

Revenues, Reconciliations, & Phase 2

Adjustments Workshop

Fiscal Year 2017

OFM, Statewide Accounting Division
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Agenda

- *General Info: CAFR and SAAM
- *Ongoing GL Review
- *Chapter 90 State Reporting
- *Tools and Resources

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What is the CAFR?

CAFR is the Comprehensive Annual Financial Report.

It is the official annual financial report of the state. It includes all accounts, account groups, and component units of the state.

Who Prepares the CAFR?

The CAFR is prepared by
OFM's Statewide Accounting unit
however...

...the information for the CAFR
comes from ALL state agencies.

YOU are an essential part of publishing an
accurate, timely CAFR!!

Why Do We Prepare the CAFR?

- To meet the legal requirements of RCW 43.88.027
- For bond rating agencies
- To provide financial information to the Legislature and other decision makers
- For the public (the CAFR is easily accessible on our website)

How and When Is the CAFR Prepared?

- Financial data comes from the Agency Financial Reporting System (AFRS)
- Additional information comes from Disclosure Forms (a web application)
- Must be published by December 31st (within 6 months after the end of the fiscal year)

State Administrative and Accounting Manual (SAAM)

- SAAM provides the minimum requirements that state agencies must meet
- Agencies are notified of updates via OFM directives e-mailed to agency fiscal officers (SAAM is updated throughout the year)
- Chapter 90 State Reporting (updated in May)
 - Closing calendar
 - FY-end cut-off procedures
 - Illustrative JV entries
 - Disclosure forms (state)

| <u>Date</u> | <u>FY 17 Closing Calendar</u> | <u>SAAM 90.20.10, 90.40.10</u> |
|-------------|---|--------------------------------|
| 6/30/17 | Last working day of the fiscal year, cash cutoff | |
| 7/14/17 | Disclosure form application opens | |
| 7/21/17 | Interagency billings mailed | |
| 7/31/17 | Phase 1 closes | |
| 8/18/17 | Phase 1B closes <ul style="list-style-type: none"> • Certain state disclosure forms due • Interagency receivable/payable balancing due • Pollution remediation site status report due | |
| 9/1/17 | Phase 2 closes <ul style="list-style-type: none"> • Agency adjustments completed • Disclosure form application closes, remaining state and federal forms are due | |
| 9/13/17 | State disclosure certification form is due | |
| 1/31/18 | Federal assistance certification form is due | |

Year End Closing Resources Online

- AFRS/CAFR closing schedule
- FY17 closing calendar (slide 8)
- Interagency receivable/payable contact list
- Most common AFRS transaction codes for fiscal year-end
- OST year-end cash memo link

<http://www.ofm.wa.gov/resources/yearend.asp>

Daily Activities / To Dos

- AFRS Batch Header summary (IN.3)
Correct errors & release batches
- Unbalanced In-Process Reports
“In-Process Reports” training class
- GL 9920 Current Period Clearing Account
Balance must be zero

“R” Reverse code

- The purpose of the R code is to reverse an original entry made in error
- Use the R code when reversing an original transaction to avoid inflating AFRS debit & credit activity
- Do not use the R code for an original transaction if possible
- Can not use the R code if the original transaction was a payment, IFT, or encumbrance

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Corrections Using GL 9920

Practice Exercise A

Questions 1 & 2

Handout page 6

Use the “Most Common Tran Code”
worksheet

Monthly Activities

*Monitoring – Expenditure Budgets

Appropriations vs. Expenditures

- Appropriations cannot be overspent
- As FY end approaches check frequently

ER folder: Financial Reports/Accounting/Budget/Actuals

Allotments Overspent

Appropriations Over Allotted

*Appropriations Overspent****

*Appropriations Versus Actuals**

Monthly Activities

*Monitoring – Revenue Budgets

Allotments vs. Revenue

If your expenditures are limited by **revenue** collected don't wait until year end to check actual revenue.

ER folder: Financial Reports/Revenue

Estimated Revenue Versus Cash and Accrued Revenue Flexible

“Nominal” Versus “Real” GLs

Nominal GL balances:

- Close to Fund Balance at Biennium End
- They're Temporary
- Examples:
 - Revenues (GL 32xx)
 - Expenditures/Expenses (GL 65xx)

“Nominal” Versus “Real” GLs

Real GL balances:

- Carryforward to the next Biennium
- They're Permanent
- Examples:
 - Assets (GL 1xxx & 2xxx)
 - Liabilities (GL 5xxx)

Quick Quiz

| GL type | GL | Nominal or Real? | 6/30/17 BI 17 | 7/1/17 BI 19 |
|----------------|-----------|-----------------------------|--------------------------|-------------------------|
| Expenditures | 6510 | ? | \$2 million | ? |
| Revenue | 3210 | ? | \$10 million | ? |
| Receivable | 1312 | ? | \$5 million | ? |
| Receivable | 1312 | ? | (\$10,000) | ? |

General Ledger Review

The purpose of performing a GL review is to discover errors and potential problems so that they can be addressed in a timely manner, and so the agency will be in compliance with SAAM & internal agency policies.

General Ledger (GL) Review training class

General Ledgers

SAAM 90.20.70

Agencies are to review their data to ensure:

- Assets and liabilities are properly and completely stated,
- Revenues and expenditures/expenses are recorded in the proper period with the correct coding,
- GL codes with subsidiary GL accounts are reconciled to the subsidiary records.

General Ledger Reconciliations

Reconciliation means that you know what makes up the balance in each GL code and you have a plan for any action that is needed. This includes prior year or prior biennium balances.

Examples: Cash
 Receivables
 Payables

- General Ledger Reconciliation: Basic class
- GL 5111 Accts Payable Reconciliation class

Questionable Balance ER Reports

- Assets GLs should have debit balances
- Liability GLs should have credit balances
- Every GL listed on these reports must be researched and corrected
- Check subsidiary GLs also (always choose group option B on report parameter)

ER folder: Financial Reports/Accounting/Exceptions

- *Questionable Balances – Assets and Deferred Outflows of Resources (group option B)*
- *Questionable Balances – Liabilities and Deferred Inflows of Resources (group option B)*

What Does “Liquidated” Mean?

- For a receivable, a liquidation posted if a cash receipt was processed
(cash receipt, manual JV)
- For a payable, a liquidation posted if a cash payment was processed
(EFT, IAP, warrant or manual JV)

“Unchanged Balances” ER Report

- Used to identify potential problems
- Look for GLs you expect should have activity, but don't
Investigate if those GLs appear on report
- Look for potential short-term receivable/payable liquidation problems (GLs 13xx & 51xx)

ER folder: Financial Reports/Accounting/Exceptions

- *General Ledger Accounts with Unchanged Balances*

Some GLs Are Only Updated at FY End

| GL | GL Title |
|-----------|--|
| 14xx | Inventories |
| 5225 | Vacation Leave Payable |
| 5227 | Sick Leave Payable |
| 2xxx | Capital Assets & Accumulated Depreciation* |

*Ok for a small agency with minimal activity, but for a larger agency or a lot of activity should record and reconcile monthly or quarterly

Some GLs Change Only When a Specific Event Occurs

| GL | GL Title |
|-----------|---|
| 1130 | Petty Cash |
| 4320* | Beg Treasury Cash Balance – Admin Agency |
| 4325* | Beg Treasury Cash Balance – Agency |
| 9xxx* | Fund Balance (general rule, some exceptions) |

**Updated only when the biennium closes in AFRS*

Offsetting GLs

There are some GLs which always require an offsetting GL in the same amount.

Examples:

GL 1410 – Consumable Inventories (DR)

GL 9120 – Nonspendable-Consumable Inventories (CR)

This reserves fund balance so it's not available for appropriation.

GL 1353 – Due from Other Funds (DR)

GL 5153 – Due to Other Funds (CR)

These GLs are required to be in balance within an agency.

GL 1354 – Due from Other Agencies (DR)

GL 5154 – Due to Other Agencies (CR)

These GLs are required to be in balance between agencies at FY end.

SAAM 90.20.70 #11

Fiduciary type funds and GLs 1353, 1354, 5153, 5154

- Interagency & interfund receivables & payables GLs must have a zero balance at June 30 in fiduciary type funds.

Examples:

- Account 01P – Suspense Account
- Account 035 - State Payroll Revolving Account

Which Accounts Typically Have GL Problems?

01P Suspense Account

- Run an ER trial balance report & check the AFRS In-Process reports
Clear asap

035 State Payroll Revolving Account

- Run an ER trial balance report and reconcile each GL monthly

Payroll Revolving Account Reconciliation class

Trial Balance Review

- Are all accounts and GLs valid for your agency?
- Is there current year activity if appropriate?
(certain GLs may only have activity at FY end)
- Are the GL balances going in the right direction and are they reasonable?

Assets = Debits

Liabilities = Credits

Trial Balance Review cont.

- What makes up the balances in your receivable & payable GLs?
- Are the GL balances correct? Does my agency internal system or supporting documentation agree to the GL balance in AFRS?
- Have the beginning balances in short-term receivables & payables been fully liquidated (GLs 13xx & 51xx)?
- Are “offsetting” GLs in balance?

Are You Ready for FY End?

- Clear Unbalanced In-Process/Current Period Clearing Account GL 9920
- Keep up-to-date on payments, receipts & cancellations
- Check GL balances remaining from last year, last biennium or prior (estimated accruals)
- Check Revenue Source 09

ER folder: Financial Reports/Accounting/Exceptions

- *Major Source 09 (Non-Revenue) to be Redistributed*

Revenue Accrual Adjustments

SAAM 90.20.20.d, 90.30.35.d

What if our receivable GL balance from a prior fiscal year is incorrect?

Over accruals:

Adjust over accruals as a decrease to revenue in the current period*

Debit: Revenue

Credit: Receivable

Revenue Accrual Adjustments

SAAM 90.20.20.d, 90.30.35.d

Under accruals:

Adjust under accruals as an increase to revenue in the current period*

Debit: Receivable

Credit: Revenue

*True even between bienniums

*If federal or private/local revenue, contact your OFM SWA consultant

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Correcting Prior Year
Revenue Accruals

Practice Exercise A

Questions 3 & 4

Handout page 22

Refer to PowerPoint slides 32 & 33

Prior Period Adjustments

SAAM 90.20.15

Prior period adjustments are corrections of errors discovered after a fiscal year has been closed.

2 types: Material and Immaterial

- SWA determines which it is depending on the dollar amount
- Material prior period adjustments require SWA approval

GL 3215 Immaterial Adjustments to Prior Periods

Revenue Source **0485** Immaterial Prior Period Adjustments – SAAM definition

- Immaterial corrections related to prior period activity
- Generally, only credits are allowed; debits require the approval of the agency's OFM accounting consultant
- Only used with GL 3215 "Immaterial Adjustments to Prior Periods"
- Refer to Subsection 90.20.15.e

SAO monitors this revenue source closely

GL 3215 Immaterial Adjustments to Prior Periods

Revenue Source **0486** Recoveries of Prior Expenditure Authority Expenditures – SAAM definition

- Receipt of cash/vendor credit for the recovery of an expenditure/expense charged to a prior period
- Also used to record the liquidation of over-estimated accrued expenditures/expenses from a prior period when it is expected that no further payments will be made
- Generally, only credits are allowed; debits require approval of the agency's OFM accounting consultant
- Refer to Subsection 90.20.45

Immaterial Prior Period Adjustments

SAAM 90.20.45

Unliquidated estimated accrued expenditures/expenses – this adjustment is made when it is expected that no further payments will be made, normally within 12 months of the end of an expenditure authority period.

Debit: GL 5111 Accounts Payable

Credit: GL 3215 Immaterial Adjustments to Prior Periods, source 0486 Recoveries of Prior Expenditure Authority Expenditures

Debits to GL 3215 require SWA approval and are generally not allowed

Recovery of a Prior Period Expenditure Authority

SAAM 90.30.35.c

Refund example

Debit: Cash/Receipts In-Process GL 7110

Credit: Cash Revenues GL 3210, source 0486

Source 0486 Recoveries of Prior Expenditure Authority
Expenditures

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Class Review

Practice Exercise B

True/False

Questions a - g

Handout page 24

Cash Cutoff

SAAM 90.20.10

Cash cut-off is the last working day in June
(FY17 = June 30th)

For Treasury Accounts:

- If cash (receipts or disbursements) activity is recorded by OST on June 30th or before, it should not be accrued for FY17
- Cash activity after calendar day June 30th is recorded in FY18 by OST
- After FM24, limit use of In-Process GLs (71xx)

Cash Deadlines for June Payments

| | | |
|--|-----------------------|-----------|
| AFRS EFT | June 28 th | 7:30 pm* |
| AFRS Warrants | June 29 th | 7:30 pm* |
| IAP (interagency) / IFT (interfund) | June 29 th | 7:30 pm* |
| OST EFT JV | June 29 th | noon ^ |
| OST JV or Cash Receipt | June 30 th | 3:00 pm ^ |

*AFRS closes for input at 7:30 pm

Refer to the OST cash cutoff memo linked on our website

^ Must be delivered to OST by this date/time

It's July 1st -- Now What?

There are 3 fiscal months open:

| | |
|----------|--|
| FM24 | Open through July 14th |
| FM 24/25 | FY17 adjustment activity, open through Sept 1 st |
| FM 01 | For FY18 new year activity |

Pay attention to the fiscal month used for every transaction – it will save you time later fixing errors!

Phase 1 Activities

- Revenue/Receivables and Unearned/Unavailable Revenue
- Expenditures/Payables
- Interagency Accruals(between agencies)
- Interfund Accruals (between accounts)
- Accounting Estimates

Revenue Accruals

SAAM 90.20.20

General Rule: Revenue is recognized in the period it is earned (i.e., goods or services are provided).

GAAP recognition criteria:

Governmental type account

- Measurable and available

Proprietary type account

- When earned

Revenue Accruals

SAAM 90.20.20, 90.30.40

When cash has not been received by June 30th for revenues that meet the revenue recognition criteria...

Record a revenue accrual in FM 24/25.

Debit: Receivable (GL 13xx)

Credit: Accrued Revenue (GL 3205)

Refer to R-1 on Most Common Tran Codes document

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Revenue Accruals

Practice Exercise C

Questions 1 - 4

Handout page 25 & 26

Use the Most Common Tran Codes
worksheet: R-1, R-2, R-3

Unearned Revenue

SAAM 90.40.50, 85.70.45

When cash is received by June 30th for revenues that do NOT meet the revenue recognition criteria... (*an advance payment*)

Record Unearned Revenue in FM 24/25.

Debit: Cash In-Process(GL 71xx)

Credit: Unearned Revenue (GL 5190)

Unearned Revenue

SAAM 90.40.50, 85.70.45

GL 5190/5290 Unearned Revenue

- \$\$ Cash you received in advance, but haven't earned yet

Examples:

- Prepaid tolls
- Prepaid tuition
- Insurance premiums received in advance

May be used in both governmental and proprietary fund type accounts

Unavailable Revenue

SAAM 90.40.50, 85.70.40

GL 5192/5292 Unavailable Revenue

Limited usage

Examples:

- Revenue associated with LT receivables that won't be collected within the next 12 months
- Contracts for the harvest of timber that extend beyond 12 months

May be used only in governmental fund type accounts

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Revenue Accruals, Cash
Receipts, and Unearned
Revenue

Practice Exercise C

Questions 5 - 8

Handout page 27

Be careful with the FY & FM

Adjustment and Reconciliation Activity (Phase 2) SAAM 90.20.70

Phase 2: August 1st to September 1st

- The final opportunity for agencies to enter adjustments for the concluding FY
- Post entries in FM 25
- See SAAM 90.20.70 for a list of items to review

Construction in Progress (CIP) GL 2510

Review & reconcile GL 2510 CIP

When the project is complete and placed in service, move the costs to the appropriate capital asset GL 2xxx (buildings, improvements, intangible assets, etc.)

Subobject J Codes

SAAM 75.70.20

| | | | |
|-----------|------------------------------------|-----------|---|
| JA | Non-capitalized Assets | JJ | Grounds Development |
| JB | Non-capitalized Software | JK | Architectural & Engineering Services |
| JC | Furnishings and Equipment | JL | Capital Planning |
| JD | Library Resources | JM | Art, Library & Museum Collections |
| JE | Land | JN | Relocations Costs |
| JF | Buildings | JQ | Software |
| JG | Highway Construction | JR | Intangible Assets |
| JH | Improv Other than Buildings | JZ | Other Capital Outlays |

Capital Asset Reconciliation

Check AFRS GL codes 2xxx activity:

- Check increases against Object J expenditures (capital subobjects JC-JZ)
- Check decreases against disposal records

Annually must reconcile the Capital Asset Management System (CAMS) or substitute to AFRS (SAAM 30.20.95)

- Beginning balances
- Ending balances
- Current year activity

Capital Asset Reminders

- Don't net activity; record acquisitions, disposals, and depreciation separately
- When making adjusting entries, use an "R" reverse code when appropriate
- A physical inventory is required at least once every other fiscal year
(SAAM 30.45.10)

Capital Assets & Depreciation

SAAM 85.65.56

Normal entry (use correct tran code)

Debit: Depreciation Expense

Credit: Allowance for Depreciation

Be careful when selling or disposing of capital assets; remember to remove the associated accumulated depreciation also.

CAMS & Depreciation

In CAMS, depreciation runs the night of the 1st working day of the month.

- Recommend reconciling CAMS to AFRS monthly or quarterly
- Enter/remove assets & make any adjustments by July 29th so that depreciation can run correctly August 1st
- Waiting until September 1st to get depreciation & post your AFRS JV is probably too late

Capital Assets Immaterial Prior Period Adjustments

Sample entries for Account 997 (SAAM 90.30.35.f-h)

An agency finds the cost of a piece of equipment is understated by \$10,000 in AFRS Account 997.

| Account | GL Title | GL | Sub object | DR | CR |
|---------|--------------------------|------|------------|--------|--------|
| 997 | Furniture and Equipment | 2410 | | 10,000 | |
| 997 | Capital Asset Adjustment | 6597 | WF* | | 10,000 |

**Subobject WF "Capital asset adjustment"*

If overstated, the entry would be opposite.

Capital Assets Immaterial Prior Period Adjustments

An agency discovers the Allowance for Depreciation is understated by \$7,500 in Account 997.

| Account | GL Title | GL | Sub object | DR | CR |
|---------|----------------------------|------|------------|-------|-------|
| 997 | Depreciation Expense | 6591 | WA* | 7,500 | |
| 997 | Allowance for Depreciation | 2420 | | | 7,500 |

**Subobject WA "Depreciation/Amortization"*

An agency discovers the Allowance for Depreciation is overstated by \$8,500 in Account 997.

| Account | GL Title | GL | Sub object | DR | CR |
|---------|----------------------------|------|------------|-------|--------|
| 997 | Allowance for Depreciation | 2420 | | 8,500 | |
| 997 | Capital Asset Adjustment | 6597 | WF* | | 8,5000 |

**Subobject WF "Capital Asset Adjustment"*

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Capital Asset Transactions
& Corrections

Practice Exercise D

Questions 1 - 2

Handout page 37

Certificates of Participation (COP)

- Debt financing through OST for a capital asset purchase
- Balances in GLs 5173 (Short-term COP) and 5273 (Long-term COP) must agree with OST. OST sends a memo to agencies in July with COP data for the prior FY
- The short-term portion (GL 5173) is the principal amount due in the next FY

Certificates of Participation (COP)

- For governmental fund type accounts, the amount recorded in GL 3221 Revenue Source Codes 0807 & 0854 must equal the increase in the COP liability GLs 5173/5273 in Account 999
- COP sample entries in SAAM are in 85.85.45 (Equipment) & 85.85.50 (Real Estate), and templates on our website

ER folder: Financial Reports/Accounting/Exceptions

- *COPs and Capital Leases – Governmental Accounts*

Fund Balance

- Certain GLs are offset by a fund balance GL
- Governmental fund type account only:

GL 1410 – Consumable Inventories

GL 9120 – Nonspendable Consumable
Inventories

ER folder: Financial Reports/Accounting/Exceptions

- *Consumable Inventory for Governmental Accounts*
- *Long-Term Receivables/Payables for Governmental Accounts*

Inventory Adjustments

- If the inventory balance (GL 14xx) in AFRS does not agree with the physical count at June 30 an adjusting entry must be made
- Refer to SAAM 35.10.50 for the requirements for inventory counts and 85.56 for procedures for making inventory adjustments

Leave Payable Adjustments

GL 5125/5225 Accrued Vacation Leave Payable

GL 5127/5227 Accrued Sick Leave Payable

GL 5128/5228 Accrued Comp Time Payable

- Record the increases and decreases separately - don't net them together
- SWA sends a memo to agencies with instructions & calculation reports (in July/August)

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Leave Payable Adjustments
Practice Exercise E
Handout page 46-49

Private / Local Revenue and Expenditure Balancing

- Revenues must be \geq expenditures at the account level
- Applicable to appropriated accounts
- Expenditure authority type 7 & 9, GL 65xx
- Revenue source codes 05xx
- Should a portion be recorded in GL 5190 “Unearned Revenue”? Any excess revenue closes to fund balance

ER folder: Financial Reports/Accounting/Exceptions

- *Private/Local Revenue/Expenditures*

Interfund Operating Transfers

Transfers from one account to another account within the same agency must be in balance

- Revenue sources 0484 and 06xx and object M expenditures must balance (net to zero) at the agency level (excluding sources 0649, 0677 & 0690; exclude accounts 03K & 290)

ER folder: Financial Reports/Accounting

- *Transfers*

Adjustment and Reconciliation Activity

(Phase 2)

SAAM 90.20.70

We have covered some, but not all, of the Phase 2 adjustments, so...

...we recommend that you read through 90.20.70 for other GLs and data that you should review, adjust and reconcile at FY end.

Fiscal Year-End Training

Which Classes Should I Take??

Short Update classes (PowerPoints on website)

- State Fiscal Year-end Closing
- Federal Fiscal Year-end Closing (includes Federal disclosure forms)

Workshops

- Expenditures & Payables
- Revenues, Reconciliation & Phase 2 Adjustments
- State Disclosure Forms

Other Training Classes Related to GL Reconciliations

- General Ledger Reconciliation: Basics
- GL 5111 – Accounts Payable Reconciliation
- General Ledger Review
- Payroll Revolving Account Reconciliation
- Health Insurance Reconciliation
- In-Process Report Training

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Review Questions

Practice Exercise F

True/False

Questions a-j

Handout page 55

Feedback

Please fill out the evaluation form

- What worked well?
- What didn't work very well?
- Next year include _____?
- Next year don't include _____?

Pick up an answer sheet if you'd like when you leave.

Contacts and Resources

SAAM

<http://www.ofm.wa.gov/policy/default.asp>

Enterprise Reporting

<https://rp.des.wa.gov/>

OFM Website

<http://www.ofm.wa.gov/>

Year-End Resources

<http://www.ofm.wa.gov/resources/year-end.asp>

Financial Systems Documentation (AFRS, CAMS, etc)

<http://watech.wa.gov/node/6457>

Connection newsletter

<http://www.ofm.wa.gov/reports/connect/connect.pdf>

AFRS page on WA Tech

<http://watech.wa.gov/solutions/it-systems/agency-financial-reporting-system-afrs>

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On-line ER class in LMS

“DES – Enterprise Reporting Financial Reports – New User Training”. (Takes about 45 minutes)