

# 3.07 Prepaid Expenses Reporting Package

# Overview

- ▶ Prepaid expenses are expenditures for goods or services that were paid for in advance of the corresponding usage period.
  - ▶ Example: An agency purchases a two-year insurance policy on January 1, 2024. At the date of purchase, the entire amount paid is a prepaid expense. The prepaid expense balance decreases throughout the policy period until the policy ends on December 31, 2025, at which point the prepaid expense balance is zero.
- ▶ Prepaid expenses are assets that are reported on the Statement of Net Position or Balance Sheet.
- ▶ State agencies generally function on a cash basis throughout the fiscal year. Most reporting packages are completed to convert year-end activity from a cash basis to an accrual basis.

# Prepaid Expenses During the Fiscal Year

- ▶ To ensure accurate reporting, agencies should track prepaid expenses throughout the fiscal year.
- ▶ The most common method for doing this is by adding “PREPAID”, “PRE-PAID”, or some other variation of those in the header text field and/or the item text field when processing invoices in SCEIS.
  - ▶ After year end, we send out two Business Warehouse reports:
    - ▶ Yearend Rptg - Prepaid Expenses (header text)
    - ▶ Yearend Rptg - Prepaid Expenses Item Text (item text)
  - ▶ These reports are only a starting point. Agencies must review internal records and/or invoices to determine what amounts should be reported and how those amounts should be classified (current vs. noncurrent).
- ▶ Some agencies may also track their prepaid expenses in a spreadsheet throughout the year, which can save time later.

# What should be reported at year end?

- ▶ Expenditures for goods or services that were paid for in the current fiscal year but whose usage period extends beyond June 30 of the current fiscal year except:
  - ▶ Payments made in advance for debt, lease assets capitalized in accordance with GASB 87, or SBITAs capitalized in accordance with GASB 96.
- ▶ Any lease or software agreement payments made in advance for leases or software agreements that are not capitalized should be included.
- ▶ Qualifying payments made to private entities and/or other State agencies.

# What should be reported at year end? (continued)

- ▶ Amounts reported as noncurrent in prior year(s).
  - ▶ Example: An agency prepaid a five-year service contract on January 1, 2022. The service contract cost \$500,000 and was for the period of January 1, 2022 - December 31, 2026. The agency would report the following on their reporting package for each respective fiscal year:

	FY22	FY23	FY24	FY25	FY26	FY27
<b>Expensed in Current FY</b>	50,000	100,000	100,000	100,000	100,000	50,000
<b>Current</b>	100,000	100,000	100,000	100,000	50,000	-
<b>Noncurrent</b>	350,000	250,000	150,000	50,000	-	-
<b>Total Prepaid Reported</b>	450,000	350,000	250,000	150,000	50,000	-
<b>Total of All Items Reported</b>	500,000	450,000	350,000	250,000	150,000	50,000

Note: The agency could elect to not report anything related to this item in FY27 (see next slide).

# What can be excluded at year end?

- ▶ Agencies may exclude items that would have been a prepaid expense at the date of payment but are fully expensed prior to June 30 of the current fiscal year.
- ▶ Agencies may exclude prepaid items individually under \$10,000 (current plus noncurrent) up to \$100,000 in the aggregate. Report any items that are individually \$10,000 or more and, if necessary, smaller items so that the total amount excluded does not exceed \$100,000.
  - ▶ Example: An agency has 12 prepaid items that are \$9,000 each and a one prepaid item that is \$5,000, which totals to \$113,000. The agency elects to report one of the \$9,000 items and the \$5,000 item, resulting in \$14,000 being reported and \$99,000 being excluded.
- ▶ Agencies may exclude a prepaid expense if 12 months of expenditures have already been recorded in the current fiscal year for recurring items that have been in existence.

# Completing the Reporting Package

State of South Carolina					
Section 3.07, Prepaid Expenses Reporting Package					
Prepaid Expenses Summary Form					
At June 30, 2024					
Agency:	E120	Agency Name: Comptroller General's Office			
Preparer:	Simon Says				
Reviewer:	John Goodman				
<p>The report provided is based on the header text and/or line item text, actual prepaid expenses should be reported on this form regardless of what appears on the reports. Please be sure to roll forward any noncurrent prepaid expenses reported on the prior fiscal year Form 3.07.1.</p>					
				Prepaid Expense Balances	
Fund No	GL Account	Agency Code	Expensed in FY24	Current (FY25)	Noncurrent (FY26 and after)
10010000	5020077100	N/A	5,000	15,000	10,000
10010000	5021400000	N/A	4,031	25,041	0
10010000	5030067191	N/A	541	5,612	13,367
10010000	5040510000	E550	3,000	12,000	0

# Contact Information for Prepaid Expenses

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