1. PURPOSE

The purpose of this procedure is to detail the process for recording prepayment amounts by the Department of Finance and Risk Management.

2. BACKGROUND

Pima County records its assets in accordance with Generally Accepted Accounting Principles (GAAP) and pronouncements issued by the Governmental Accounting Standards Board (GASB). This requires that expenses be recorded in the period that the benefit of the goods and/or services are realized.

In reviewing prepayments each fiscal year, Pima County utilizes a threshold of $5,000. All payments of invoices for goods or services with a value of $5,000 or more, which cross fiscal years, will be reviewed by Finance and Risk Management. The portion pertaining to the current fiscal year will be expensed. The portion related to future periods will be recorded as a prepaid expense, and expensed in the future period that the expense occurs.

Examples:

- An annual maintenance agreement is purchased for $12,000 in April of the current fiscal year. The annual maintenance agreement period is from July 1 through June 30 which covers a future fiscal year. The entire amount will be recorded as a prepayment because it is for a future period.

- An annual maintenance agreement is purchased for $12,000 in February of the current fiscal year. The annual maintenance agreement is from March 1 through February 28, which crosses fiscal years. The portion of $4,000 will be expensed (March through June) during the current fiscal year and the remaining $8,000, which represents the amount of services the County will realize a benefit from in future periods, will be recorded as a prepayment.
3. **DEFINITIONS**

*Prepayments:* Prepayments are current fiscal year payments for goods or services which are to be received partially or wholly in the next fiscal year. Expenses for goods and services may be allocated between fiscal years based on the unused portion of the payment. The unused portion at the end of the fiscal year is an asset of Pima County to be expensed in subsequent periods as the benefits of the asset are depleted.

4. **PROCEDURE**

The Department of Finance & Risk Management will process prepayments in the following manner:

A. Annual Subscriptions and Memberships (does not apply to software)
   
   1. These items will be expensed in the fiscal year in which they are processed in the financial system by the Department of Finance & Risk Management, Financial Operations Division.

      a. Examples include: professional certifications, memberships to professional organizations, subscriptions to newspapers, etc.

B. All other Prepayments (including software)
   
   1. If the prepayment amount is less than $5,000.00, the total dollar amount at the commodity line level on an invoice will be expensed when processed.

   2. If the prepayment amount at the commodity line level on an invoice totals $5,000.00 or more, it will be split between fiscal years.

      a. Examples include: software maintenance, warranty renewal, software subscription, etc.