

A vendor performed a service for our township at the end of one fiscal year and the beginning of the next. Our year-end is in March. We paid 50 percent of the contract up-front in February, and 50 percent in April upon completion. How much of the cost should be recognized in our current fiscal year?

The answer depends on how much of the work was done before the end of the fiscal year. For example, if the township paid \$2,500 in February, but none of the work was done until April, the entire February payment would be a “prepaid item”—which is a balance sheet account, not an expenditure account. If 30 percent of the work was done, the township would recognize \$1,500 as an expense and \$1,000 as prepaid. If all the work was completed except a small portion—say 10 percent—and the total contract was \$5,000, the township would recognize \$4,500 in costs, by expensing all of the \$2,500 paid in February, and accruing as an accounts payable \$2,000 of the April payment.



What are “prepaid items”?

These represent outflows of cash that aren’t yet recognized as expenditures or permanent reduction of equity, as the goods or services have not yet been delivered to the township. The most common type of transaction involves general liability insurance; workers’ compensation and health insurance are typically paid for before the period covered by insurance. For example, the township’s fiscal year is on a calendar year, and the insurance policy runs from Nov. 1 to Oct. 31. If the premium is \$12,000 for the policy year, and the township paid the entire amount on Oct. 31, the entry to record the payment would be:

GL Line Item		Debit	Credit
100-000-123	Prepaid Insurance	\$12,000	
101-000-001	Cash		\$12,000

The township would make the following entry prior to closing the books to “amortize” the two months (November and December) of the policy year that has expired:

GL Line Item		Debit	Credit
101-851-805	Insurance Expense	\$2,000	
101-000-123	Prepaid Insurance		\$2,000

At the end of the township’s fiscal year, the balance in the prepaid account would be \$10,000, which would be “recognized” or expensed in the following fiscal year. The insurance expense recognized in the current year would be 10 months’ costs paid in the prior fiscal year, plus two months of the policy paid in October of the current year.

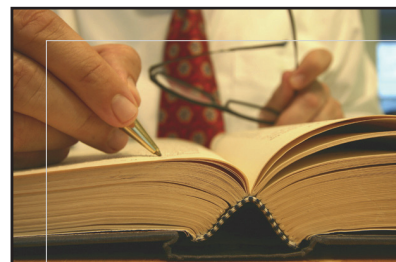


What methods should be used to ensure accurate deposits when a township has a remote site that receives payments?

A township that receives payments, such as recreation fees or building permits, at a site other than the treasurer’s office should consider the following procedures to limit the risk involved in collecting money at remote sites:

- **Use numbered permits or receipt documents.** The clerk or treasurer should control the supply of unused forms.
- **Make deposits daily.** If that is not practical due to the small amounts, make deposits at least once a week, regardless of size.
- **Use cash registers.** Give customers an actual cash register receipt.
- **Have a supervisory employee or the treasurer reconcile the deposited amount to the corresponding amounts entered on the cash register.** All voided transactions should be explained in a written report to the treasurer.
- **Make sure all employees receiving payments are covered by bonds.**

Information provided in *Financial Forum* should not be considered legal advice, and readers are encouraged to contact their township auditor and/or attorney for advice specific to their situation.



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