigned this will not result in a separate display of the encumbered amounts within those classifications.

Encumbered amounts for specific purposes for which amounts have not been assigned should not be classified as unassigned but, rather, should be assigned fund balance.

How To Increase your Appropriation for Encumbrances:

1. A request to increase your appropriation (for the following year) due to an established encumbrance must be submitted through the year-end accrual process by completing the Schedule K.

2. Subject to availability of appropriations and Net County Cost requirements, the County Executive Office will review the request for Encumbrance amounts and recommend the assigned classification.

3. Once the CAO has approved the encumbrance amounts, a journal entry will be posted to reclassify the approved amounts from either an unassigned fund balance (formerly known as unreserved, undesignated fund balance) (3002) to Reserve for Encumbrance (3042).

4. The fund balance reclassification will then be appropriately reflected in the new fiscal year and budgeted appropriations will be increased in the original budgeted expenditure account to satisfy the commitment.

Commitments Qualifying for Encumbrances

1. Encumbrances (Schedule K), is restricted to approved contracts and purchase orders, where the County has an unfulfilled commitment for goods or services that have not been satisfied or received as of June 30. If goods or services have been received as of June 30, the expenditure should either be recorded through the IFAS system or recorded based on the appropriate accounts payable accrual schedule (Year-end schedules G or I).

2. Only commitments with **available budgeted appropriations** can be encumbered through the year-end process. In addition, requests for reserve for encumbrances may not cause the budgetary units to exceed their approved Net County Cost. See below for computation to determine approved Net County Cost.

STEP #1: Determine Budgeted Net County Cost:

	Budgeted Appropriations
Less:	<u>Estimated Departmental Revenues</u>
Equals:	<u>Budgeted Net County Cost………</u>

STEP #2: Determine Actual Net County Cost:

	Actual Expenditures plus Reserve Request
Less:	Actual Departmental Revenue
Equals:	Actual Net County Cost……..

Each Budgetary unit's **Actual Net County Cost** must be less than its **Budgeted Net County Cost** to qualify for Reserve for Encumbrance.

3. Outstanding contracts and purchase orders in the **amount of $500 or more** will be subject to reserve**. It is not allowed to combine multiple purchase orders and contracts as part of $500 guideline**. If the individual commitment does not reach the $500 limit, it should not be included in the Encumbrance request to the CAO.

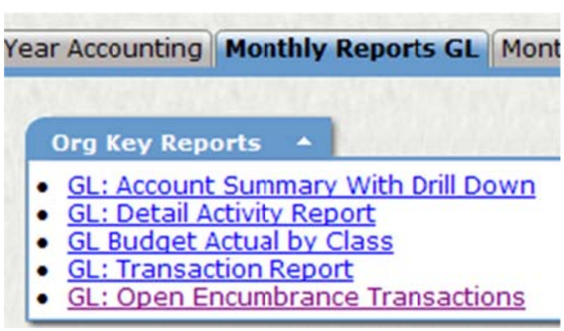
Do not include on Schedule K any of the following items:

1. Undelivered goods or services as of June 30, which are less than $500.

2. Requisitions are requests, not commitments or obligations to pay and are not recordable transactions. Requisitions will be canceled in the financial system based on the Year-end Closing Calendar and will not roll forward to the new fiscal year.

3. Blanket Purchase Orders covering multiple deliveries during the year, do not qualify for Encumbrance.

Pre-Encumbrance and Encumbrance Cleanup
In order to maximize budgets, departments are strongly recommended to review the Outstanding Encumbrances Report on a weekly basis.



County of Calaveras

Open Encumbrance Transactions

As of 5/1/2012

PO#	Vendor Number	Vendor Name	Post Date	Encumbered Amount	Paid Amount	Net Encumbered
Org. Key: 10100030		**Auditor-Controller**				
	Object: 5241	**Office Expense**				
YE10063	0037446	US BANK CORP PAYMENT S	06/30/2011	91.98	0.00	91.98
YE10063	0037446	US BANK CORP PAYMENT S	12/31/2011	0.00	91.98	(91.98)
		Totals for Object Code 5241 Office Expense		**91.98**	**91.98**	**0.00**
	Object: 5257	**Office Expense - Small Equip**				
YE10063	0037446	US BANK CORP PAYMENT S	06/30/2011	162.36	0.00	162.36
YE10063	0037446	US BANK CORP PAYMENT S	12/31/2011	0.00	162.36	(162.36)
		Totals for Object Code 5257 Office Expense - Small Equip		**162.36**	**162.36**	**0.00**
			PO Total	**254.34**	**254.34**	**0.00**
	Object: 5257	**Office Expense - Small Equip**				
YE10064	0037446	US BANK CORP PAYMENT S	06/30/2011	449.95	0.00	449.95
YE10064	0037446	US BANK CORP PAYMENT S	06/30/2011	0.00	449.95	(449.95)
		Totals for Object Code 5257 Office Expense - Small Equip		**449.95**	**449.95**	**0.00**
	Object: 5499	**Minor Equipment - Other**				
YE10064	0037446	US BANK CORP PAYMENT S	06/30/2011	449.95	0.00	449.95
YE10064	0037446	US BANK CORP PAYMENT S	08/24/2011	0.00	449.95	(449.95)
		Totals for Object Code 5499 Minor Equipment - Other		**449.95**	**449.95**	**0.00**
			PO Total	**899.90**	**899.90**	**0.00**
	Object: 5498	**Minor Equipment - Computer**				
YE1062	0037446	US BANK CORP PAYMENT S	06/30/2011	1,316.53	0.00	1,316.53
YE1062	0037446	US BANK CORP PAYMENT S	08/24/2011	0.00	1,170.00	(1,170.00)
YE1062	0037446	US BANK CORP PAYMENT S	08/24/2011	0.00	50.00	(50.00)
		Totals for Object Code 5498 Minor Equipment - Computer		**1,316.53**	**1,220.00**	**96.53**
			PO Total	**1,316.53**	**1,220.00**	**96.53**
		Totals for Org Key 10100030Auditor-Controller		**2,470.77**	**2,374.24**	**96.53**

Departments must analyze and determine which encumbrances have already been fulfilled and which are still outstanding. If they are not needed or fulfilled with budget still being tied up, please make sure to clear them out of the system to free up department budget.

On the report above, the Auditor's Office would need to address the remaining $96.53 of encumbrance.

Pre-Encumbrance and Encumbrance Documentation for Schedule K

Once the pre-encumbrances and encumbrances are cleared up as much as possible, proceed with the following steps as a supplement to Schedule K:

1. Create a spreadsheet of all the remaining Encumbrances that are valid.
2. Print the spreadsheet and attach it to the Open Encumbrance Report.
3. Have the department head certify this list with a signature and date.
4. Submit the package to the County Administration Office by Monday, July 15, 2016.

Chapter 7 Inventories

Definitions and Accounting Treatment

Materials and supplies held in the normal course of operations for future consumption are referred to as inventory. Examples of inventory include office supplies, medical supplies, automotive parts, hoses, nozzles, safety gear, child care supplies, and forms unique to a department's mission and purpose. Office supplies are broadly defined as copier paper, writing instruments, and other supplies necessary for routine office operations.

Inventories (Schedule E)
Inventory values of $10,000 or more in aggregate, per department, are reportable.
Departments maintaining inventory valued less than $10,000 should expense, rather than capitalize, inventory in the period purchased.
The County uses the average cost method for valuing inventory costing. Under the average cost method, inventory used or on hand is valued at the average unit cost.
The average cost is determined by dividing the total cost of the identical commodity on hand by the total number of units on hand.

Organizational units with an estimated inventory value of $10,000 or more are required to perform an annual inventory count in accordance with procedures outlined in the Auditor-Controller's Office Internal Control Handbook, and Annual Physical Inventory of Parts and Supplies. Inventory counts should be completed on or as close to June 30 as possible.

For changes in inventory balances of $2,500 or more, the inventory balance should be adjusted and posted to the financial system by journal entry. The required accounting transactions will be dependent on the account used to routinely record purchases of inventory.

The inventory adjustment computation is as follows:

	Inventory at the end of the current fiscal year
Less:	**Inventory at the beginning of the same fiscal year**
Equals:	**Increase (decrease) to inventory**

Accounting for Changes to Governmental Fund Inventory

Schedule E should be completed to support the adjustment to inventory.

Accounting for Changes to Proprietary Fund Inventory

Since Proprietary Funds present their financial statements on the accrual basis of accounting and the economic resources measurement focus, inventory is recorded to the inventory asset account when acquired and expensed as consumed. Below is the required accounting transaction for inventory adjustments at fiscal year-end.

Valuation Methods
Proprietary Fund inventory values must be reported at the lower of cost or market. For Governmental Funds, inventory values must be reported at cost unless the inventory has been affected by physical deterioration or obsolescence, in which case the inventory should be written down based on the estimated value.

Chapter 8 Deferred Revenue

Definitions and Accounting Treatment

For revenue recognition to occur, the County must be entitled to the revenue. In order to be entitled the following criteria must have been met: (1) the underlying exchange has occurred, (2) taxes have been levied, (3) the claim is legally enforceable or (4) all applicable eligibility requirements have been met.

Availability Period

As discussed in Chapter 4, revenues are considered available for governmental funds when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The County has adopted the following availability periods for accruing governmental fund revenues:

1. Property and sales taxes are considered available for the year levied and are accrued when received within **sixty (60) days** after fiscal year-end.

2. Revenue received from expenditure driven (cost-reimbursement) grants, as defined by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transaction*, are considered available and accrued if expected to be received within **twelve months** after fiscal year-end. A copy of the grant documentation, such as a claim form, demonstrating that the grant is “expenditure driven” should be included with the applicable Schedule(s).

3. All other revenue streams are considered available and accrued it they are expected to be received within **sixty (60) days** after the fiscal year-end. **Deferred Revenue** is a liability account used to record resource inflows that do not yet meet the criteria for revenue recognition.
There are two types of deferred revenue in the public sector:

1. Advanced Revenue: Under both the accrual and the modified accrual basis of accounting, cash received in advance but not earned must be deferred until it is earned. Revenue is earned when products have been delivered or services have been performed. Non-exchange revenue, like taxes, are earned when the County has legal claim to the resources.

2. Unavailable Revenue: Under the modified accrual basis of accounting, revenue is deferred if it is not available to pay current expenditures or additional eligibility criteria have not been met. Modified accrual only applies to governmental funds.

Two schedules have been developed to distinguish which type of deferred revenue is being posted. Since the criteria and the related accounting treatment is different for the two types of deferred revenue transactions, both are described in the sections below.

1. Schedules L-1 (Advance) and S-12: Deferred Revenue Resulting From Cash Received In Advance of Revenue Entitlement.

When cash is received in advance of entitlement, a deferred revenue liability should be reported until the exchange has occurred or eligibility requirement(s) have been met. In an **exchange** transaction where the County receives the monetary amount prior to performing services or providing goods, a deferred revenue liability is recorded until the earning process is complete. In **non-exchange** transactions, the County receives monetary amounts without giving value in return. Therefore, revenue cannot be recognized for the advance proceeds until the County has a legally enforceable claim or other eligibility requirements are met. Eligibility requirements are stipulations placed on provided resources, such as:

- Costs allowed on claims for reimbursement
- Time requirements to expend or start expending resources
- Other contingencies
- Characteristics of recipients to qualify for resources

In organizational units that recognize revenue upon receipt and an amount is not earned as of June 30, and the transaction is in excess of $500, a reclassification journal entry should be posted and the deferred revenue should be included on **Schedules L-1 (Advance)** and **S-12**.

For example: On March 15, 2016, Department ABC received $500,000 from the state for use in a road repair project.

As of June 30, 2016, only 50% of the project has been completed. A reclassification entry is then needed to account for the $250k not yet earned.

The transaction is reversed once the revenue recognition cycle is complete. If the earning process is not completed promptly, the business unit should consider the appropriateness of routinely recognizing revenue upon receipt and consider using a ‘deferred revenue’ liability account to initially receive proceeds. Factors such as the duration of the earning cycle and materiality of amounts received should be part of the decision process.

2. Schedule L-2 (Unavailable) and S-12: Deferred Revenue in Governmental Funds When Revenue Is Earned, But Not Available.

NOTE: This process is not currently being used by any Budget Unit. However, through the course of closing we find that the deferred revenue being reported should actually require setting up an operational Deferred Revenue liability for the next year, this will be done a case by case basis.

Since governmental funds are entitled to recognize revenue only when it is available for use to pay current expenditures, unavailable amounts should be reported as deferred revenue. When the unavailable amount is **$500** or greater, a journal entry should be posted and the deferred revenue should be included on **Schedules L-2 (Unavailable)** and **S-12** with the following accounting transaction:

For example:
On 06/15/2016, a governmental fund completed services for a city costing $500,000. An invoice was sent to the city for the service provided and payment is not expected to be received until October 15, 2016. If the offset chosen was a revenue account, the following entry should be recorded at June 30:

Schedule S-12 is required for all departments with outstanding balances as of June 30, 2016 in accounts 2100. Schedule S-12 serves as an aging report of deferred revenue in accounts 2100. This Schedule should summarize all deferred revenue (including amounts deferred prior to June 30, plus new deferrals for June 30). The list should outline the entity name, amount deferred, reason for deferral (unearned or unavailable), description of program, and estimated period when revenue will be recognized. The total balance reported in Schedule S-12 must match the IFAS general ledger balance for accounts 2100. Attach proper documentation for each line item in Schedule S-12.

Transactions Not Qualifying As Deferred Revenue

1. When operational units receive advances as a condition of performance and it expects to refund these amounts–or the majority of amounts received–upon performance of the established condition(s), the advances should be reported as "Customer Deposits" (2200) rather than "Deferred Revenue". Although both accounts are liabilities, they differ based on the expectation of the advances.

Deferred revenue is received with the expectation that the County has a liability to fulfill before being entitled to recognize revenue. Customer deposits are received from a third party and are held to motivate them to fulfill some stipulated conditions. It is the desire of the County to have the established conditions met and refund the money; however, if the conditions are not met, some or all of the money is forfeited by the customer and recognized by the County as revenue. Generally, customer deposits are accounted for under liability section (2200).

2. When amounts are earned by a Proprietary Fund, but not available, revenue should be recognized, rather than deferred. Proprietary Funds use the accrual basis of accounting and revenue should be recognized when earned or when the organizational unit is entitled to the proceeds.

Note: Estimates of accruals should not be entered through the Accounts Receivable system.

Chapter 9 Prepaid Expenses

Definitions and Accounting Treatment

A prepaid expense is the amount paid for a commodity or service that has not been received at the end of the fiscal year. The monetary amount that has been paid is capitalized in a prepaid expense account (Asset account 1081) to be expensed over the period used. Prepaid items are costs of operations that are capitalized at year end and will be consumed within the next fiscal year. Examples of prepaid expenses include insurance premiums and rent which are paid in advance.

For example, if on January 1, an organizational unit pays $12,000 to rent a facility for a 12-month period, six months worth or $6,000 of the expenditure/expense would be capitalized at June 30. The remaining $6,000 must be expensed in the new fiscal year for the amount of rent attributed to July through December.

When entering a Prepaid item in IFAS, enter PPXX (where XX is the fiscal year you are prepaying) i.e. PP16, PP17, etc. in the AP entry screen

Schedule M Required
Schedule M should be completed for those prepaid items of **$500 or more** as of June 30 in any one organizational unit.

Example:

Administration negotiated a very favorable lease agreement of an office building on behalf of a county department. The agreement calls for the annual lease payments of $30,000 to be made on January 2nd of each year. The unused portion of the lease amount, $15,000, should be recorded as prepaid on Schedule M as of 6/30.
Expenses Not Qualifying As Prepaid Expenses:

1. Deferred charges: Non-recurring, non-capital costs of operations that benefit future periods should be specifically capitalized as deferred charges under Asset account 1086. These expenditures include costs incurred for the issuance of debt such as underwriter and legal fees.

2. Internal Service Fund expenses: Expenditures paid to internal service funds, such as County self-insurance; do not qualify as prepaid expenses. These costs are considered incurred during the fiscal year and do not benefit future periods.

Chapter 10 Depreciation

Definitions and Accounting Treatment

Capital assets include land, land improvements, easements, buildings, building improvements, vehicles, machinery, equipment, infrastructure, and all other tangible or intangible assets that have value beyond one fiscal year and are used in operations. To qualify as a capital asset, the amount capitalized must be at least **$10,000 or more**. **Capitalized costs** include the value paid for the asset, sales tax, interest, transportation charges, insurance while in transit, and costs associated with preparing the asset for its intended use such as special foundations and installation costs. The cost of capital assets should be systematically expensed over the estimated period of time the asset is in service or will be of value to the organizational unit.

The estimated time of service is referred to as the **useful life** of the asset. The systematic expense of the asset cost is referred to as **depreciation**. Some assets are inexhaustible, such as land and land improvements, and are not depreciated since they retain their value.

There are various methods to calculate depreciation. The County uses the **straight-line method** of depreciation. The straight-line method of depreciation provides for equal periodic charges to expense over the estimated life of the asset as follows:

$$\frac{\textbf{Cost of Asset – Salvage Value (If Any)}}{\textbf{Useful Life of Asset}} = \textbf{Depreciation Expense}$$

Asset depreciation is calculated in the financial system Fixed Asset Module for all depreciable capital assets (Proprietary Funds, as well as Governmental Funds). The difference between the two fund classifications is that for Proprietary Funds, the depreciation expense will be posted directly to actual ledger of the fund. For Governmental Funds, there will be no expense posted to the fund. Instead, in accordance with GASB Statement No. 34, the expense will be included in the Government-Wide financial statements for CAFR purposes only.

Since depreciation is calculated through the financial system Fixed Asset Module, which produces a system generated journal entry at the sub-ledger level and the Auditor-Controller's Office, posts the depreciation expense to the proprietary fund actual ledger, no year-end schedule is required to post the depreciation expense. However, once the expense is posted to the fund level, organizational units will be responsible for determining the accuracy of the posting. The following transaction will be posted to reflect the depreciation expense:

No reversing journal entry should be prepared.

The depreciation expense is posted to the actual ledger of the fund on an annual basis. However, this may be changed to quarterly to insure that there is adequate budget for depreciation expense at year end going forward.

Construction In Progress

Construction In Progress (CIP) is a major class of capital assets, which is used to track costs incurred to construct or develop a tangible or intangible capital asset before it is substantially ready to be placed into service. No depreciation benefit is received until the asset is complete and placed into service. Therefore, depreciation expense or amortization expense would not be recognized either for projects in the construction or development stage. Once the capital asset is completed, the asset would be reclassified into the appropriate major class and depreciation commence.

New projects are those that commenced during the current fiscal year and closed projects are those that have been completed during the fiscal year, for which a Notice of Completion (NOC) has been approved by the Board of Supervisors.

All known CIP has been created in the Fixed Asset Module and should be reviewed. In addition, ALL CIP should be paid for through a Capital Expenditure and NOT comingled with other Services and Supplies. It is important to report to the ACO any NEW, Completions, or modifications to CIP by August 31, 2016. This number should also include any accrued expenses from previous chapters.

You can use Schedule K in order to submit information to the ACO, but source documents will be required before we book: Transactions, Invoices, etc.

Chapter 11 Bank Accounts Controlled by Departments or Agencies

General

A Schedule P is required for the following

1. All bank accounts that were established in accordance with the Auditor-Controller's Cash Handling Manual. Section IX Bank Accounts.

2. Accounts that are used by departments for monies that are being held in a fiduciary capacity and treasurer issued revolving fund.

Instructions for Schedule P
Submit a Schedule P for each bank account controlled by your department.

1. If your department didn't have a bank account during the fiscal year, select the box "No" bank account on the space provided.

2. List the number of bank accounts that is controlled by your department and submit a separate schedule for each account.

3. Complete all fields on schedule P, answer the questionnaire in detail, and attach a copy of the following documents:

• BOS Resolution establishing external account

• June 30 bank statement

• June 30 bank reconciliation

• Authorized signature card

• Listing of the top 10 collection sites for cash and checks.

Chapter 12 Leases

Capital Leases

A lease is classified as a capital lease when substantially all of the risks and benefits of ownership are assumed by the lessee. A capital lease is, for the most part, viewed as an installment purchase of property rather than the rental of property.

Criteria
The accounting principle presented in Financial Accounting Standards Board (FASB) Statement No. 13 (FASB 13) requires that a lease be capitalized if any one of the following four criteria is characteristic of the lease transaction:

1. The lease transfers ownership (title) of the property to the lessee by the end of the lease term.
2. The lease contains a bargain purchase option.
3. The lease term is equal to 75% or more of the estimated economic life of the leased property.
4. The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90% of the fair value of the leased property.

If a lease does not meet any of the above criteria it shall be classified as an operating lease.

Required by the ACO
For all new capital leases acquired on/after July 1, 2015, the present value of future lease payments must be entered into the Fixed Asset Module. All County departments must ensure that (Capital Asset Forms) have been completed and submitted to the Auditor-Controller's Office along with copies of the following items:
• Lease Agreements
• Amortization Schedules
• Purchase orders
• Capital Lease Tests
• Invoices

• IFAS Queries showing **all** payments made during the fiscal year (required at year-end)

Operating Leases
When a lease does not satisfy any one of the four capitalization criteria for a capital lease, it is classified as an operating lease. An operating lease does not require the capitalization of the minimum lease payments. An operating lease is primarily a rental agreement for the use of an asset. Therefore, neither an asset nor a liability is recorded at the inception of the lease. Instead, rental expenditures are recognized as they become payable. Accordingly, County departments are expected to recognize rental expenditures as they become payable.

Required by the ACO
Departments must provide the ACO with a spreadsheet containing data for rental payments primarily for **facilities leases**.

Chapter 13 Contingent Liabilities

Definitions and Accounting Treatment

An existing condition or set of circumstances that **may** result in a liability (loss) depending on one or more future events that may occur or fail to occur is referred to as a **contingent liability**. Contingent liabilities include items such as guarantees, pending lawsuits, judgments under appeal, unsettled purchase orders, ability to collect receivables and uncompleted contracts.

Factors contributing to whether the event is accrued, disclosed, or not disclosed are based on the likelihood of the outcome and the ability to estimate the amount involved. Guidelines are established in the Statement of Financial Accounting Standards No. 5 for the appropriate action:

1. If it is probable that an asset has been impaired or a liability has been incurred at fiscal year end and the amount of loss is reasonably estimable, then a loss contingency should be accrued at fiscal year end.

2. If the likelihood of the loss is probable, but not estimable or the loss is reasonably possible, then the event should be disclosed in the footnotes to the financial statements.

3. If the likelihood of loss is remote, then recognizing a loss contingency through accrual or disclosing such an event in the financial statement footnotes, is not required.

County Counsel should be consulted in determining the degree of likelihood that a loss will occur in the future.

For contingent liabilities falling under categories 1 or 2 above, Schedule R should be completed and submitted with the year-end closing schedules. County Counsel will be requested to assess the probability of loss in writing during the Countywide financial statement audit.

Instructions for Schedule R: Contingent Liabilities

List the following on the Schedule R:
1. Source of Claim
2. Reason for Claim
3. Estimated Amount of the claim (if estimable)
4. Projected date of resolution
5. Department Contact
6. Schedule R must be submitted with Schedule N, even if the department did not have any contingent liabilities.

APPENDIX A: YEAR-END ACCRUAL SCHEDULES

Use Schedule	To Journalize……..
A	Due From Other Funds/ Due to Other Funds
B	Due From Other Governments
C	Operating Accounts Receivable
E	Inventory Materials and Supplies
G	Due to Other Governments
I	Accounts Payable Other
K	Request for Encumbrances
L-1 (Advance)	Deferred Revenue: Revenue Received in Advance of Earning/ Entitlement Process
L-2 (Unavailable)	Deferred Revenue Governmental Funds Only Revenue Unavailable to Expend Against Current Liabilities
M	Prepaid Expense
N	Transmittal Letter
P	Bank Accounts
R	Contingent Liabilities
S-12	Deferred Revenue Account Analysis

APPENDIX B: ACCOUNTS PAYABLE INVOICE DATE DETERMINATION WORKSHEET