

SWCD Operational Handbook: Financial Management Chapter

SWCD Accounting

Board of Water and Soil Resources

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SWCD Accounting

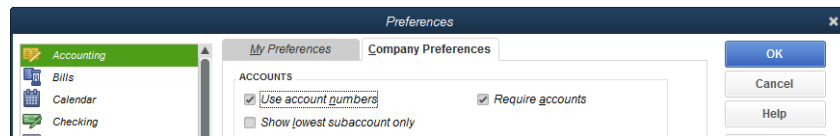
Chart of Accounts

Overview

The purpose of a chart of accounts is to secure a fixed structure of accounts used in accounting and is necessary to provide for uniform terminology and meaningful financial reporting. The chart of accounts is a list of account titles (may include numbers) used by the district showing accounts used and classification by type of account (i.e. assets, liabilities, revenues, expenditures). Too many accounts create confusion so it's a good idea to periodically review the chart of accounts and mark unused accounts inactive. Typically, a four-digit number system should suffice for most districts and keeps the numbering scheme easier. However, larger districts may find it beneficial to use a five-digit number system for increased flexibility.

Best practice is to use numbered account titles. Account numbers simplify recording transactions during the year and allow a better flow of data into the annual financial statements. It is also easier for auditors to propose journal entries referencing specific accounts with numbers. Account numbers enable sorting grants and accounting activities. To require account numbers in QuickBooks:

Edit menu – Preferences – Accounting – Company Preferences



Basic Chart of Accounts

Assets and Liabilities

Assets and liabilities are listed in order of liquidity - short-term followed by long-term.

Prepaid asset accounts are only needed for those items paid in advance for goods or services to be delivered the following year (i.e. trees, insurance, dues/subscriptions, software licenses). See the End-of-Year Accounting Adjustments section for more information.

Recommend breaking out unearned revenue by type (i.e. county, federal, state, etc.) to facilitate year-end reporting. Best practice is to set up an unearned revenue account for each advanced payment grant. The unearned revenue grant account is where all revenue and expenses are individually tracked and reviewed during a financial reconciliation of the grant.

Districts may create unearned revenue accounts for monies received from the county and move the monies to revenue as earned or on a periodic basis during the year to reduce variance in the Profit and Loss report during the year. By year-end, remember to record all revenue received for the year unless it meets the definition of unearned revenue. For information on how to track unearned revenue, refer to the Grants Management – Unearned Revenue Method for Advanced Payment Grants section.

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Revenues

As a unit of government, revenue accounts are listed in alignment with the district mission of intergovernmental revenues first, followed by charges for services, and then miscellaneous revenues. Recommend breaking out county revenue by function to facilitate year-end reporting (i.e. allocation, water plan, WCA, feedlot, abandoned wells, DNR shoreland, AIS, etc.).

If tracking advanced payments on grants as unearned revenue when received, there's no need to break out revenue and expense by grant. The unearned revenue grant account is where all revenue and expenses are individually tracked and reviewed during a financial reconciliation of the grant.

It is a good practice to set up corresponding revenue and expense accounts for a specific item if the district wants to track the item's financial benefit (i.e. drill revenue generated vs. cost to maintain/use/rent the drill).

Expenditures

The order of expenditures would be: district operation accounts, other services and charges, supplies, capital outlay, and project/program expenditures.

Sample Chart of Accounts

The layout described also aligns with the standard format for financial statements. A very simplified sample chart of accounts is provided in the Appendix. As always, adjust to meet the needs of your district. Grant subaccounts are a suggested format when using the unearned revenue method of accounting.

If the district is using QuickBooks class tracking, there's no need to create subaccounts for any revenue or expense accounts which have been set up as a class since the reports will show each class in a columnar format. For more information, refer to the Grants Management - QuickBooks Class Tracking for Advanced Payment Grants section.

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General Accounting

Affidavit of No Receipt

Receipts/invoices are needed before expenses can be paid, including expense reimbursement to employees and supervisors. If a receipt was lost or never received and the district allows a substitute, purchaser could submit an Affidavit of No Receipt (sample in the Appendix). Granting agencies may or may not accept an Affidavit of No Receipt in lieu of an actual receipt for a grant/match cost.

Petty Cash

Petty Cash is easily accessible money for expenditures of small items. Claims submitted must include an invoice or receipt detailing the item(s) purchased.

To initially fund or replenish the Petty Cash account:

<u>Date</u>	<u>Memo</u>	<u>Account</u>	<u>Debit</u>	<u>Credit</u>
06/01/2018	To Fund Petty Cash	1020 - Checking		100.00
	To Fund Petty Cash	1010 - Petty Cash	100.00	
			<u>100.00</u>	<u>100.00</u>
TOTAL			<u>100.00</u>	<u>100.00</u>

The Petty Cash account is to be reconciled monthly, like other checking/financial accounts. Depending upon the process used to track payments made with petty cash, manually reconcile petty cash on hand with receipts/invoices received. The total of cash and receipts to match the beginning amount from the first of the month (if reconciled monthly) of petty cash. Record in the accounting system the expenses paid with petty cash.

- If using QuickBooks, open the Check Register for Petty Cash and create entries using the existing numbering protocol (i.e., 102 - cash, in place of the check number) for each expense noting the correct date, payee, amount, expense account, etc. (if applicable, enter class).

<u>Date</u>	<u>Memo</u>	<u>Account</u>	<u>Debit</u>	<u>Credit</u>
6/30/2019	Petty Cash Summary Entry	1010 - Petty Cash		17.30
	US Postal Service	5240 - Postage, Mailing Service	9.80	
	Office Max	5810 - Office Supplies	7.50	
			<u>17.30</u>	<u>17.30</u>
TOTAL			<u>17.30</u>	<u>17.30</u>

Next, write a check to "Petty Cash" from the checking account to replenish the Petty Cash account. For example, if there is \$82.70 in petty cash and \$17.30 in receipts, write the check for \$17.30 to replenish Petty Cash on hand to its initial amount of \$100.00. Reconcile Petty Cash within the accounting system similar to reconciliation of the checking or savings accounts. When complete, the difference should be "zero." Print and file documentation as needed.

Internal Controls

Use Petty Cash funds only if it is impractical to pay the claim in another manner. In addition:

- Petty Cash cannot be used for salary or personal expenses of a supervisor or district staff
- Secure petty cash funds in a metal lock box that is maintained in a locked desk, locked cabinet, or locked safe to which access is limited

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- Board appoints a custodian of each imprest fund. The custodian is personally responsible for the cash entrusted to the fund.
- Custodian presents itemized claim for disbursements from the fund at the next board meeting
- Reconciliation of the petty cash fund should be done by someone other than the person approving withdrawals from the fund
- See Treasurer's Report - Internal Controls section if custodian is the Board Treasurer

Investments/Certificate(s) of Deposit

If the district has investments, savings, and/or certificates of deposit, the funds should be reconciled at least annually (end of the year for financial statement purposes) or whenever interest is accrued. Typically, the financial institution would send a statement indicating date and amount of interest accrued.

Each investment/savings/certificate of deposit should be recorded in the accounting system as a separate account or subaccount and would be included on the Treasurer's Report. Record as much detail within the account setup as appropriate.

To initially fund an investment, savings, or certificate of deposit:

<u>Date</u>	<u>Memo</u>	<u>Account</u>	<u>Debit</u>	<u>Credit</u>
3/1/2019	Fund Certificate of Deposit	1020 - Checking		10,000.00
	xxMo CD Maturing mm/dd/yy	1040 - xxBank CD	10,000.00	
			<u>10,000.00</u>	<u>10,000.00</u>
TOTAL			<u>10,000.00</u>	<u>10,000.00</u>

To record interest accrued during the year:

<u>Date</u>	<u>Memo</u>	<u>Account</u>	<u>Debit</u>	<u>Credit</u>
9/1/2019	6 months interest on xxBank CD	4810 - Investment Rev		50.00
	6 months interest on xxBank CD	1040 - xxBank CD	50.00	
			<u>50.00</u>	<u>50.00</u>
TOTAL			<u>50.00</u>	<u>50.00</u>

When the investment or certificate of deposit has matured, the final amount realized would be updated within the accounting system and the account balance transferred to either a checking, savings, or another investment/certificate of deposit account. The investment/certificate of deposit account which has matured would then be inactivated within the accounting system.

Internal Controls

The Board Treasurer should review all changes to investment, savings, or certificate of deposit accounts during the regularly scheduled review.

Inventory

Inventory is the goods and materials the district holds for resale at a later date. Typically, trees do not need to be tracked as Inventory since all trees are sold before year-end. Recommendation is to track inventory when the district maintains a physical value of \$2,500 or more. The Cost of Goods Sold account is used when inventory becomes a significant part of the district’s total revenue.

If Inventory is tracked, at least annually a physical count should be conducted to compare the physical inventory to inventory recorded in the accounting system.

Deposit on Tree Sales

Deposit on Tree Sales are payments received in advance for future tree purchases.

Payments received in advance should be recorded as a current liability:

<u>Date</u>	<u>Memo</u>	<u>Account</u>	<u>Debit</u>	<u>Credit</u>
10/11/2019	John Doe advanced sale	1020 - Checking	50.00	
	John Doe advanced sale	2310 - Deposits on Tree Orders		50.00
			<u>50.00</u>	<u>50.00</u>
TOTAL			<u>50.00</u>	<u>50.00</u>

When the trees are sold (delivered), the deposit would be taken out of the current liability account and recorded as revenue:

<u>Date</u>	<u>Memo</u>	<u>Account</u>	<u>Debit</u>	<u>Credit</u>
4/17/2020	John Doe advanced sale	2310 - Deposits on Tree Orders	50.00	
	John Doe advanced sale	4710 - Tree Sales Revenue		50.00
			<u>50.00</u>	<u>50.00</u>
TOTAL			<u>50.00</u>	<u>50.00</u>

Bank Statements

Purpose

A bank reconciliation is used to compare your records (book balance) with those of your bank (bank balance) and reconcile any differences between the two balances. Timing differences of transactions recorded by the organization vs. when updated in the bank's system are most common. Bank reconciliations are an important accounting procedure and can identify errors by the bank or organization as well as detect/prevent fraud.

When the bank sends a statement, the burden shifts to the customer to promptly notify the bank of unauthorized payments (Minn. Statute 336.4-406). Organizations are encouraged to review their financial institutions' agreement to understand the length of time they have to identify fraudulent items and mistakes.

Bank Statement Reconciliation

The bank statement should be reconciled monthly and within a timely manner upon receipt. The District fiscal staff/agent should reconcile the bank statement, in addition to a separate reconciliation as noted in the Internal Controls below. Reconcile within the accounting system if this capability exists. Because QuickBooks is a commonly used accounting software for SWCDs, the following outlines the process within this software to reconcile the bank statement:

1. Within QuickBooks, click on "Banking" then "Reconcile"
2. Choose an account from the dropdown menu
3. Verify "Statement Date" is the same as the end date on the bank statement
4. Verify the "Beginning Balance" is the same as the beginning balance on the bank statement
5. Enter the "Ending Balance" from your current bank statement
 - a. 5.a. Enter interest and fees as noted on the bank statement
6. Click on "Continue"
7. Check off each of the "Checks and Payments" in QuickBooks which cleared per the bank statement
8. Check off each of the "Deposits and Other Credits" in QuickBooks which cleared per the bank statement
9. Verify "Difference" is \$0.00 when completed. If not \$0.00, there is most likely an error when checking off cleared debits or credits. Reconcile all differences.
10. Click "Reconcile Now"
11. Select the type(s) of Reconciliation Report(s) to print
12. Click "Print"

Internal Controls

Typically, cash is the most vulnerable asset for the organization. Bank reconciliations provide the necessary control mechanism to help protect this valuable resource and are the most common way fraudulent activities are identified.

Consider having the bank statement mailed or online viewing access given to someone, other than fiscal staff, who can provide review/oversight as an internal control. At least monthly, someone NOT involved

with writing checks or making payments should provide a double-check for the fiscal staff/agent by reconciling the bank statement to records of claims approved. Review for:

- Amount altered
- Proper payee
- Void check cashed
- Checks out of sequence
- Unauthorized payments

Sample Bank Statements Policy

“As an internal control measure, all bank statements will be reviewed in a timely manner by xxx, who has not been involved with writing checks or making payments. (identify what documents will be used for the review process) Any irregularities identified will be promptly reported to xxx.” (xxx – identify by position type)

If someone other than the fiscal staff/agent cannot reconcile the bank statement, another option would be to hire the accounting firm conducting the audit to request bank statements directly from the banking institute and review as part of the audit process.

A best practice would be to require two signatures on all checks and review monthly to assure compliance. Signatures of authorized signers should be on record with the bank. Checks written out for cash should be monitored closely to assure appropriate documentation of related expenses or discouraged altogether.

Sample Checking Account Policy

“All District checks will be required to have two authorized signatures. District Board Members (list specific Board members/positions) and the District Manager are authorized to sign checks. If there is a check outstanding for more than xx months, the district will contact the payee to inquire on the status of the check.”

Political subdivisions sometimes issue checks that are never cashed or are returned as undeliverable. Under Minnesota’s Unclaimed Property Laws, uncashed and returned checks must generally be reported to the Minnesota Department of Commerce. More information is available on the Department of Commerce website at: <https://mn.gov/commerce/industries/unclaimed-property/>. (Minn. Statute 345 Unclaimed Property)

Other internal control measures would be to involve the bank and not allow cash withdrawals or periodically obtain from the bank a list of all the organization’s bank accounts. Another measure is a Positive Pay System whereby the bank only pays based upon a supplied list of checks issued.

Receivables

Overview

Receivables are debts owed to the district by its customers for goods or services the district provided. Receivables can either be in the form of cash receipts or accounts receivable invoices.

Cash Receipts

The purpose of cash receipts is to provide written documentation to purchasers of monies received by the district for goods or services. A receipt should be provided timely for all monies received, whether in the form of cash or check. A receipt produced by the accounting system is preferred; however, if this is not possible, a receipt book with pre-numbered duplicate forms may be used. If an error is made when recording in the receipt book, the form should be marked “void” and all copies of the form retained in the receipt book. The district should have a policy for the handling of cash receipts.

Sample Cash Receipts Policy

“Receipts will be issued timely for all monies received. Preferably, a receipt will be produced by the accounting system. If a receipt book is used, the receipts will be pre-numbered and in duplicate form. All cash or check receipts shall be endorsed upon receipt as payable to the district, recorded, and deposited in the bank within a timely manner but no later than by the end of the work week.”

Accounts Receivable

Accounts receivable is an asset account reflecting amounts due on account from persons or organizations for services or goods furnished. All invoices for customers and government entities should be created in Accounts Receivable after the services or goods have been provided. Any projects with holdbacks should have the holdback invoiced through Accounts Receivable. Tracking manually is not advised since the risk of forgetting/losing revenue is high and/or good records do not exist for the audit. An example of this is when invoicing another local government unit for services provided. Once invoiced through Accounts Receivable (QB: Customers – Create Invoices), record payments towards the invoice(s) when received.

Example: Invoice Stormy SWCD for technician services provided -not related to a grant:

DEBIT: 1200 - Accounts Receivable

CREDIT: 4630 - Charges for Services – Contracted Services

Accounts receivable containing non-public data to be stored in a secure location or locked file cabinet within a lockable office space. When a check is received, stamp “for deposit only” on the back of the check as soon as it is received.

When invoicing for services provided and the funding source is known, accounting standards recognize revenue by funding type (i.e. state, county, local, federal, etc.). This is helpful when invoicing another local government unit for services provided on a state grant to use the appropriate billable rates and for proper classification of revenue on the annual financial statements. If governmental units are invoiced using the Accounts Receivable – Due From Other Governments account, the funding type is recognized when the invoice is generated thus avoiding the need to reclassify at year end.

Bad Debts

Accounts Receivable not expected to be collected should be taken to the board for approval to write off and documented in the Board minutes. Within the month approved, access the accounts receivable invoice within the accounting system and record the invoice amount as a discount used for the applicable funding source (Charges for Services – Bad Debts). This will zero out the balance due within Accounts Receivable and reduce total revenue.

Internal Controls

Typically, cash is the most vulnerable asset for the organization. Fraudulent activities when receipts are not deposited may include:

- Skimming – cash removed prior to deposit (unreceipted cash)
- Lapping – receipted cash replaced with unreceipted checks

If the district is large enough, separation of duties between several staff protect district assets. Otherwise, the Board Treasurer or Board could provide assistance with managing cash receipts. To safeguard district funds when received, consider building in double-checks to the process such as:

- Someone other than the person collecting monies compares items sold to monies collected
- Person collecting monies is not the person preparing the deposit
- Person collecting monies receives periodic report of deposits
- Second period reviews and okays all voids/refunds

Other internal controls for cash receipts may include:

- Daily bank deposits
- Reconcile receipts with deposits daily
- Do not leave receipts unattended
- Know the amount in any change fund (starting balance)
- Consolidate cash collection points
- Periodic report of deposits to person/department collecting payments
- Pre-numbered receipts for all payments/sales
- Note if payment is by cash or check (include check number) and compare to deposit
- Deposits made intact
- Beware of voids and refunds
- No cashing of personal checks out of undeposited receipts
- No “borrowing” from public funds (no IOUs or “markers”)
- Upon receipt, the back side of all checks received should be stamped “For Deposit Only”

Payables

Overview

Payables are debts owed by the district to its suppliers for goods or services the district received.

Debit Cards

A debit card is a payment card which deducts money directly from the user's checking account to pay for a purchase. While entities have the authority to make purchases using credit cards, the authority to use debit cards is less clear. Debit cards allow funds to be immediately withdrawn from the entity's financial account, provide fewer protections than credit cards provide and circumvent statutory claims approval safeguards. Recommend entities use credit cards, not debit cards, to make purchases for the public entity. See Office of the State Auditor Statement of Position on Credit Card Use and Policies.

Credit Cards

A credit card is a payment card issued to a user to enable the cardholder to pay a merchant for goods or services based on the cardholder's promise to the card issuer to pay them for the amounts plus other agreed upon charges. Because of the ease in using credit cards, the district should consider having a policy in place to ensure the district's credit cards are used for appropriate purposes and adequate controls are established for day-to-day use. See Minn. Statute 103C.321 Subd. 6. Credit Card Use.

Recommendations for a credit card policy:

- Identify the employees and supervisors authorized to make purchases using the district's credit card;
- Obtain signed written acknowledgments of the credit card policies from all authorized card users;
- Identify the particular purchases allowed to be made with the credit card and the maximum charge, if any;
- Restrict the total amount of charges that can be made on the credit card;
- Set up a review process for all purchases made with the credit card;
- Require supporting documentation for all purchases made with the credit card; and
- Prohibit the use of the credit card for personal purchases

Sample Credit Card Policy

"The xxSWCD credit card may only be used for: pre-approved travel expenses for hotel rooms and meals (limited to food and non-alcoholic beverages up to allowable per-diem) for overnight meetings, gas for district vehicles, emergency repairs for the district vehicle when problems occur traveling to and from district meetings, miscellaneous supplies under \$xx, and other necessary pre-approved purchases as deemed appropriate by the Board or District Manager. The authorized signatures assigned to the credit card are xxx. No other person(s) shall be allowed to sign for approved purchases or allowed to use the credit card. Use of the credit card for personal purchased is prohibited and any such unauthorized use shall be reviewed at the next Board meeting. If any credit card purchase is not approved by the Board, the supervisor or employee responsible for the charge is personally liable for the purchase amount. All charges on the credit card must be supported with detailed receipts/invoices and submitted in a timely manner to xxx (position who

reconciles the credit card). The credit card statement and related original receipts will be reviewed by xxx and the Board Treasurer.”

Internal Controls

Many local government governing boards are specifically authorized by statute to approve credit card use. If an officer/employee makes a credit card purchase that is not approved by the board, “the officer or employee is personally liable for the amount of the purchase.” Credit card purchases must otherwise comply with all statutes, rules, or district policies applicable to public purchases and be supported with original receipt from the point of sale. Include the specific vendors, not just the credit card company, on claims submitted to the district board for approval.

Accounts Payable

Accounts payable is a current liability account in which the district records the amounts it owes to suppliers or vendors for goods or services the district received on credit. The module is used primarily with modified accrual accounting. More information can be found in the Overview of Accounting System and Methods – Accounting Methods section of this chapter.

If amounts owed to governmental units are recorded using the Accounts Payable – Due To Other Governments account, the funding type is identified when the liability is recognized thus avoiding the need to reclassify at year end.

Check Payments

A check is a negotiable instrument drawn against deposited funds to pay a specified amount to a supplier or vendor for goods or services received. The district board should review expenditures on a regular basis, documenting the approval or denial in board minutes.

Invoices must have sufficient detail to adequately document the materials or services provided. Invoices should have a vendor name and address, date of invoice, complete listing of supplies, materials or services showing quantity of each, unit cost, total for each item, and total invoice amount. If services were provided, the invoice should include the timeframe services were rendered.

Payments should be generated from the accounting system and printed on pre-numbered checks. Blank checks would be stored in a secure location or locked file cabinet within a lockable office space.

When an error is made on a check, write “VOID” with an ink pen across the face of the check and signature area or remove the signature area. Be sure to void the check in the accounting system; do not delete the check. Voided checks should be kept along with the cancelled checks, filed in check number order, or attach the voided check to the check stub and invoice paid.

If separation of duties is feasible, the person who drafts the check would have no check signing authority and checks would be signed by someone who has no check drafting authority. Oversight is recommended to assure the process is being followed consistently. The check signer(s) should review the expenditure paperwork to verify it’s an appropriate district expense and correct payee and amount.

A best practice would be to have a Board policy related to the review and approval of invoices and the drafting and signing of checks.

Sample Check Writing Policy

“The district board will review expenditures on a regular basis, documenting the approval or denial in the board minutes. Only pre-numbered checks will be used to generate payments with blank checks securely stored xxx and only xxx shall have access to the area. After Board approval, (list position[s] responsible for writing checks) shall write the checks and xxx (list all authorized signers) are authorized to sign the checks. No district check with a blank payee line or amount can be signed. (As an internal control, explain how oversight of the process will be handled).”

Internal Controls

Typically, cash is the most vulnerable asset for the organization. Fraudulent actions may occur without proper procedures and oversight of the check writing process. Some considerations include:

- Bank should have the authorized signers on file for each account;
- Policy outlining who has authority to transfer monies and dollar limits associated with each authority;
- Checking, savings, or investment account numbers is non-public data and should be protected accordingly;
- Policy outlining check signing authority limits; and
- Debit cards should be discouraged since they lack fraud protection.

Capital Assets

Overview

Capital assets means tangible or intangible assets used in operations having a useful life of more than one year and capitalized in accordance with generally accepted accounting principles (GAAP). Capital assets include:

- Land, buildings/facilities, equipment, and intellectual property (including software) whether acquired by purchase, construction, manufacture, lease-purchase, exchange, or through capital leases; and
- Additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations, or alterations to capital assets that materially increase their value or useful life (not ordinary repairs and maintenance).

The district should have a Board approved policy establishing a threshold for capital asset purchases. Recommendation is a capital asset threshold of somewhere between \$2,500 to \$5,000, depending upon the size of the district.

Sample Capital Assets Threshold Policy

All tangible and intangible assets having a useful life of more than one year and costing \$2,500 or more shall be capitalized and depreciated according to Generally Accepted Accounting Principles.

Capital Asset Purchases

Provided are examples of how to record in the accounting system a variety of capital asset purchases.

The district uses cash to purchase a pickup with no trade-in of another vehicle. License fees and sales tax are considered part of the capital asset purchase. Record as follows:

Date	Memo	Account	Debit	Credit
4/1/2019	Pickup, license fees, sales tax	1020 - Checking		25,750.00
	Pickup, license fees, sales tax	5900 - Capital Outlay	25,750.00	
			25,750.00	25,750.00
TOTAL			25,750.00	25,750.00

Three months later, the district decides to purchase a \$200 toolbox and \$100 signage for the pickup. The cost would be recorded as a vehicle expense if the cost is below the district's threshold for capitalizing assets.

Capital Asset Sales or Trade Ins

The district sold a pickup (2013 Silverado) it owns. Record as follows:

Date	Memo	Account	Debit	Credit
5/1/2019	Sale of 2013 Silverado	4930 - Misc Revenue-Asset Sale Proceeds		25,000.00
	Sale of 2013 Silverado	1020 - Checking	25,000.00	
			25,000.00	25,000.00
TOTAL			25,000.00	25,000.00

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Upon sale, remove the capital asset original cost and accumulated depreciation from the equipment log. If the capital asset is not fully depreciated, the remaining cost would be recorded as additional expense in the equipment log:

Your SWCD Capital Assets													
Class	Asset	Expenditure Function	Purchased/Constructed	Useful Life	Adjusted Balance	Additions	Deletions	Ending Balance	Beginning Accumulated Depreciation	2018 Depreciation	Deletion	Ending Accumulated Depreciation	Asset Balance
Equipment, furniture and vehicles													
	2013 Silverado		2013	10	40,000.00		40,000.00	0.00	20,000.00	4,000.00	24,000.00	0.00	0.00
	4 Office Computers		2016	7	3,500.00			3,500.00	750.00	350.00		1,100.00	2,400.00
Total equipment, furniture, vehicles					43,500.00	0.00	40,000.00	3,500.00	20,750.00	4,350.00	24,000.00	1,100.00	2,400.00
Total Capital Assets					43,500.00	0.00	40,000.00	3,500.00	20,750.00	4,350.00	24,000.00	1,100.00	2,400.00
		1/1/2018	Additions	Deletions	12/31/2018								
	Capital Assets	43,500	-	(40,000)	3,500								
	Accumulated Depreciation	(20,750)	(4,350)	24,000	(1,100)								
	Net book value	22,750	(4,350)	(16,000)	2,400								

Instead of selling the 2013 Silverado outright, the pickup was traded in for a newer model. Record the trade-in (not fully depreciated) and purchase as follows:

- Traded older asset (2013 Silverado) for a trade allowance of \$25,000
- Purchase a 2017 Silverado costing \$45,000
- Total amount paid from checking was \$20,000 (\$45,000 purchase price less \$25,000 trade-in value)

Date	Memo	Account	Debit	Credit
5/1/2019	Purchase 2017 Silverado; Trade 2013 Silverado	1020 - Checking		20,000.00
	Purchase 2017 Silverado; Trade 2013 Silverado	5900 - Capital Outlay	20,000.00	
			20,000.00	20,000.00
TOTAL			20,000.00	20,000.00

For the equipment log, the new adjusted balance of the 2017 Silverado is \$36,000 (\$20,000 cash paid plus \$16,000 book value [\$40,000 less \$24,000] from the older 2013 Silverado):

Your SWCD Capital Assets													
Class	Asset	Expenditure Function	Purchased/Constructed	Useful Life	Adjusted Balance	Additions	Deletions	Ending Balance	Beginning Accumulated Depreciation	2018 Depreciation	Deletion	Ending Accumulated Depreciation	Asset Balance
Equipment, furniture and vehicles													
	2013 Silverado		2013	10	40,000.00		40,000.00	0.00	20,000.00	4,000.00	24,000.00	0.00	0.00
	4 Office Computers		2016	7	3,500.00			3,500.00	750.00	350.00		1,100.00	2,400.00
	2017 Silverado		2018	10		36,000.00		36,000.00	0.00	1,800.00		1,800.00	34,200.00
Total equipment, furniture, vehicles					43,500.00	36,000.00	40,000.00	39,500.00	20,750.00	6,150.00	24,000.00	2,900.00	36,600.00
Total Capital Assets					43,500.00	36,000.00	40,000.00	39,500.00	20,750.00	6,150.00	24,000.00	2,900.00	36,600.00
		1/1/2018	Additions	Deletions	12/31/2018								
	Capital Assets	43,500	36,000	(40,000)	39,500								
	Accumulated Depreciation	(20,750)	(6,150)	24,000	(2,900)								
	Net book value	22,750	29,850	(16,000)	36,600								

When the purchase and/or sale of capital assets seems confusing, contact your accountant who can guide you through the process for updating the accounting system and equipment log.

Depreciation

Depreciation represents the reduction in value, due to wear and tear, of an asset over its useful life. For governmental accounting, capital asset purchases and related depreciation are not reported on the Balance Sheet and, consequently, do not need to follow Internal Revenue Service rules since net book value of capital assets reporting is for financial statement purposes only. Generally Accepted Accounting Principles rules do not give an exact useful life for capital assets; therefore, the following guidelines are provided:

- Computers: 3-5 years
 - Bundle computer, monitor, docking station, etc. together if purchased at the same time
- Trucks: 5-7 years
- Equipment: 7-10 years
- Furniture and Fixtures: 7-10 years
- Buildings: 40 years
- Pole Sheds: 20 years
- Land: no depreciation
 - Break out cost if attached to a building at the time of purchase

Calculating book depreciation by month is the most accurate method. It should be used for large capital asset purchases to prevent recalculation during the audit. For example, record 11 months of depreciation the first year for a capital asset purchased in February ([capital asset purchase price divided by number of years useful life] multiplied by .92 = first year depreciation amount). Partial year depreciation multipliers are as follows:

- | | |
|-------------------------------|-----------------------------|
| • January = 12 months or 1 | July = 6 months or .50 |
| • February = 11 months or .92 | August = 5 months or .42 |
| • March = 10 months or .83 | September = 4 months or .33 |
| • April = 9 months or .75 | October = 3 months or .25 |
| • May = 8 months or .67 | November = 2 months or .17 |
| • June = 7 months or .58 | December = 1 month or .08 |

The following is a simplified method for calculating book depreciation on capital asset purchases:

- Purchased January thru June, record a full year of depreciation the year of purchase
- Purchased July thru December, record a half year of depreciation the year of purchase
- In most scenarios, the half-year depreciation calculation will be close enough to actual that a “material” difference would not exist or require recalculation during the audit

Total book depreciation cannot exceed the asset’s purchase price thus the ending/net asset balance cannot be negative. Capital assets with less than 12 months of depreciation the first year typically would have less than a year of depreciation remaining during the last year of useful life. The district should maintain an equipment log to track capital asset purchases and annual depreciation. After a capital asset is fully depreciated, the capital asset should remain on the equipment log until disposal.

Equipment Log

An equipment log is useful for keeping track of equipment for insurance purposes. In addition, the equipment log should track the date (mm/dd/yy) the capital asset was purchased, what funding source(s) used for purchase and the capital asset threshold effective mm/dd/yy as set by the district board.

If the depreciation amount is for less than a full year, the amount will need to be manually entered since the spreadsheet automatically calculates a full year of depreciation.

A sample equipment log (fixed asset template) can be found on the BWSR website at:

<https://bwsr.state.mn.us/grants-administration-manual-optional-and-example-forms>. The best way to update the equipment log for the new year's information is to copy the existing spreadsheet and create a new sheet/tab for the upcoming year (locate the current year's sheet/tab and right mouse Move or Copy, indicate placement of copied sheet and click on Create a Copy then rename the new tab to the upcoming year). Since the spreadsheet has changed over time, review the following and make updates as appropriate:

- Update the new sheet header for the current year xxxx
- Items in the "Additions" column in year ended are no longer "Additions" in the new year. Move the amount(s) into the "Adjusted Balance" column. For any items in the "Deletions" column, delete from the sheet or move to a Deletions sheet/tab for future reference. Make sure the "Adjusted Balance" column of the new year equals the "Ending Balance" column for the year just ended. If not, check line-by-line for any errors.
- Update the "Beginning Accumulated Depreciation" column amounts for the new year to equal the "Ending Accumulated Depreciation" amounts from the year just ended. Make sure the column totals equal.
- Update the new year's depreciation column title to the current year xxxx. Review depreciation amounts listed and make sure depreciation amount listed is for a full year (some purchases may only have been eligible for a few months of depreciation in the year of purchase which also means the item most likely has less than a full year depreciation during the last year of its useful life) and the "Ending Accumulated Depreciation" amount does not exceed the "Ending Balance" amount (cannot claim depreciation in excess of asset's actual cost). Adjust the new year's depreciation column amounts as appropriate. Verify the "Asset Balance" column is a positive number; otherwise, check for errors.
- As capital assets are purchased in the new year, add lines to the sheet and copy row formulas.
- For capital assets deleted in the new year, enter the "Adjusted Balance" amount in the "Deletions" and "Deletion" columns. Enter any remaining balance to depreciate the asset fully in the current year's "20xx Depreciation" column. If entered correctly, the "Asset Balance" column should be \$0.00.

SWCD Accounting

End-of-Year Accounting Adjustments

Prior to Year-End

It's always a good idea to prepare as much in advance as possible for the year-end process. An early start on preparing for year-end helps ward off some of the extra work in January.

Inventory

If you have inventory recorded in the accounting system, a physical count should be done and compared to the accounting balance, then reconcile any discrepancies. See the General Accounting – Inventory section for more information.

Capital Assets

Throughout the year, capital asset purchases should have been recorded in the accounting system to the Capital Outlay expense account. Review the detail in the account to verify all purchases recorded meet the capital asset threshold and have been included on the equipment log. Check that all capital asset purchases have been recorded to the Capital Outlay expense account.

Update the equipment log to record the depreciation for the year. For more information, see the Capital Assets section. If there's uncertainty on the correct amount of depreciation to claim, contact your accountant who can provide guidance. There's no need to wait until the annual audit to update the equipment log.

Compensated Absences

Compensated Absences represents the cost to the organization of benefits owed (vacation, sick, comp time, etc.) if all employees end employment as of December 31. Compensated Absences is generally an adjustment for financial statement purposes only (see Unaudited Financial Statements section) unless the total amount becomes a significant cost to the organization, then consider recording the cost of compensated absences within the accounting system. Record as either assigned or committed, depending upon how the funds were set aside (see Annual Budgeting Process – Classifications of Fund Balance section).

- Debit: Assigned – Compensated Absences (fund balance)
Credit: Compensated Absences (liability)

Review Reports

Print a Balance Sheet and review if there are any prior year adjusting entries which should have been reversed at the start of the year. Check that all account balances make sense and match the records. If the district has any auxiliary or manual journals and/or spreadsheets, check to be sure the amounts match the accounting system records.

Complete December Processing

Complete all reports as normally done for the month and quarter. Print a Balance Sheet and Profit and Loss report before proceeding with the year-end process.

Year-End Process

THE YEAR-END PROCESS IS PART OF THE ACCOUNTING FUNCTION FOR CLOSING THE YEAR JUST ENDED AND SHOULD BE COMPLETED SOON AFTER THE YEAR IS DONE.

End-of-year accounting adjustments are not part of the financial statement process. Consider making a backup of the accounting data prior to beginning the year-end process and label it "1231yyyy YearEnd Before Adjustments." The purpose of the adjustments is to recognize all revenue and expense for the year.

Note: Most year-end adjustments only needed if the amount is considered "material" (greater than or equal to \$100)

Interest Receivable

Interest receivable is interest earned on investments but not yet received as of December 31. Examples of interest receivable/earnings which may require an end-of-the-year adjustment:

- Given the low interest rates lately, these adjustments are only needed if the total interest is material (typically \$100 or more).
- Checking/Savings account accrued interest in December
 - If the bank statement through December 31 is not received yet, contact the bank to find out how much interest was earned in December. Record as revenue and either interest receivable (reverse entry as of January 1) or directly to the checking/savings account (if the monies would post directly to the account by the end of December). If recording the interest directly to the checking/savings account, remember recording the interest when conducting the month-end reconciliation of the account.
 - Debit: applicable checking/savings account or interest receivable
 - Credit: Interest Income
- Certificates of deposit or other savings certificates are issued by financial institutions when depositing money for a specified length of time, often one or more years in length. An end-of-year adjustment is needed when the amount of interest through year-end is considered material. For example, a one-year certificate of deposit which comes due March 31:
 - Although the interest wouldn't be paid until the certificate came due March 31, interest would be accruing during the year. Only report the interest earned from April 1 – December 31 less any penalty for early withdrawal. Record as a receivable if the interest would not post directly to the account by December 31 (certificate due end of March).
 - Debit: Interest Receivable (asset)
 - Credit: Interest Income

Type of Investment	Certificate Number	Percentage Yield	Purchase Price of Investment	Accrued Interest to 12/31 Less Penalties
			\$	\$
			\$	\$
			\$	\$
Total Interest Receivable as of December 31				\$

Accounts Receivable

Accounts receivable are monies owed to the district by individuals or businesses for goods or services the district provided. This adjusting entry is for accounts receivable which have not yet been invoiced through the accounting system and may include interest and/or service charges on outstanding accounts receivable invoices. Use Accounts Receivable or Accounts Receivable – Due From Other Governments (In QuickBooks, Customers – Create Invoices) in the accounting system to record.

- Best accounting practice is to regularly invoice for services and/or products sold
- At year-end, be sure to invoice for all material amounts (typically \$100 or more)
- Invoice through the accounting system so the invoice and subsequent payment can be tracked (don't send an invoice generated using a word processing or spreadsheet software)

Example: December seeding of grass and wildflowers on a landowner's property

- Debit: Accounts Receivable
- Credit: applicable revenue account and Sales Tax Payable (if applicable)

Example: District services scheduled in December to be provided in January

- Not an accounts receivable yet since services have not been provided, only anticipated

Example: Services provided by December 31 to another SWCD or TSA (shared position, T/A)

- Debit: Accounts Receivable – Due From Other Governments
- Credit: applicable revenue account

Example: Use Accounts Receivable to assess interest or a service charge on an outstanding accounts receivable invoice

- Debit: Accounts Receivable or Accounts Receivable – Due From Other Governments
- Credit: Interest Earnings (revenue)

Example: Received an invoice from Pheasants Forever for services rendered on the FarmBill grant October - December. The invoice from Pheasants Forever should be recorded as a Payable. Invoice BWSR using Accounts Receivable – Due From Other Governments for reimbursable services provided through December as follows:

- Debit: Accounts Receivable – Due From Other Governments

- Credit: applicable state revenue account

Name of Person/ Entity Billed	Revenue Account for Goods/Services Type	Amount Billed for Goods/Services	Service Charges	Sales Tax	Total Amount of Receivable
					\$
					\$
					\$
					\$
					\$
	Total				\$

Due From Other Governments

Due From Other Governments represents monies owed TO the district by other units of government for goods or services the district provided. Distinguishing typical Accounts Receivable from governmental income due provides better information to the public, governmental income is lower risk since it has a higher probability of being collected, and separation for financial statement purposes is required by the Governmental Accounting Standards Board (GASB). Unless initially recorded as Accounts Receivable – Due From Other Governments, review all outstanding invoices in Receivables to determine which invoices are issued to governmental organizations and enter a General Journal entry as follows:

- Debit: Due From Other Governments
- Credit: Accounts Receivable

With this journal entry, amounts owed to the district are broken out into monies owed by individuals/businesses (Accounts Receivable) and governmental agencies (Due From Other Governments). Examples of amounts due from other governments:

- SWCD staff services rendered October through December to be reimbursed by the TSA after the charges for services and related costs are approved (similar process for reimbursement grants)
 - Complete the billing as part of the year-end process, invoice the amount owed to the district using Accounts Receivable - Due From Other Governments
- December time worked for a shared position with another SWCD in which your district serves as the hiring authority
 - Invoice the amount due through Accounts Receivable - Due From Other Governments
- At the end of the year, update all grant program/project logs (and eLINK if possible) and record in the accounting system as Due From Other Governments any monies owed to the district. Applies to advanced payment grants when grant expenditures exceed advanced payment(s) received. Record as follows:
 - Debit: Due From Other Governments
 - Credit: applicable revenue account

Governmental Unit	Type of Goods/Services Provided	Amount
		\$
		\$
		\$
		\$
Total Due From Other Governments as of December 31		\$

Prepaid Items

Prepaid items are monies paid in advance for goods or services to be delivered in the new year. A Prepaid Insurance entry is only needed if the annual insurance premium paid includes month(s) into the new year and the amount is considered “material.” If the insurance premium covers January through December and the district’s year ends December 31, no adjusting entry needed. Same is true for Prepaid Dues and Subscriptions.

A Prepaid Software Licenses entry is only needed for software licenses purchased for a timeframe of more than one year, total amount paid falls below the capital assets threshold for amortization, and the amount paid includes month(s) into the new year with the dollar amount considered “material.”

A good example of a prepaid item is trees to be sold next spring when the initial cost/down payment to the nursery/landscape company was charged to an expense account (Tree Expense). General Journal adjusting entry as follows:

- Debit: Prepaid Items – Trees (asset)
- Credit: Tree Expense (expense)

Payee	Amount
	\$
	\$
	\$
	\$
Total Prepaid Items (Trees) as of December 31	\$

If the district received a significant amount of trees (or any other item which would be resold), the district may want to record the trees as Inventory (asset) upon receipt of the trees and, when sold, the Inventory (asset) account would be decreased and the tree cost recorded to the appropriate expense account. For more information, refer to the General Accounting – Inventory section.

Accounts Payable

Accounts Payable is the amount the district owes to suppliers or vendors for goods or services the district received on credit (recorded in but not yet paid through the accounting system). You may consider contacting the organization to request an invoice for goods or services received. A year-end adjustment is needed for goods or services received by the end of the year but not yet recorded or paid through the accounting system as follows:

- Debit: appropriate expense account
- Credit: Accounts Payable or Accounts Payable – Due To Other Governments (liability)

Use your best judgment in terms of whether the expense amount is material (typically \$100 or more) and should be recorded. The following are examples of payable scenarios you may encounter:

- December rent due January 10th or health insurance premiums owed for the year-ended
 - Create an Accounts Payable entry to record the expense
- Office supplies received in December but no invoice received yet
 - Since the district took possession of the items before year-end, a liability exists to pay for the goods received. Create an Accounts Payable entry to record the expense.
- Items on back order and not received by the end of December; no purchase order issued.
 - Since the district hasn't taken possession of the items, no year-end adjustment needed
 - If a purchase order had been issued, then the funds would already be encumbered in the accounting system and no further year-end adjustment needed
- Example: Received an invoice from Pheasants Forever for services rendered on the FarmBill grant October through December. Invoice BWSR using Accounts Receivable – Due From Other Governments for reimbursable services provided through December. The invoice from Pheasants Forever should be recorded using Accounts Payable as follows:
 - Debit: State Project Expenses – xxxx FarmBill
 - Credit: Accounts Payable (liability)

Payee	Expense Account for Type of Goods/Service	Date Liability Incurred	Amount Payable
			\$
			\$
			\$
			\$
			\$
Total Accounts Payable as of December 31			\$

Due To Other Governments

Due To Other Governments represents monies owed BY the district to other units of government for goods or services the district received. Distinguishing typical Accounts Payable from governmental expense provides better information to the public and separation for financial statement purposes is required by the Governmental Accounting Standards Board (GASB). Unless initially recorded as Accounts Payable – Due To Other Governments, review all outstanding invoices in Payables to determine which invoices are issued by governmental organizations and enter a General Journal entry as follows:

- Debit: Accounts Payable
- Credit: Due To Other Governments

With this journal entry, amounts owed by the district are broken out into monies owed to individuals/businesses (Accounts Payable) and governmental agencies (Due To Other Governments). Examples of amounts due to other governments:

- Payroll related expenses withheld or owed such as PERA contributions, payroll taxes, health insurance premiums to a governmental unit, etc.
- December time worked for a shared position with another SWCD in which that district serves as the hiring authority
 - If an invoice has not been received yet for services rendered through December 31, contact the agency and request an invoice or billing detail. Then record as much of the liability in your accounting system as possible.
- At year end, update all grant program/project logs (and eLINK if possible) and record in the accounting system as Due To Other Governments any monies owed by the district. Applies to advanced payment grants to be closed at year-end when advanced payments received have not been fully expended and funds not yet returned to the grantor. Record as follows:
 - Debit: applicable unearned revenue account or applicable revenue account
 - Credit: Due To Other Governments

Unit of Government	Type of Goods/Service	Date Incurred	Amount Payable
			\$
			\$
			\$
			\$
Total Due To Other Governments as of December 31			\$

Beginning-of-year reversing entry except for unspent expired grants since the monies remain owed to the granting agency until paid.

Salaries Payable/Accrued Wages

Salaries Payable/Accrued Wages is monies owed to employees/supervisors for wages earned, but not paid, for the year ended (i.e. December 31). Use best judgement when creating this end-of-year adjustment. For example, if standard payroll is every two weeks and there are three working days left in the year for the pay period which crosses calendar years, it is acceptable to use 3/10 of the standard payroll and fringe costs (i.e. FICA, Medicare, PERA, etc.). Keep the entry as simple as possible. There are two options for recording the entry:

- Option #1: Record fringe costs in the same account as wages/compensation if fringe benefits are a minor expense compared to the cost of wages/compensation
 - Debit: Employee Wages Expense
Supervisor Compensation Expense
 - Credit: Accrued Wages (liability)

- Option #2: Record fringe costs in separate account(s) from wages/compensation
 - Debit: Employee Wages Expense
Supervisor Compensation Expense
Employee Benefits Expense
 - Credit: Accrued Wages (liability)

Employee	No. of Hours Owed	Hourly Rate	Total Gross Salary Owed
Total Salaries Payable/Accrued Wages as of December 31			\$

Deposits on Tree Sales

Deposits on Tree Sales represent monies received during the year for trees to be sold in the new year. If the monies received were initially recorded to the tree sales revenue account, then an adjusting entry is needed at year end:

- Debit: Tree Sales revenue
- Credit: Deposit on Tree Orders (liability)

Name of Individual	Date Received	Receipt Number	Amount
			\$
			\$
			\$
			\$
			\$
Total Deposit on Tree Orders as of December 31			\$

Note: If the tree receipts were initially recorded to Deposit on Tree Orders liability account, no end-of-year adjusting entry needed.

Unearned Revenue

Unearned revenue represents monies received by the district before the related goods and/or services have been provided (earned). Formerly referred to as deferred revenue, these monies are advanced payments on grants with the funds deposited to the district financial account.

If the district is recording advanced payments on grants when received as unearned revenue and grant revenues/expenses when earned/spent throughout the year, no end-of-year adjusting entries needed (i.e. unearned revenue method for grants accounting). Unearned revenue to be classified by funding type (i.e. federal, state, county, etc.).

Although not recommended, if the district is recording advanced payments on grants when received as grant revenue, then an end-of-year adjusting entry is needed to reduce grant revenue to actual amount earned during the year. Entry as follows:

- Debit: appropriate revenue account
- Credit: Appropriate unearned revenue account (liability)

Granting Agency	Funding Type	Grant Title	Amount
			\$
			\$
			\$
			\$
			\$
			\$
			\$
Total Unearned Revenue as of December 31			\$

Note: Funds to be returned to a granting agency should not be entered as Unearned Revenue. See Due To Other Governments section.

Form 1099-MISC and 1099-NEC

The IRS brought back Form 1099-NEC to report payments made for non-employee compensation. If you file Form 1099-MISC and Form 1099-NEC, a separate summary Form 1096 is needed for each type of Form 1099 filed.

Form 1099-NEC

Starting with 2020 payments, non-employee compensation is now reported on Form 1099-NEC in Box 1. (Prior to 2020, non-employee compensation was reported on Form 1099-MISC.) The PATH Act accelerated the filing deadline to January 31 for Form 1099-NECs reporting non-employee compensation.

Report payments for non-employee compensation made in the course of business to a person who's not an employee (individual) or to an unincorporated business (partnership, estate, etc.) which meet the reporting threshold. In addition, Form 1099-NEC must be filed if any non-employee compensation payments, regardless of the amount, were paid to a person where federal income tax was withheld under the backup withholding rules. Examples of the 2020 reporting requirements when you may want to issue a Form 1099-NEC for non-employee compensation payments of \$600 or more to recipients who are not corporations are as follows:

- Cost-share payment for reimbursement of contractor costs and payment for landowner labor
- Services performed by someone who is not your employee
- Cash payments for fish or other aquatic life purchased from anyone engaged in the trade or business of catching fish
- Advertising
- Auto Repair
- Construction
- Custodial/Maintenance Landscapers

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- Locksmiths
- Photographers
- Printing Services
- Professional Services
- Accountants
- Appraisers
- Architects
- Consultants
- Engineers

Form 1099-MISC

Report other payments made in the course of business to a person who's not an employee (individual) or to an unincorporated business (partnership, estate, etc.) which meet the reporting threshold. Some exceptions for reporting payments to corporations noted below. Form 1099-MISC has a filing deadline of February 28. Examples of the 2020 reporting requirements when you may want to issue a Form 1099-MISC for payments of \$600 or more to recipients who are not corporations are as follows:

- Rents (Form 1099 MISC, Box 1)
 - Office Space
 - Parking Lot Space
 - Equipment
- Other Income (Form 1099 MISC, Box 3)
 - Incentive payment on a flat rate contract with a landowner
 - Other income payments
- Medical and Health Care Payments (Form 1099 MISC, Box 6, includes corporations)
 - Ambulance Services
 - For-Profit Hospitals
 - Dentists
 - Doctors
- Gross Proceeds Paid to an Attorney (Form 1099-MISC, Box 10)
 - Attorney Fees (includes corporations)
- Various other payments reported on the Form 1099-MISC:
 - Prizes and awards
 - Cash paid from a national principal contract
 - Any fishing boat proceeds
 - Crop insurance proceeds
 - Section 409A
 - Nonqualified deferred compensation

Form 1099-MISC is also used for individuals who have been paid at least \$10 in royalties or broker payments in lieu of dividends or tax-exempt interest.

Other Information

Examples of 2020 reporting requirements when you may not want to issue a Form 1099:

- Payments for:
 - Cost-share payment for reimbursement of contractor costs only
 - Products

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- Workmen's Compensation
- Storage
- Telephone
- Income reported elsewhere (W-2 wages, K-1s, etc.)
- Merchandise
- Payments of \$600 or more to:
 - Governmental Agencies
 - Corporations (Except MEDICAL and ATTORNEYS)

Penalties can be assessed for late filings. Recommend using Form W-9 Request for Taxpayer Identification Number and Certification to collect taxpayer identification number and the federal tax classification of the payee. Form is available on the IRS website at: <https://www.irs.gov/forms-pubs/about-form-w-9>. Additional recommendations to simplify the year-end process:

- Require a Form W-9 on file for every vendor
- Include the form as part of your vendor approval process
- Do not make vendor payments without a Form W-9 on file

If questions about current filing requirements or assistance with the filing process, please consult with your accountant. The above information on Form 1099-MISC and Form 1099-NEC is provided to increase awareness of potential filing requirements. BWSR does not provide accounting advice.

Year-End Reports After Adjustments

- Print a Balance Sheet and Profit and Loss report after completing the end-of-year adjustments.
- Consider making a backup of the accounting data after the end-of-year adjustments have been completed and label it "1231yyyy YearEnd After Adjustments."

Internal Controls

Some paperwork may require collecting non-public data. Districts should keep this in mind when determining how to securely retain and store the documentation so non-public data does not get into the wrong hands. Best practice would be a locked file cabinet within a lockable office space. When the data is no longer required to be retained, the hard copy files should be securely disposed of or shredded.

Beginning-of-Year Accounting Adjustments

Beginning-of-Year Process

The beginning-of-year process is part of the accounting function for starting out a new year and should be completed as of the beginning of the year (i.e. January 1). The process to start out the year begins with reversing end-of-year accounting adjustments made for modified accrual basis accounting. Adjustments are needed depending upon how the district tracks grants revenue.

Review the End-of-Year Accounting Adjustments section to identify end-of-year accounting adjustments which need to be reversed at the beginning of the new year. Reversing entries, if applicable, should be made at the beginning of the year for the following:

- Interest Receivable
- Due From Other Governments
- Prepaid Items
- Accounts Payable
- Due To Other Governments
- Salaries Payable/Accrued Wages
- Deposit on Tree Sales
- Unearned Revenue (only if not tracking unearned revenue throughout the year)

Accounting System Cleanup

Throughout the year, specific accounts within the Chart of Accounts, vendors and/or suppliers may become obsolete or no longer needed. Review all active accounts and inactivate as appropriate:

- Grants closed during the previous year
- Accounts within the Chart of Accounts no longer needed
- Obsolete vendors
- Obsolete customers

Other items to consider:

- Condense data if file is getting large
 - Recommend keeping for 7 years
- Create backup copies often
- Accountant copies are used to send the file to the accountant while you continue to work with the file
 - Accountant sends changes made back for you to import
- Clean up old outstanding checks and deposits