

**MICHIGAN
CONSERVATION DISTRICT
UNIFORM ACCOUNTING
PROCEDURE
MANUAL**

Revised May 31, 2016

MICHIGAN CONSERVATION DISTRICT UNIFORM ACCOUNTING
PROCEDURES MANUAL
REVISED 5-31-2016

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INTRODUCTION

The Uniform Chart of Accounts for Counties and Local Units of Government in Michigan has been developed under the authority of Act 2, Public Acts of 1968, as amended (MCL 141.421), and Act 71, Public Acts of 1919, as amended (MCL 21.41). This manual contains a full Chart of Accounts. No District will use all of the activities, and accounts contained in the Chart of Accounts. Smaller districts will use only a few. But when one is used, it will be for the same purpose by each district using it.

Conservation Districts meet the definition of a “local unit” of government pursuant to Act 2 of the Public Acts of 1968, as amended regarding provisions of Sections 14 to 20a. These sections refer to Budgets. Conservation Districts are required to adopt a budget in compliance with the act as spelled out in the Uniform Budgeting Manual and in compliance with the Uniform Chart of Accounts.

Audits are required of the Conservation District by the Department of Agriculture as part of the grant process and by Department of Treasury pursuant to a borrowing application under Act 34 of the Public Acts of 2002.

Audit reports must be conducted by an independent certified public accountant and prepared in compliance with the Bulletin for Audits of Local Units of Government in Michigan.

This accounting procedures manual for Conservation Districts contains the basic financial records, documents and procedures that are applicable to all Conservation Districts in Michigan. Included in this manual is a Chart of Accounts that should be sufficient for most Conservation Districts.

Questions, comments and recommendations may be forwarded to the Department of Agriculture and Rural Development at the following address:

Michigan Department of
Agriculture and Rural Development
Environmental Stewardship Division
P.O. Box 30017
Lansing, Michigan 48909
517-284-5614

The information presented as part of the accounting manual is based on information contained in the Local Government section of the Michigan Department of Treasury website located at:

<http://www.michigan.gov/treasury>

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REQUIRED BASIC ACCOUNTING RECORDS

Every Conservation District in Michigan, from the smallest to the largest, must establish and maintain the following basic accounting records.

1. The Uniform Chart of Accounts;
2. Printer pre-numbered official receipts;
3. Pre-numbered official checks;
4. A detail receipt journal;
5. A detail disbursement journal; and
6. A general ledger.

The minimum requirements are discussed in detail in the various parts of this manual.

The focus of the manual is to describe an accounting system in its simplest form. However, even a complex computerized accounting system must include the minimum records and procedures discussed.

As an accounting system becomes more detailed and complex, additional records and procedures will be necessary to provide the information desired. A separate payroll accounting system and records, detail subsidiary ledgers for revenue and expenditure accounts immediately come to mind. However, this manual will not address the more detailed systems that may be necessary to provide the additional information.

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UNIFORM CHART OF ACCOUNTS

All Conservation Districts **must** use the Uniform Chart of Accounts. The Uniform Chart of Accounts is based on generally accepted accounting principles as defined by Government Accounting Standards Board (GASB) and Government Finance Officers Association (GFOA). GASB Codification 1800.114 through 1800.121 defines the revenue and expenditure classifications as follows.

Revenue The primary classification of governmental fund revenues is by fund and source. Major revenue source classifications are:

- Taxes
- Licenses and permits
- Intergovernmental revenues (Federal aid, State aid, and local contributions)
- Charges for services
- Fines and forfeits
- Miscellaneous

Expenditure The major accounting classification of expenditures is by:

- Fund
- Function (or program)
- Organization unit
- Activity
- Character
- Object

Conservation District accounting is based on activities. These are the various grants and other projects in which the district is engaged.

Definitions of the major accounting classifications of expenditures from GFOA's 1994 Governmental Accounting, Auditing and Financial Reporting (GAAFR) are:

- **Function** -- a group of related activities aimed at accomplishing a major service or regulatory program. Example: "public safety" is a function. In the case of a Conservation District the activity "soil conservation" falls under the broad function "Other General Government". "Soil Conservation could be considered also as a function of the broad category "Other General Government".
- **Sub-function** -- a grouping of related activities within a particular governmental function. Example: "police" is a sub-function of the function "public safety." Or for example "Forestry" is a sub-function of the function soil conservation.
- **Organization unit** -- a responsibility center within a government.

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- **Activity** -- a specific and distinguishable line of work by one or more organizational components of government for the purpose of accomplishing a function. Example (1968 & 1980 GAAFR): "Tree Sales" is an activity performed in discharge of the "Reforestation" functions. **Conservation District accounting is based on the various activities in which the District is engaged.**
- **Sub-activity** -- a specific line of work performed in carrying out a governmental activity. Example: cleaning luminaries and replacing defective street lamps would be sub-activities under the activity of street light maintenance.
- **Character** -- a basis for distinguishing expenditures according to the periods they are presumed to benefit.
- **Object** -- the article purchased or the service obtained. Examples: personal services, contractual services, materials and supplies.

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Account Structure

Governmental Fund Type

- General Fund
 - Conservation District Activities

Conservation Districts will have only a general fund with several activities to account for different programs (grants or projects) such as groundwater stewardship, forestry, etc. In limited circumstances a Conservation District may have an Endowment Fund or a Soil Sedimentation and Control Fund.

Activities & Classes

It is often necessary for a Conservation District to allocate costs to a specific activity or program (service) because of restricted grants from the state or federal government or certain local sources. The term "activity" may include function, sub-function, program (service), sub-program, project, or cost center. See the table below for Conservation District activities

The general ledger accounts should be maintained by activity. The budgets, monthly financial status reports, and the annual financial summary are prepared by activity.

The following accounts reflect **recommended major activity** categories and Classes:

Conservation District Activities	Chart of Accounts Activity Number
Operations Grant-Administration and Support Services	281
MAEAP TA Grant	282
Michigan Agriculture Environmental Assurance Program (MAEAP)	284
Conservation Reserve Enhancement Program(CREP)	285
Soil Con	286
GLC Grant	290
Watershed 319 Grant	291
CTAI Grant	295
Tree Sales	294
Other Programs as Needed	Can use other numbers available activity numbers

The numbering system to be used is based on the activities in which the Districts are engaged. This will be explained in following sections.

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To illustrate, an expense line item will be used. That expense is Telephone for general office use.

Sample 6 Digit Number for Telephone	Activity	Expense
	281	850
a	Operations Grant	281
b	Telephone	850

To make this chart work for Quick-books software, the above account would be entered as follows:

281 Operations (Activity)
850 Telephone (An account within the activity, "Operations")

The account would appear as follows on the QuickBooks Pro chart of accounts:

281.850
Telephone

Note: QuickBooks allows for seven digit account numbers including the separation period.

The extent of the expansion of the account numbers is at the discretion of the Conservation District. MDA is providing a basic skeletal chart, which Conservation Districts can expand to meet their accounting needs.

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Balance Sheet Accounts

These are the asset, liability, and fund equity accounts that make up the balance sheet of the General fund. These accounts are not closed out at the end of an accounting period. Again, the Conservation District will use only the accounts that are necessary for the General Fund. These accounts do not have an activity number associated with them. Therefore, use the prefix 000.

Certain accounts are used only in the accounting for “account group” activity (i.e., General Fixed Assets, General Long-Term Debt) or for government wide financial reporting for GASB

Statement #34. Those accounts have been footnoted for reference purposes.

Note: Use only the accounts your district needs.

	CURRENT ASSETS
001-017	Cash and Investments
000.001	Cash-Checking.
000.002	Cash-Savings
000.003	Certificates of Deposit. List multiple CD’s as un-numbered sub-accounts of this line.
000.006	Cash- Petty Cash
007 -0016	Use # range for other Bank Accounts and CD
017	Investments in Securities
018-100	Receivables
044	Accounts Receivables
101-110	Inventory
101-107	Use # range for other Accounts
108	Tree Inventory
109	Use # range for other Accounts
110	Inventory—Equipment Material and Parts
	NON CURRENT ASSETS
111-122	Long-Term Investments
130-179	Capital Assets
130	Land Assets
132	Land Improvements
133	Accumulated Depreciation--Land Improvements
134	Depletable Assets
135	Accumulated Depletion--Depletable Assets
136	Buildings, Additions and Improvements

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137	Accumulated Depreciation--Buildings, Additions and Improvements
138-145	Equipment and Accumulated Depreciation
146	Office Equipment and Furniture
147	Accumulated Depreciation--Office Equipment and Furniture
148	Vehicles
149	Accumulated Depreciation—Vehicles
158	Construction in Progress
159-179	Use # range for other Accounts
180-199	Use # range for other Accounts
200-299	CURRENT LIABILITIES
202	Accounts Payable
207	Notes Payable
210	Contracts Payable
231	Payroll Deductions Payable
231.001	Federal Withholding Tax Payable
231.002	FICA Tax Payable
231.003	Medicare Tax Payable
231.004	State Withholding Tax Payable
231.005	SUTA (MESA) Tax Payable
231.010	Garnishments Payable
	Open for other Payroll Liabilities to be added.
250	Bonds Payable—Current
257	Accrued Wages Payable
258	Accrued Taxes Payable
260	Accrued Vacation Leave Payable
261	Accrued Sick Leave Payable
300-344	LONG-TERM LIABILITIES
300	Bonds Payable
307	Notes Payable
339	Deferred Revenue
	FUND EQUITY
390-399	FUND BALANCE AND RETAINED EARNINGS
390	Fund Balance
393	Designated Fund Balance
395	Retained Earnings

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Revenue Accounts

Revenue accounts include **MANDATORY** accounts and **OPTIONAL** accounts. All Conservation Districts must use accounts listed as mandatory, if the Conservation District receives such revenue. The **MANDATORY** accounts are the revenue sources required for financial reporting. Optional account numbers are provided within the **MANDATORY** revenue source categories to provide greater detail of the revenue for use by units desiring to further classify their revenues.

The mandatory Revenue Accounts are listed below:

<u>Number</u>	<u>Revenue Source</u>
401	Taxes
450	Licenses and Permits
<i>501</i>	<i>Federal Grants</i>
<i>539</i>	<i>State Grants</i>
<i>580</i>	<i>Contribution from Local Units</i>
<i>600</i>	<i>Charges for Services</i>
655	Fines and Forfeits
<i>664</i>	<i>Interest and Rents</i>
<i>671</i>	<i>Other Revenue</i>

Italics these are the revenue sources districts are most likely to use.

These are considered revenues by source for budgeting purposes. These accounts are the revenue categories that must be reported in the District financial reports. The GASB No. 34 revenue type descriptions provide general guidance related to categorization of revenues on the statement of activities.

The following is the Uniform Chart of Accounts for Revenue from the Michigan Department of Treasury. Use this table as a guide to decide how district revenues should be classified in your chart of accounts. **Use only the accounts the district needs.**

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Uniform Chart of Accounts for Revenue

	GENERAL REVENUE
501	Federal Grants
539	State Grants
580	Local Grant
590	Contribution Agreement NRCS
	<i>PROGRAM REVENUE</i>
600	Charges for Services
664	Interest and Rentals
665	Equipment Rental Revune
667	Interest Revenue
671	Other Revenue
674-675	Contributions and Donations
675	Workshop Fee
673	Sale of Fixed Assets
676-686	Reimbursements (Not from Grant) Other
687-692	Refunds
540	Grant Reimbursement for Indirect Exp
693	Gain on Sale of Depreciable Fixed Assets
694	Cash Over and Short
	<i>SEPARATE REPORTING</i>
695	Other Financing Sources
696	Bond or Insurance Recoveries
698	Bond/Note Issuance @ Face Value
699	Transfers In

NOTE: All REVENUE defined by GASB Statement 34 as program revenue may use an activity number or may use another method of accumulating the information for the government- wide financial statements.

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Expenditure Accounts

Expenditure/Expense accounts include **MANDATORY** accounts and **OPTIONAL** accounts. All units must use accounts listed as mandatory. Optional account numbers are provided within the MANDATORY expenditure/expense categories to provide greater detail of costs for use by units desiring to further classify their expenditures/expenses.

The mandatory expenditure accounts are listed below:

<u>Number</u>	<u>Expenditure/Expense</u>
701	Personal Services
726	Supplies
800	Other Services and Charges
970	Capital Outlay
990	Debt Service
999	Transfers (Out)

All district charts of accounts should include the above accounts. The accounts that are associated with them should be listed as sub-accounts of them.

These are considered line items for budgeting and accounting purposes. Line items may be used for accounting purposes and to assist in the development of the budget, however, the Department of Treasury does NOT recommend adoption of the final budget at the line item level.

Optional possibilities are indicated in the Uniform Chart of Accounts and offer the local unit more detail. If the reporting of expenditures/expenses is expanded to optional accounts, the optional account numbers as listed must be used.

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Use the following table in deciding where to classify expenditures.

Uniform Chart of Accounts for Expenditures

701	Personal Services
702-725	Examples include (not all inclusive): Salaries and Wages of elected officials, appointed officials, deputies, supervisory employees, permanent employees, temporary employees, overtime, Per Diem, Fringe Benefits, Employer's Social Security, Hospitalization Insurance, Employee Life Insurance, Retirement Contribution, Unemployment Compensation, Sick and Vacation Pay Etc.
726	Supplies
727-799	Use these numbers for more detail as desired. These account numbers may be assigned in groups such as: Office Supplies, Operating Supplies, Medical Supplies, Maintenance Supplies, Repair Supplies, Etc.
800	Other Services and Charges
801-969	Use these numbers for more detail as desired. These account numbers may be assigned in groups such as:
801-832	Professional and Contractual Services
850-859	Communications (telephone, cell phone, radios, etc.)
860-873	Transportation
874-879	Retirement Benefits (to retirees)
880-899	Community Promotion
900-919	Printing and Publishing
920-929	Utilities
930-939	Repairs
940-954	Rentals
955-963	Miscellaneous
964	Refunds and Rebates
965	Open
967	Project Costs (not capital outlay)
968	Depreciation and Depletion
969	Open

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970	Capital Outlay
971-989	Use these numbers for more detail as desired. Capital outlay expenditures result in the acquisition of or addition to capital assets. The amounts in these Accounts must agree with the capitalization policy of the local unit and will equal the additions to general capital assets records (formerly the General Fixed Assets Account Group) and the infrastructure asset records.
990	Debt Service
991-994	Principal
995-998	Interest
999	Transfers (Out)

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Sample Chart of Accounts

NOTE: Remember every Conservation District has different needs and Grants so use the Chart of Accounts number to meet your District needs. There will be times that Grants will come and Grants will go.

What follows is a sample of a Chart of Accounts done in QuickBooks to show you how sub-accounts work with each.

Account	Type
000.001 · Chemical Checking	Bank
000.002 · Chemical Savings	Bank
000.003 · Petty Cash 1	Bank
000.007 · Fifth Third Checking	Bank
000.040 · Accounts Receivable	Accounts Receivable
000.101 · Inventory	Other Current Asset
000.123 · Prepaid Expense	Other Current Asset
000.125 · Cash on Hand	Other Current Asset
000.140 · Office Equipment	Fixed Asset
000.141 · Accum Depree Office Equipment	Fixed Asset
000.150 · Farm Equipment Assets	Fixed Asset
000.151 · Accum Depree Farm Equip	Fixed Asset
000.160 · Vehicles Fix Assets	Fixed Asset
000.161 · Accum Depree Vehicles	Fixed Asset
000.170 · Building Imp Assets	Fixed Asset
000.171 · Accum Depree Building and Imp	Fixed Asset
000.124 · Farm Credit Shares	Other Asset
000.202 · Accounts Payable	Accounts Payable
000.231 · Payroll Liabilities	Other Current Liability
000.232 · Federal Withholding Tax Pay	Other Current Liability
000.233 · FICA Tax Payable	Other Current Liability
000.234 · Medicare Tax payable	Other Current Liability
000.235 · State Withholding Tax Pay	Other Current Liability
000.236 · MESC Tax Payable	Other Current Liability
000.237 · IRA Funds	Other Current Liability
000.343 · Accrued Vacation	Other Current Liability
000.390 · Fund Balance – Unreserved	Equity
000.393 · Reserved Fund Balance	Equity

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281.000 · Revenue Control-District Ops		Income
281.539 · State Grants -		Income
281.580 · Local Grants-Operations		Income
281.590 · Contribution Agreement NRCS		Income
281.664 · Interest and Rental Control		Income
281.665 · Equipment Rental Revenue		Income
281.667 · Interest Revenue		Income
281.671 · Other Revenue Control		Income
281.674 · Donation		Income
281.675 · Workshop Fee		Income
281.676 · Other Revenue – Reimbursement		Income
281.677 · Sponsorship Revenue		Income
281.687 · Other Revenue – Refunds		Income
281.700 · Reimbursement From Grant		Income
294.000 · Trees and other Sales Income		Income
294.607 · Handling Fee		Income
294.643 · Plat Book Revenue		Income
294.647 · Tree Sale Revenue		Income
294.649 · Bulbs, Native Plants, Hosta		Income
282.000 MAEAP Revenue Control		Income
282.539 · State Grants – MAEAP		Income
270.503 · Soil Con MDARD Income		Income
281 · District Operation Exp. Control		Expense
281.701 · Personal Svcs Control-Operation		Expense
281.702 · Administrative Assistant Wage		Expense
281.704 · Executive Director Wage		Expense
281.707 · No Till Tech Wages		Expense
281.708 · Director Fees		Expense
281.719 · FICA Tax Exp		Expense
281.720 · Medicare Tax Exp		Expense
281.721 · MESC Tax Exp		Expense
281.722 · Retirement Expense		Expense
281.723 · Other Fringe Benefits		Expense
281.724 · Sick Hourly		Expense
281.725 · Vacation Hourly		Expense
281.726 · Supplies Control – District		Expense
281.727 · Office Supplies		Expense
281.730 · Miscellaneous Supplies		Expense
281.795 · Cost of Resale Merchandise Sold		Expense
281.796 · Fair Supplies		Expense
281.800 · Other Services and Charges		Expense
281.642 · Depreciation Expense		Expense
281.801 · Audit Fees		Expense
281.802 · Other Professional Services		Expense
281.803 · Annual Meeting		Expense
281.850 · Telephone		Expense
281.860 · Transportation-Mileage Staff		Expense
281.861 · Transportation Miles – Director		Expense
281.862 · Fuel		Expense

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281.880 · Community Promotion/Advertising		Expense
281.881 · Workshop Exp		Expense
281.882 · Education and Demonstration		Expense
281.883 · Staff Training		Expense
281.885 · Dues		Expense
281.900 · Printing and Publishing		Expense
281.901 · Postage		Expense
281.911 · Bank Charges		Expense
281.912 · Interest Expense		Expense
281.930 · Equipment Repairs & Maintenance		Expense
281.931 · Office Equipment Repairs		Expense
294 · Tree Sale Expense Control		Expense
294.726 · Supplies Control - Tree Sale		Expense
294.727 · Office Supplies - Tree Sales		Expense
294.790 · Cost of Trees Sale Re-sale		Expense
294.792 · Cost of Bulbs Sold		Expense
282.700 · MAEAP Expense Control		Expense
282.701 · MAEAP Personal Services		Expense
282.705 · MAEAP Technician Wages		Expense
282.716 MAEAP WC Insurance		Expense
282.719 MAEAP Health Insurance		Expense
282.722 · MAEAP Retirement Contribution		Expense
282.723 · MAEAP - Other Fringes		Expense
282.724 · MAEAP Sick Pay		Expense
282.725 · MAEAP Vacation Pay		Expense
282.967 · Indirect Support for Grant		Expense
270 · MDARD Soil Con Grant		Expense
270.701 · MDARD Soil Con Personal Service		Expense
270.705 · MDARD Soil Con Wages		Expense
270.716 · MDARD Soil Con WC Insurance		Expense
270.723 · MDARD Soil Con- Other Fringes		Expense
270.724 · MDARD Soil Con Sick Hourly		Expense
270.725 · MDARD Soil Con Vacations Hourly		Expense
270.967 · Indirect Support For Grant Exp		Expense

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Tracking Grants & Activity by Classes in a software system.

For the larger MDARD Grants the district could keep the item code and set up numbers in the Chart of Accounts. For the small grants the district can use the Operation account number and class the expenses and income to the correct Grant. But all Grants should have a class and be tracked accordingly or be able to separate the income and expenses by Grants. In the QuickBooks software this is done by using Classes.

The classes are giving the same number and name of the Grant of activity.

For an Example:

Class List	
281	District
261	Sirex Wood wasp Grant
262	Forest Commodity Pest Grant
294	Tree Sales
	HAP
271	MDARD Soil Con
282	MAEAP Grant

Some accounting systems will allow you to class all transactions to a class so you can run reports by class and that will give you acute Profit and Loss for that Grant.

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INTERNAL CONTROL REQUIREMENTS

Management is responsible for establishing and maintaining a system of internal controls over the accounting procedures as well as over all assets belonging to the Conservation District. In Conservation Districts it is the Administrator/Executive Director and the District board who are responsible for establishing policies and procedures designed to provide reasonable assurance that assets are safeguarded against unauthorized use and disposition.

Management may be the governing body in small units of government or may be the appointed administrative officials in larger governments. However, the governing body in larger units of government is still responsible to assure that adequate internal controls are in place and should be receiving reports from management that will assist in that determination. In the case of Conservation Districts, the Administrator provides monthly reports of financial activity to the members of the District Board.

The following matters are minimum internal controls that must be in place in every Conservation District in Michigan. Many of the matters are discussed in more detail in the various sections of this manual.

Basic Accounting Filing System:

The MACD recommends you set up your yearly accounting files in the following manner.

1. **Expense Records:** Kept monthly in files labeled, January, February, etc. Records within each folder are kept sequentially.
2. **Income Records:** Kept bound with your bank statements, bank reconciliations and deposit forms in sequential order.
3. **Payroll files:** By employee and separate from all other types of accounting records, secured under lock and key.
4. **Tax Filings/Reports: All forms must be signed by Treasurer. Kept separate in payroll files by form.**
 - A. IRS Form 941 Filings are on 4/30, 7/31, 10/31, and 1/31 following year
 - B. IRS Forms W-3 & W-2 must be out to employees by 1/31 of following year and IRS and State by 2/28
 - C. IRS Forms 1099 & 1096 must be out to contractors by 1/31 of following year and IRS and State by 2/28
 - D. State Forms 160 Due monthly, quarterly, or yearly as state dictates all due on the 20th.
 - E. State Forms 165 due on 2/28 of following year with attached a copy of W2's and 1099'S
 - F. State UIA Form 1028 due on 4/25, 7/25, 10/25 and 1/25 following year.
5. **Yearly Contracts, Grants & Appropriations, etc:** Kept labeled as appropriate and easily accessible throughout the year. At the end of the fiscal year, move all of these records into storage (make sure they are easily accessible during and after your audit) and set up a new set of files for the next fiscal year. Please note: any multiyear contracts, permanent records, etc., should not be moved into storage but kept available in your easily accessible files.

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CASH RECEIPTS CYCLE

The Administrator and other District employees must issue official receipts for each collection including checks and money orders received from individuals, the state, the county, and other local units of government. **ALL REVENUE MUST BE RECEIPTED.**

District receipts must be numerically controlled (printer pre-numbered) three part official receipts with the name of the Conservation District printed on them. **Or if computerized receipts or invoices issued, all receipt copies should be printed and retained in numerical order.**

Original copy ----for the payer

Duplicate copy--- attached to the Deposit Advice

Triplicate copy---retained by the District and must not be removed from the receipt book.

If computerized receipts are issued, all receipt copies should be printed and retained in numerical order.

- An official receipt must be issued for all revenues.
- All Receipt books or Computer receipts must be accounted for numerically. And can be scanned in the computer if the office has gone paperless, like so many District offices are becoming.
- “Cash” or “check” as the method of payment must be indicated on the receipt.
- The receipt must identify the individual receiving payment. This is the district employee.
- The receipt must allow for immediate revenue account classification (account line item number and title).
- Checks must be restrictively endorsed at the point and time of collection. (Stamp the back of the check “For deposit only _____ Conservation District”).
- At Conservation Districts, the Administrator and district employees collect funds.
- When possible, someone other than the person who writes receipts or posts the accounting records must be responsible to verify that collections received in the mail are properly receipted. In almost all cases, this must be a board member.
- The Board Treasurer monitors and approves collections by reviewing and signing each deposit advice document.
- When possible, collections must be reconciled by an individual not involved in the receipt process. A board member must review, sign and date all bank reconciliations.
- All copies of voided or canceled receipts must be retained in the receipt book. All copies must be properly marked VOID.

Each receipt must clearly indicate the name of the payer, the amount paid, the purpose of the payment, activity and revenue account number, and the signature of the District employee receiving the money. Receipts should also indicate check or money order number or indicate “cash.”

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POSTING OF RECEIPTS

BANK ACCOUNTS, DEPOSITS AND RECONCILIATION OF BANK ACCOUNTS

- All Conservation District bank account registrations (documents at the bank) must include the name of the Conservation District, the name of the account, and the name of the Board treasurer.

Example: Athens Conservation District, General Fund Account, and (name of treasurer).

- Use of the District's tax ID number should be strictly controlled by the Administrator with approval of the Board of Directors. Do not lend the district's tax ID number to employees to make tax-free private purchases.
- All bank account statements should have an ending date of the last day of each month.
- Bank signature cards should be kept current and the authorized signers limited.

IMPROPER BANK ACCOUNTS

Except where specifically provided by statute, it is not proper to operate a District bank account without Board approval. The District board may NOT designate other District officials such as a committee or commission to operate other activities and permit such committee or commission to open its own bank account, deposit its own collections, and pay its own bills or charges. The Administrator and District Board Treasurer must receive and deposit all District revenue. The administrator and Treasurer must pay out the money upon proper order by the Board.

CASHING OR ACCEPTING CHECKS

Do not cash payroll checks or personal checks. Any personal check accepted must be made payable to the District and must be in the exact amount of the charge being paid. This includes items the District offers for sale such as trees and soil maps.

BANK RECONCILIATION

All bank accounts must be reconciled to the Conservation District accounting records monthly. The Administrator's records must agree with or reconcile to the Board Treasurer's and the bank's records. A reconciliation sheet should be prepared for each month with one copy for the Treasurer to sign and then kept in the office for future reference. Canceled checks are to be filed with the bank statement to which they apply. At a minimum, the Board Treasurer should review the reconciliation done by the Administrator and signify agreement with signature and date. **The Treasurer must see these reports and sign off that they have seen them.**

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REQUIRED BANK ACCOUNTS

The Department of Treasury requires the following bank accounts:

Common Account

This bank account may include the General Fund and any other fund except those that require separate bank accounts.

Bond Issues, Debt Fund and Capital Projects Fund

Separate investment and/or bank savings accounts are required for each debt issue, debt fund and capital project fund as specified within the specific bond ordinance or resolution. A common debt imprest (zero balance) checking account may be used for payment of debt service and a common capital project imprest (zero balance) checking account may be used for payment of construction costs.

The Department of Treasury will not object to other bank accounts deemed necessary by the Conservation District.

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BANK DEPOSITS

The Conservation District Treasurer is the legal custodian of all District funds and is responsible for all deposits in the various District bank accounts. The District Board designates the banks to be used. Other Conservation District employees receiving money must comply with prescribed receipting procedures. Such employees or officials do not make deposits to the Conservation District bank accounts.

The Conservation District Treasurer or designated board member must make sure that bank deposits are made intact. Intact means that the deposit must include the checks and cash received for a specific numerical sequenced receipt group. Deposits must be made as frequently as possible, daily where warranted, but at least weekly.

Note: During tree sales, it is necessary to deposit funds frequently. Deposits should be made often to safeguard the funds. The deposit procedure must be modified in order to accommodate this need. Board member approval of the deposit may need to happen after the deposit is made. Approval and signature of the board member is still necessary on the deposit advice following a review of the deposit information and bank deposit receipt.

It is not proper to withhold a portion of collections for use as a change fund. All collections must be deposited in the bank. If a change fund is required, an imprest (petty) cash account should be authorized by the Conservation District Board and recorded in the general ledger.

- All deposits are to be made intact. Intact means that the deposit must include the checks and cash received for a specific numerical sequenced receipt group.
- Deposits must be made timely and reconciled to official receipts.
- Deposit Summery ticket must list checks, by name, number and amount.

Now that we are using account software making deposit should be easier. You should print the deposit summery from the computer and put all income receipts or invoices with that ticket. This is what the board of directors will see at their meetings and the treasure should sign each form showing that is has been seen by someone other than the person who is making the Deposit to the bank.

Some districts have made a stamp or printed labels to be put on the deposit summery ticket, for the Board Treasurer to look at and sign.

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DISBURSEMENTS

Dual signatures are required on all district checks. The dual signatures MAY be the Administrator/Executive Director and a board member(s) designated by the board to perform this duty. The dual signatures may also be two board members designated by the district board.

The following example audit comment shows how a Conservation District can quickly get into financial trouble by failing to follow the above instructions regarding dual signatures on checks for disbursements.

DUAL SIGNATURES ON CHECKS

Condition: We found that the checks used by the Conservation District only require the signature of the chairman of the board, which is done by a signature stamp. We found that it has been the Chairman's policy to give the Executive Director the signature stamp and let the Executive Director endorse the checks as they are prepared. This current practice does not allow for the proper segregation of duties and also holds the Board Chairman responsible for any purpose the Executive Director uses the stamp.

Criteria: Internal Control standards stress the importance of segregation of duties in internal control. The Michigan Department of Treasury's Uniform Accounting Procedures Manual also illustrates the need for separation by requiring dual signatures for all checking accounts.

Recommendation: We recommend that the Conservation District implement a policy to require each check to contain two signatures and that access to the second signature of the check be restricted to only the Chairman."

Appropriate documentation (supporting invoices) must be attached for all disbursements. Original bills, not copies, must be used for documentation. The District Board must approve all expenses prior to disbursement or in some cases they may have a ongoing agreement to pay some bills monthly due to the fact that they are due before the board is to meet. This should be noted in the minutes and approved by the board once a year. The use of payment vouchers is required. See example below.

The Board may establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings). This policy must be very limited and a list of payments must be presented to the Board for approval.

Bank accounts must be promptly reconciled by an individual not involved in the receipt/bank deposit process. This means that it must be done within the month following the bank statement date. In Conservation Districts, segregation of duties within the office setting may not be possible. In that case, a second official, such as the Board Treasurer, should review the reconciliation and sign off on the report. Adequate security must be provided over unused checks. Checks must NOT be signed prior to being completely filled out. Numerically controlled, pre-numbered checks must be used. Actual checks must be returned to the Conservation District (record retention requirement). Under the Records Media Act, electronically stored checks should meet this requirement.

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Internal Control Requirement

PAYMENT VOUCHERS

The use of payment vouchers is **required**.

The following item is an example of a payment voucher. Original invoices must be attached to the vouchers. Vouchers must be filed in order by check number. This is also another thing that can have a stamp made or a label or some software can have it added to voucher side of the check and print it on the check stub.

District Payment Voucher	
Payee	_____
Invoice Number and Date	_____
Amount of Invoice	_____
Date of Board Action	_____
Board Chair Signature	_____
Amount Paid	_____
Check Number	_____
Date of Check	_____
Administrator Signature	_____
Notes:	_____

Payroll Issues and Taxes

Payroll

You are required to have a computer and software.

Examples are Intuit's QuickBooks or Peachtree software. The most important reason to purchase a standardized accounting software package is for payroll. It is without a doubt one of the fastest ways to get in trouble to fail to perform payroll and its sundry functions (taxes, reports, etc) as required by the IRS and the State of Michigan. Compound interest on debts to the IRS/State of Michigan can put you out of business and/or land you in jail (no kidding). As the administrator of your Conservation District, you are required to complete the payroll forms, (see list above) that say "under penalty of perjury, I attest to..." Don't take this lightly: doing payroll right is one seriously important role you play for your organization.

Another benefit to accounting software packages is that they track your employee's wages, Withholdings, sick/vacation, other benefits, garnishments, etc., remind you when to make payments and file reports and, in most cases, these types of activities are "push of the button" easy. Most software packages can cost around \$200/year. Basic accounting software packages do not automatically file payroll forms, nor administrate the payment of taxes for you. They TRACK this information for you but you are still required to make sure to file by the prescribed deadlines. If you seek almost totally automatic payroll then you should consider hiring a payroll service company.

Another possible avenue for your organization is to hire an independent company. Examples are ADP or Paychex or an outside accountant to perform almost all of the functions associated with payroll. These services can cut employee checks, track vacation/sick and other benefits, garnishments, etc. They can pay and file all required payroll forms and nicely and neatly summarize this information for your files. If you do not want to be responsible for just about everything to do with payroll (you WILL have to provide them with who to pay, how much, and when, plus authorize the transfer of funds between their account and yours), then this service is the way to go.

Establishing Your Conservation District as an Employer:

Perhaps this goes without saying but perhaps, not. Before you hire any employee you will need to do the following.

1. Obtain an EIN (Employer Identification Number).
2. Obtain an Unemployment Insurance Agency (UIA) Account number from the State of Michigan, registering the district as a contributing employer.
3. Receive the State of Michigan Form 1771 Tax Rate Determination that will determine the unemployment tax rate you as the employer of record will pay to the State of Michigan on a quarterly basis.
4. Establish yourself with the IRS using www.eftps.com. You will need your EIN and bank account information in order to register. You will make monthly EFT payments through www.eftps.com in order to pay your 941 taxes.

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5. Establish yourself with the Michigan Department of Treasury. In addition to paying sales and use tax (as you probably already are), you will need to start paying Withholding taxes monthly.

A New Employee: A Payroll File

Every employee should have a payroll file, filed away, locked, and/or unavailable to everyone except the Administrator. Employees have permission to view their employee files, upon request and at a convenient time.

At a basic minimum a new employee's file should contain their resume, cover letter, the offer of work, the job description, and the following forms once they are completed by the employee: Form W-4 (Federal Tax Withholding worksheet), Form MI-W4 (Michigan's Tax Withholding worksheet), and Form I-9 (Employment Eligibility Verification).

A note on the I-9: you must scrutinize and sign this form once it is completed. Make appropriate copies of their passport and/or driver's license and social security card, as needed, and file in the employee's file.

The one form you will need to make sure to mail or Fax to the State of Michigan is Form 3281 (The State of Michigan New Hire Reporting Form). This is the first of your essential payroll forms. You have 20 calendar days from hire date to submit this form to the State. Make a copy of the form and keep it in the Employee's File.

A New Employee: Setting Up Payroll

Please note: Conservation District do not pay Federal Unemployment Taxes.

In order to set up payroll for a new employee, you will need the following information:

1. Your Conservation Districts Employer Identification Number (EIN)
2. Your State Tax ID
3. Social Security Number
4. Date of Birth
5. Hire date, Title, Program Area (i.e., Forestry, Operations, Etc)
6. Address, telephone number
7. Emergency Contact information
8. Rate of pay
9. Whether they are eligible for sick/vacation, holiday pay, etc.
10. Number of deductions (from W-4 & MI-W4)
11. Number of Allowances
12. Whether they have requested extra withholdings
13. Whether they are required to pay local taxes
14. Whether they have any garnishments, child support payments, or court-ordered restitution payments

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Federal & State Employee Tax Reports

Each employee completes a W-4 Form (Federal) and MIW-4 (State) when you hire them. The W-4 and MI W-4 determine at what rate their wages should be taxed. They chose the rate, you withdrawal the corresponding amount(s) per paycheck. **These funds are not yours and should never be seen as your asset. They are a liability, owed to the IRS/State of Michigan. You might “hold” them until they are due but they are never yours to use for expenses.** Your balance sheet should show taxes as liabilities: always take whatever amount you have in your bank account and subtract any liabilities owed to get a true reflection of your on-hand cash assets.

Whenever an employee has a change of circumstance (change in marital status, change of address, addition of a child, etc), they need to complete a new W-4 & MI W-4. It is the employee’s responsibility to request and complete a new form: it is your responsibility to track these changes accordingly.

Hint: Accounting software packages and payroll services must be updated with new information if your employee makes a change to the W-4 and/or MI W-4.

Once a Year Federal Employee Tax Reporting

At the end of the calendar year on or before January 31st of the next year, you are responsible to provide your employee with a W-2. A W-2 reports an employee’s total yearly gross wages, taxes, and social security and Medicaid withholdings. Your employee uses these forms (usually a four-part form – to file with the IRS, to file with the State, to file with the local taxing authority, and to keep one for their records) when filing tax returns.

As the employer, you are required to submit to the IRS a W-3 and copies of all W-2s issued to employees by February 28 of each year. The W-3 summarizes all of the data from all of the W-2’s you’ve issued to your employees. Keep a copy of each employee’s W-2 in their personnel file. Keep a copy of the W-3 (and copies of all W-2s) in your yearly tax reporting files. Forms W-4, W-3, and W-2 are available from the IRS website.

Accounting software packages can produce these forms for you. You will still need to remember to “push the button” by the due date. Payroll services will produce these reports for you and mail you, your employees, and the IRS copies for all forms by the due date.

Monthly Federal Employee Tax Payments

941 taxes are income tax withholdings, social security, and Medicaid taxes withheld from your employee’s paychecks plus the employer’s portion of the social security and Medicaid tax. Most employers today are required to pay 941 taxes on a monthly basis (usually by mid-month, following the end of the month). ALL employers are also required to pay taxes online at www.eftps.com. Confirm with the IRS how to pay your 941 taxes.

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From www.eftps.com, you will be required to both summarize your entire tax deposit (this is completed by Electronic Funds Transfer (EFTPS) from your bank account to the IRS) and itemize the subtotal deposit for withholdings, social security, and Medicaid – these must equal the total tax deposit reported. Hint: the EFTPS always “hits” the next day after you have filed and/or on a day you can specify. A recommendation is to at least file two days before the taxes are technically due. Do not forget to file on time!

Print two copies of the receipt www.eftps.com provide you after the transaction are complete. Keep one in a file called 941 Payments and another in a file of your monthly expenses. For example, May’s EFT payment is made on June 14th: file a copy of the receipt in June’s expense folder. Record the EFT transaction in your general ledger.

Quarterly Form 941 IRS Filing

Quarterly reports are due by the middle of the month following the end of a quarter [e.g., by April 30th, file the Quarterly report for January-March], you will need to provide the IRS with a summary report of your monthly tax filings performed through the www.eftps.com website. This is called the 941 Quarterly Tax Report.

Complete the report, use the receipts you filed in your 941 folder [if need be] for help, and mail the report to the IRS by the due date. Keep a copy of the Quarterly report in your folder called 941 Payments.

Accounting software packages can produce these forms for you. You will still need to remember to “push the button” by the due date. Payroll services will produce these reports for you and mail you and the IRS copies for all forms by the due dates.

Monthly State Employee Tax Reporting

As routine, most Conservation Districts report monthly sales and state withholding taxes due to the Michigan Department of Treasury by the 20th day of each month following a full month. For example, file by February 20th for the month of January. As an employer, you will also now need to file and pay your employee’s state withholding taxes monthly and in conjunction with the sales and state withholding taxes due on Form 160 (Combined Return for Michigan Taxes).

Payroll services automatically withhold State taxes from each paycheck they issue and automatically submit the proper forms to the State by the due date. (If you have a payroll service, then you will still need to pay and report sales taxes as you have always done.) Payroll services will mail you copies of these reports for your files.

Most accounting software packages do not automatically have State tax payment forms within them. If you want to produce State reports “at the push of a button”, then you will need to purchase an add-on from the accounting software company.

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You can get your forms from the State. Accounting software packages will deduct State tax payments from your employee's paychecks and track these totals. You complete the report by "pushing the button" that issues the check to the State of Michigan and you write in the total of the check onto Form 160. Mail Form 160 and the withholdings check to the State, along with another check issued for any sales and state withholding taxes owed. Keep copies of these filings in your monthly expense folders.

Once a Year State Employee Tax Reporting

By February 28th of each year, your Conservation District will need to file State Form 165 (Annual Return for Sales, Use and Withholding Taxes). This is a summary of all sales, use, and withholding taxes you have paid throughout the year.

If you have a payroll service, they will perform the withholding portion of this report for you and mail you copies for your records. (You will still need to submit Form 165 summarizing your yearly sales and use taxes paid.) If you have an add-on to your accounting software package, this report can be produced "at the push of a button". If you do not have the add-on, you can easily find the total withholding tax paid for the year from the completed W-3 (see Once a Year Federal Employee Tax Reporting above for more information) and/or from the copies of Form 160 you filed monthly.

Quarterly Form 1028 State Wage Detail & Tax Reports

Once you have obtained a State UIA Account Number (see "Establishing Your Conservation District as an Employer", above), the Unemployment Insurance Agency will send you a quarterly report to complete.

This form serves two functions for reporting. One function is to summarize the total gross wages paid during the quarter, itemizes each employee's gross wages, and allows you to add or delete employees from the list (as appropriate).

Payroll services and some accounting software packages will complete this automatically for you; and some accounting software packages will not. You will need to print a payroll summary from within your software package in order to obtain the quarterly totals and by employee.

The second function on the form 1028 is to figure the quarterly tax due for State Unemployment. This tax is your employer duty: these taxes are not deducted from employee's paychecks. You will pay a tax on each employee's wages, up to the maximum per employee of \$9,000/year. After you have paid the tax on the first \$9,000 of wages for each employee, all subsequent wages are listed as "excess wages" and not taxed. Note: the maximum was reduced to \$9,000/year beginning with the third quarter of 2015.

If you don't get it by the deadline, then obtain a copy at: <http://www.michigan.gov/uia>

Accounting software packages will track these taxes due and with a push of the button; you may cut a check for the proper taxes due to the State. You will still need to complete the form, copy and file it in your records, and mail the original to the State with the tax check.

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Payroll services or and outside accountants will complete this task for you and mail you copies for your files.

Critical Deadlines

January 31st –

Issue W-2s to all employees

February 28th –

File your Annual Return for Sales, Use, and Withholding Taxes with the Michigan Department of Treasury (and complete and submit W-3 & copies of the W-2s to the IRS)

Mid - month, every month –

Pay and file 941 tax reports

Pay and file your Combined Return (sales, use, and withholding) for Michigan Taxes with The Michigan Department of Treasury

Mid - month After End of Quarter –

File the paper copy of the Quarterly 941 Form with the IRS; File the Quarterly UIA 1028 with the UIA Wage Record Unit Pay (with the State of Michigan UIA)

1099's MISC

All 1099's are due out to subcontractors by Jan 31st for the previous year. You can print the numbers out of QuickBooks but you will need to pay for forms to print them.

You will need to have all subcontractors fill out a W9 which will give you the tax id number and the address to mail the 1099.

You will also need to send the IRS and the State of Michigan a copy for all 1099's filled out for that year by the due date of Feb 28th.

Other Taxes: Sales and Use Taxes

Several Conservation District Administrators/Executive Directors expressed interest in clarifying when to charge Sales or Use Taxes. The Michigan Department of Treasury has addressed this topic for Agricultural producing through rules, specifically, R 205.01 Specific Sales and Use Tax Rules. See Appendix 4 for the full text of Rule 205.01.

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SEGREGATION OF DUTIES

This is a serious issue in Conservation Districts. Typically, there is one person who performs the administrative functions in a District office. The District Board, therefore, must take an active role in District finances in order to provide a separation of duties.

The following is from a recent District audit report:

Condition: The Conservation District uses one person to perform all receipting, disbursements, payroll, posting to the general ledger, and reconciliation of the accounts. The Conservation District Board provides little oversight.

Criteria: Proper: Internal Controls are an integral component of an organization's management that provides reasonable assurance towards the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. It comprises the plans, methods, and procedures used to meet missions, goals, and objectives. It serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud.

One of the most important control activities of internal control is segregation of duties. The Standards for Internal Control defines segregation of duties as key duties and responsibilities needed to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

Recommendation: We recommend that the Conservation District Board establish procedures to segregate duties as much as possible. If duties cannot be segregated, then procedures need to be established to monitor and review work being performed by members of the board to provide management oversight.”

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INVENTORY ACCOUNTING

Inventory can be defined as assets held for sale in the normal course of business. Because Conservation District's funds are driven more by the delivery of services than sales, this section is directed more towards accounting for prepaid expenditures that are held in inventory accounts such as tree sales. Expenditures for inventories of materials and supplies may be considered expenditures when purchased or used. However, items that may be significant or material in cost to the organization may require additional accounting records to be kept for year-end reporting purposes.

There are two methods of accounting for inventories.

1. Periodic - a method in which inventory is adjusted to the proper balance at the end of the accounting period not when inventoriable merchandise is bought or sold. Throughout the period, all purchases of inventoriable merchandise are recorded in the purchases account, and ending inventory is determined by a physical count of merchandise on hand.
1. Perpetual - a method in which inventory is recorded in detail for each purchase and sale are maintained. This system provides a current record of inventory on hand and cost of goods sold to date.

A receipt **must be issued to each customer** purchasing trees from the District. For details, see the section of this manual, which describes this procedure on page 35. This is the method most Districts will find helpful for inventory control.

Issuing individual receipts for purchases enables the District to exercise control of revenues. Reconciling cash with receipts is an essential internal control measure, which discourages theft.

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CAPITAL ASSETS

Capital Assets

GASB Statement No. 34 defines capital assets as including land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure and all other tangible or intangible assets that are used in operations. The capital assets have initial useful lives extending beyond a single reporting period.

Infrastructure Assets

Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. Buildings, except those that are an ancillary part of a network of infrastructure assets, should not be considered infrastructure assets.

General Fixed Assets

General fixed assets are those capital assets of a governmental unit, which are necessary for the unit to perform its governmental function. These are capital assets normally acquired through funds other than enterprise and internal service funds. Examples of general fixed assets include the general government buildings, vehicles, office machines and equipment (computers, typewriters, adding machines, etc.), and office furniture.

Recording Process

It is essential that capital assets be recorded within the Conservation District general ledger. Detail subsidiary ledgers must support the amount in the general ledger. Infrastructure assets that are associated with a specific enterprise or internal services fund are recorded in the appropriate fund.

The recording of capital assets makes it possible to provide for protective custody and to fix responsibility for proper use and custody of such assets. It also permits proper disclosure on financial statements, for no financial report is complete without reflecting the capital assets of a Conservation District.

The first step in recording general fixed assets is a complete inventory, at least by the following classes:

- Land and improvements**
- Buildings and improvements**
- Machinery and equipment**
- Construction in progress**

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If desired, land and land improvements may be recorded separately, as may buildings and building improvements. Machinery and equipment may be further classified as office machines, office furniture, automobile, etc. Construction in progress is used until a construction project is completed, at which time the proper asset classification is increased and construction in progress eliminated.

Valuation of capital assets is at cost. Donations are recorded at their fair value at the time of receipt.

Once the capital assets are inventoried and valued by various classifications or groupings, they are ready for recording in the general ledger.

Subsidiary Records

Once general fixed assets are recorded in the general ledger, subsidiary records must be maintained for each item:

- Classification (land, building, equipment, etc.)
- Payment voucher number
- Date acquired
- Vendor
- Description (abbreviated)
- Cost
- Location (clerk, treasurer, etc.)
- Fund from which purchased
- Method of acquisition (purchase, gift, etc.)
- Estimated life
- Depreciation method
- Date, method, and authorization of disposition

At any time, the total of the individual costs must equal the amount recorded in the general ledger. Such a test must be made periodically (at least annually).

A periodic inventory (at least annually) must be made to ensure that all recorded items are on hand, and that all items on hand have been properly recorded.

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MONTHLY FINANCIAL REPORTS

Conservation Districts, the Administrator should provide monthly reports of financial activity to the members of the District Board.

Below is a list of the items to be contained in the monthly financial report to be presented to the board and the Treasurer will sign-off on reports:

1. Balance sheet, including bank account balances
2. Profit & Loss Statement and/or Profit & Loss by Class
3. Checking account reconciliation.
4. List of bills paid the previous month along with the expenditure line from which each was paid.
5. List of bills to be authorized by the board for payment along with the expenditure line from which each will be paid.
6. These financial reports must be completed monthly. This means that they must be done even if the monthly meeting is not held. It must also be done in the month when the annual meeting is held.
7. These financial *reports should reflect activity for the period required by the board. Otherwise it should reflect the entire calendar month* (example, October 1, through October 31,) *prior to the date of the monthly meeting*. For example the financial activity for the month of October should be reported at the November monthly meeting. *Do not report for part of a month or run part of two months together.*

The following financial reports shall be sent to MDARD as required by the Grant.

- Profit and loss by Class for Grants
- Invoices for requested dollar amounts

Send copies of the monthly meeting minutes and financial reports to the Grants mailbox MDA-ESD-Grants@michigan.gov at MDARD *and* to your MDARD Regional Coordinator.

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FISCAL YEAR BUDGET PROCESS FOR CONSERVATION DISTRICTS IN MICHIGAN

The key to sound fiscal health of governmental units is proper accounting, budgeting, and auditing of the local unit. These requirements for Michigan local units are contained in Public Act 2 of 1968, as amended, through Public Act 493 of 2000 (MCL 141.421, et al.), and in the Michigan Conservation District Uniform Accounting Procedures Manual, which state:

“The purpose of the Budget Act is to require that all local units of government in Michigan adopt balanced budgets, to establish responsibilities and define the procedure for the preparation, adoption and maintenance of the budget, and to require certain information for the budget process.”

“Local unit officials meet their campaign commitments and evidence their support of various public programs through the various priority assigned programs in the budgeting process. The only way elected board members can be assured that resources have actually been spent in accordance with their wishes, is through proper accounting and auditing of the [revenues and] expenditures of the local units.”

“The appropriations act indicates that the legislative body (the board) shall adopt the budget by passing a general appropriations act. In local units of government that do not normally adopt a general appropriations act, this can be accomplished by inclusion of wording in the budget adoption resolution indicating that the resolution is the general appropriations act.”

“[The budget process is used to] enhance taxpayers’ and elected board members’ ability to monitor and control expenditures of public monies, in accordance with their wishes. Hence, no expenditure of public monies can be made without an appropriations act passed by the board of directors. This is an expression of the wishes and priorities of elected board members to provide public services within the resources made available. The appropriations act is the final product of the budget cycle and is the key to controlling the finances of a local unit.”

The Budget Act requires an adopted budget (general appropriations act) prior to the beginning of a fiscal year.

Note: Above quotes are from the “Uniform Budget Manual for Local Units of Government,” by the Michigan Department of Treasury.

Definitions

Budget - A plan for financial operations for a given period of time, including an estimate of all proposed expenditures from the funds of a local unit and the proposed means of financing those expenditures.

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General Appropriations Act - The budget as adopted by the board.

Fiscal Year – The period used for calculating annual financial statements in governments. Conservation districts use the fiscal year period of October 1 – September 30.

Suggested Budget Time Line

May - The district manager begins gathering the prior year's budget and year-end financial reports.

June - The district manager updates all financial records for the current year in preparation to project revenues and expenditures to the end of the fiscal year.

July Board Meeting - At the July board meeting, the district manager shall provide a report to the board containing the following:

- Line item report showing revenue and expenditures through June 30th of the current fiscal year.
- Line item report of **projected** revenue and expenditures through September 30th of the current fiscal year.
- Actual line item revenue and expenditures for the previous fiscal year.
- A proposed line item budget for the upcoming fiscal year, based on the above information (please see the sample planning budget below).

The district manager and the board should begin to discuss and formulate the projected budget for the upcoming fiscal year, based on this information.

August Board Meeting - The district manager and the board should conclude budget discussions and tentatively approve a proposed budget for the upcoming fiscal year, to be formally approved at the September board meeting.

At least six days before the September board meeting, the conservation district must place a newspaper ad to invite the public to comment on the proposed budget prior to final passage by the board. During this time, the proposed budget should be available at the district office for public viewing.

September Board Meeting - The board should reserve part of their monthly meeting time to allow the public to comment on the proposed budget. After public comment has been heard, the board will vote to approve the proposed budget, which becomes the general appropriations act after approval.

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Example Announcement for Public Comment

The proposed budget of the Sample Conservation District for the fiscal year beginning October 1, 2016, will be presented to the District Board for final approval at the regular monthly meeting at 7:00 p.m., on September 15, 2016. The Public is invited to comment on the proposed budget at this time. Copies of the proposed budget are available at the District Office, located at 4200 Jones Rd., Agency, MI 48991.

Note: *The announcement must be published in the newspaper of record at least six days prior to the September board meeting. Copies of the proposed budget should be available at the district office, as soon as the notice is published.*

**Sample Conservation District
Budget Planning Worksheet 2016 - 2017**

	2014 -2015 Actual	2015 - 2016 Projected	2016 - 2017 Proposed
REVENUE (By source type) <i>Do not list individual grants. Do not list Activity numbers. All Revenue must be in one of the following categories.</i>			
State Funds	\$ 163,750.00	\$ 162,500.00	\$ 162,500.00
Federal Funds	\$ 265,250.00	\$ 152,500.00	\$ 107,500.00
Contributions from Local Units	\$ 55,500.00	\$ 47,500.00	\$ 45,000.00
Charges for Services	\$ 2,500.00	\$ 3,500.00	\$ 3,000.00
Interest and Rentals	\$ 480.00	\$ 750.00	\$ 650.00
Tree Sales	\$ 35,450.00	\$ 32,325.00	\$ 32,325.00
Other Revenue	\$ 500.00	\$ 2,750.00	\$ 2,400.00
Total Revenue	\$ 523,430.00	\$ 401,825.00	\$ 353,375.00
Expenditures (By Activity) <i>Use required activity numbers below and discretionary activity numbers for other activities. Include only those activities which apply to your District.</i>			
281 Operations	\$ 50,500.00	\$ 47,500.00	\$ 50,000.00
282 MAEAP Grant	\$ 67,500.00	\$ 65,000.00	\$ 65,000.00
283 Forestry Assistance Grant	\$ 65,000.00	\$ 65,000.00	\$ 65,000.00
285 River Restoration	\$ 69,000.00	\$ -	\$ -
287 Invasive Species Grant	\$ 150,000.00	\$ 75,000.00	\$ 50,000.00
290 Great Lakes Commission	\$ 15,000.00	\$ 15,000.00	\$ 25,000.00
294 Reforestation/Tree Sale	\$ 24,000.00	\$ 26,500.00	\$ 26,500.00
295 CTAI Grant	\$ 62,500.00	\$ 65,000.00	\$ 65,000.00
Total Expenditures	\$ 503,500.00	\$ 359,000.00	\$ 346,500.00
Budget Balance	\$ 19,930.00	\$ 42,825.00	\$ 6,875.00
Beginning Fund Balance (Required)	\$ 17,500.00	\$ 37,430.00	\$ 80,255.00
Ending Fund Balance (Required)	\$ 37,430.00	\$ 80,255.00	\$ 87,130.00

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Minimum Requirements for Budget

The minimum information requirements for a local unit of government’s recommended budget to be established include:

For prior fiscal years	The amount of accumulated surplus or deficit
For the most recently completed fiscal year	Actual revenue and expenditure data
For the current fiscal year	Estimated revenues and expenditures Estimated expected surplus or deficit
For the upcoming fiscal year	Estimated revenues (by revenue source) Estimated required expenditures Estimated amounts needed for deficiency Estimated contingent or emergency purposes Estimated expected surplus or deficit

Sample Conservation District Appropriations Act for Fiscal Year 2016-17

The *Sample* Conservation District Board resolves:

SECTION 1: Title --This resolution shall be known as the *Sample* Conservation District 2016 - 2017 General Appropriations Act.

SECTION 2: Public Hearing on the Budget--Pursuant to MCLA 141.412 and .413, notice of a public hearing on the proposed budget was published in a newspaper of general circulation on _____ (date) _____, and a public hearing on the proposed budget was held on _____ (date) _____.

SECTION 3: Adoption of Budget by Activity/Department--*Sample* Conservation District Board adopts the 2016 - 2017 fiscal year budgets for the various funds by activity/department. Conservation district officials responsible for the expenditures authorized in the budget may expend conservation district funds up to, but not to exceed, the total appropriation authorized for each activity/department.

SECTION 4: Transfers--Transfers may be made between budget line items appropriated, with the Treasurer’s approval. The allowed transfers will be submitted to the Board for approval at the next board meeting.

SECTION 5: Payment of Bills--All claims (invoices/bills) against the Conservation District shall be approved by the *Sample* Conservation District Board, prior to being paid; however, the Conservation District Manager and Treasurer may pay certain bills prior to approval by the Conservation District Board to avoid late penalties, service charges and interest (primarily utilities), and payroll, in accordance with the approved salaries and hourly rates adopted in this Appropriations Act. The Conservation District Board shall receive a list of claims (invoices/bills) which were paid prior to approval, for their approval at the next board meeting.

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SECTION 6: Authorized Salary, Hourly and Per Diem rates--Included in the various activities/departments are amounts of the salary, hourly and per diem rates for the officials and employees of the conservation district as follows:

- Per Diem—Conservation District Board
- District Manager
- Technician
- Resource Professionals
- Program Assistant

SECTION 7: Estimated Revenues and Expenditures--Estimated total revenues and expenditures for the various funds of Sample Conservation District are:

FUND	REVENUE	EXPENDITURES
General	\$353,375	\$346,500

SECTION 8: Periodic Financial Reports--The Conservation District Manager shall provide a report of fiscal year-to-date revenues and expenditures, compared to the budgeted amounts in the various funds of the Conservation District to the Board at their monthly Board meeting.

SECTION 9: Budget Monitoring--Whenever it appears to the District Manager or the Conservation District Board that the actual and probable revenues in any fund will be less than the estimated revenues upon which appropriations from the fund were based, and when it appears that expenditures will exceed an appropriation, the District Manager shall present recommendations to prevent expenditures from exceeding available revenues or appropriations for the fiscal year, to the Conservation District Board. These recommendations shall include proposals for reducing appropriations (expenditures), or increasing revenues, or both.

SECTION 10: Board Adoption-- Motion made by _____ and seconded by _____ to adopt the forgoing resolution and General Appropriations Act. Upon roll call vote, the following voted aye: _____

The following voted nay: _____

The Chairperson declared the motion carried and the resolution adopted on the _____ day of _____, 2016.

_____, Chairperson

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	2016 - 2017 Appropriated Budget
REVENUE (By source type) <i>Do not list individual grants. Do not list Activity numbers. All Revenue must be in one of the following categories.</i>	
State Funds	\$ 162,500.00
Federal Funds	\$ 107,500.00
Contributions from Local Units	\$ 45,000.00
Charges for Services	\$ 3,000.00
Interest and Rentals	\$ 650.00
Tree Sales	\$ 32,325.00
Other Revenue	\$ 2,400.00
Total Revenue	\$ 353,375.00
Expenditures (By Activity) <i>Use required activity numbers below and discretionary activity numbers for other activities. Include only those activities which apply to your District.</i>	
281 Operations	\$ 50,000.00
282 MAEAP Grant	\$ 65,000.00
283 Forestry Assistance Grant	\$ 65,000.00
285 River Restoration	\$ -
287 Invasive Species Grant	\$ 50,000.00
290 Great Lakes Commission	\$ 25,000.00
294 Reforestation/Tree Sale	\$ 26,500.00
295 CTAI Grant	\$ 65,000.00
Total Expenditures	\$ 346,500.00
Budget Balance	\$ 6,875.00
Beginning Fund Balance (Required)	\$ 80,255.00
Ending Fund Balance (Required)	\$ 87,130.00

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Minimum Requirements for General Appropriations Act

The minimum information requirements to be established for a local unit of government's general appropriations act include:

For the ensuing fiscal year	Estimate of expected beginning surplus or deficit Estimate of revenues (by revenue source) Estimate of required expenditures Estimate of amounts needed for deficiency Estimate for contingent or emergency purposes Estimated ending surplus or deficit
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Amendments and Transfers to the General Appropriations Act

Amendments

The board must amend the general appropriations act, as soon as a deviation is apparent. The amendment must be approved by the board, prior to the expenditure being made (see example below).

The treasurer may recommend, but the board needs to approve, any required amendments to the general appropriations act.

Amendments to the general appropriations act must not cause estimated total expenditures, including an accrued deficit, to exceed total estimated revenues, including an available surplus.

For local units that do not normally adopt a separate general appropriations act, the approved budget which serves as the general appropriations act, will need to be amended per the guidelines listed above.

Transfers

The board may permit the treasurer to execute transfers within limits, between appropriations. Allowing such transfers might eliminate the necessity for numerous amendments for miscellaneous and insignificant amounts.

If the board allows these types of transfers, the permission and limits must be indicated in the general appropriations act. The allowed transfers must be submitted to the board for approval at the next board meeting.

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Hints & Tips

- The Budget Act requires an approved budget (general appropriations act) prior to the beginning of the fiscal year.
- Public notice, before the budget hearing at the board meeting, is required.
- The budget is the plan for financial operations. The appropriations act is the budget as approved by the board of directors. As such, your budget may have more detail than the appropriations act.

Amendment Example – If your watershed program goes over budget due to increased project cost, and you are able to increase funding to cover it, you still need to amend the appropriations act prior to spending above the board approved amount.

Q: If a grant comes from the state, but is federally funded, does it belong in the federal or state revenue?

A: Check the budget section of the grant for details on funding, or ask your auditor.

Q: Where do I find my fund balance?

A: The beginning fund balance is the remaining revenue at the end of the previous fiscal year; total revenue, minus total expense.

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GAAS Audits are required by MDARD every other year.

On the off-year, you should do a Self-Review.

SEE APPENDIX 2: Self Review Procedures for FY

List of Questions before hiring Auditor

- Do you have experience with grant funded organizations like conservation districts?
- Can you provide references of similar size organizations?
- Who from your company will actually be doing the work?
- Can I call for questions throughout the year? What level of support should I expect?
- Do you work with Quickbooks? Online?
- How many hours do you anticipate working in my office – vs. remotely?
- What is the cost?
- Would you be interested in completing our off year financial review, and at what cost?
- Are you willing to present to the Board of Directors?
- Will you complete the journal entries for depreciation, employee leave liability, etc.
- What time frame would you want to complete the audit?

PREPARING FOR THE AUDIT

The following are examples of records the auditor may ask the District Conservation personnel to prepare prior to the start of the audit process. The records requested depend on the types of records maintained by the Conservation District.

Copies of the following records that the auditors will keep: (If applicable)

1. District **bank statements and bank reconciliation**, savings accounts, certificate of deposits, pooled funds, other investment accounts, etc. and the Conservation District's pre-closing trial balance (includes revenues, expenditures, and all adjustments) **at fiscal year-end**. If the face of the statement does not include the name of all funds in the bank account, the name of all funds in the bank account should be listed on the face of the statement for audit purposes.
2. Annual Reports of the District Conservation for fiscal year to be audited and the previous fiscal year.
3. **Board Minutes** (For October - to date of audit fieldwork). Also, board minutes approving restriction of assets, investment policy, and credit card policy (required by law even if the conservation district currently does not have investments and/or credit cards).
4. **List of all debt as of year-end**. Include all amortization schedules and agreements regarding bonds and notes payable, land contracts, installment purchases, lease-purchases etc.
5. **Summary of Changes in Fixed Assets and Detailed fixed assets** report at year-end. **Depreciation schedule**. Note: Detailed fixed assets report must agree with General Fixed Assets Account Group control accounts per the general ledger and distribution report.

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6. Detailed **list of equipment and other fixed assets additions** for the audit year, indicating purchase date, description and cost. Note: Total must agree with amounts recorded in capital outlay accounts in the General Fund and possibly some special revenue funds.
7. Detailed **list of equipment and other fixed assets disposed** of during the audit year (sold, junked, traded, etc.). Should also show salvage value, if any.
8. **Union contracts** in effect during the audit period. (If applicable)
9. New working agreements and/or **contracts for non-union personnel**. Post employment benefits for health care and life insurance.
10. **Summary of federal and state aid received**. Include copies of contract pages showing funding type, catalogue of federal domestic assistance (CFDA) number, audit requirements (if any) and budget breakdown for grants.
11. Summary of **accrued and vested vacation and sick leave** at year-end.
12. Latest **actuarial report** (e.g. MERS) for pension plan. Board minutes or plan documents showing requirement to contribute to any type of retirement plan.
13. **Organization chart**
14. **Chart of accounts**
15. **Original Budget and Final Amended Budget**
16. **Certificates of insurance** and declaration page for general liability, workers compensation, property, casualty, etc. for audit period and current.
17. **Accounts Receivable list** at year-end. Note: Next to each account balance indicate receipt numbers and dates received. For accounts not paid promptly (within 60 days of year-end) include a brief explanation.
18. **Accounts Payable** (List by vendor, invoice number and date, and amount. Open Invoice Report for example. Also include Accounts Payable Proposed Payment Listing or disbursements register for the month after the end of the fiscal year.)
19. **Accrued Payroll** – Supporting work-paper for accrued payroll indicating dates covered by accrued payroll and the date of the payroll the accrued wages were paid on.
20. **Payroll 941 reports** that include the period from October to September and **copies of all payments made for each report to the IRS, State, and City**.
21. **Last audit report** of the Conservation District
22. **Prior year audit adjusting journal entries**.

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**NUMBERED LETTERS FROM THE MICHIGAN DEPARTMENT OF
TREASURY**

Numbered Letter 2002-7
Independence Standards

DATE: October 7, 2002
TO: CPAs, City, Villages, Townships and Counties
FROM: Richard L. Baldermann, CPA, CGFM
Administrator, Local Audit and Finance Division

Subject: New GAO Independence Standards versus AICPA Independence Standards

The required audit standards that must be followed to satisfy the requirements of Act 2 PA 1968, as amended, are stated in section 7 of the act.

Sec. 7 (1) The state treasurer shall prescribe minimum auditing procedures and standards and these shall conform as nearly as practicable to generally accepted auditing standards established by the American Institute of Certified Public Accountants.

The required audit standards that must be followed to satisfy the requirements of audits of Federal financial assistance are contained in Government Auditing Standards (Yellow Book) issued by the United States General Accounting Office (GAO). The independence standards in the Yellow Book are currently more restrictive than the AICPA independence standards, particularly as they relate to the provision of audit and non-audit services.

Examples:

A local CPA in a rural area (or any other area) of Michigan provides bookkeeping as well as audit services for nearby township, city or village governments.

- If the local government does NOT receive federal financial assistance or receives less than the threshold amount requiring a single audit, the CPA may follow the AICPA audit standards and may continue to provide both services. The audit will satisfy the requirements of Act 2 PA 1968, as amended.
- If the local government receives more than the threshold amount requiring a single audit, the CPA must comply with GAO's Government Audit Standards. Under the new independence rules, the CPA could no longer provide non audit services as defined by GAO. The CPA and/or local government will have to make a choice as to which of these services the CPA will continue to provide. The remaining services will need to be provided by another CPA firm (audit services) or other vendor (non-audit services).

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POLICIES AND PROCEDURES

Management is responsible for establishing and maintaining a system of internal controls over the accounting procedures as well as over all assets belonging to the Conservation District. Management is defined here as the District Board and the District Administrator/Executive Director. Internal controls are policies and procedures designed to provide reasonable assurance that assets are safeguarded against unauthorized use and disposition.

The Conservation District management is responsible for the overall organizational structure. The District Board should establish policies to provide the framework for planning, directing, and controlling operations to achieve its objectives. Policies lay out guidelines that new employees and board members can readily acquaint themselves with and can ensure uniform and consistent answers and treatment of procedures.

Policies need to be adopted by the Conservation District Board at board meetings. **It is recommended that a formal policy book be developed and maintained by the Conservation District.** For easy reference, policies should be indexed, categorized, and numbered in some logical manner that will allow for easy retrieval. An annual review of the policies should be performed by the Conservation District Board and staff, and as needed, updated in the form of amendments. A good time for this review is the beginning of the budget cycle process in July.

The following are examples of recommended policies and procedures that the Conservation District may adopt. **The policies and procedures should include, but not be limited to, the borrowing of Conservation District inventory, closed meetings, credit/debit cards, investment policy, purchasing policy, freedom of information, gifts to and from the Conservation District, conflict of interest, open meetings act, petty/imprest cash, signing of documents, drug-free workplace, smoke-free workplace, travel reimbursement, safety, and personal use of District vehicles**

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CREDIT CARD POLICY

A Conservation District must adopt a credit card policy in accordance with Public Act 266 of 1995 by **resolution**. This is necessary even if the district does not have a credit card. The act calls for a **written policy** that provides all of the following:

- a.) A named officer or employee is responsible for the issuance, accounting, monitoring, and retrieval and generally for overseeing compliance with the credit card policy.
- b.) That the credit card may be used only by an officer or employee for the purchase of goods or services for the official business of the Conservation District (local unit).
- c.) The officer or employee using the credit card must submit documentation detailing the goods or services purchased, cost, date of the purchase, and the official business.
- d.) The officer or employee issued the card is responsible for its protection and custody and shall immediately notify the Conservation District if the card is lost or stolen.
- e.) The officer or employee must immediately surrender the card upon termination.
- f.) For a system of internal controls to monitor the use of the credit card.
- g.) Approval of credit card invoices **before** payment.
- h.) That the balance including interest due on an extension of credit under the credit card arrangement shall be paid for not more than 60 days of the initial statement date. The Conservation District shall comply with this provision of the credit card policy.
- i.) The policy must provide for disciplinary measures consistent with law for unauthorized use.
- j.) Any other matters the governing body considers advisable.

The total combined authorized credit limit of all credit cards issued by a Conservation District shall not exceed 5% of the total budget of the Conservation District for the current fiscal year. The Conservation District may include in its budget the authorization to pay the balance due on any credit cards including the annual fee and interest.

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EXAMPLE FORMAT FOR POLICIES

Example Policy No. _____

_____ CONSERVATION DISTRICT BOARD

SUBJECT: CREDIT CARDS

ADOPTED BY THE BOARD OF THE _____ DISTRICT ON: _____

The following policy shall govern the use of Conservation District credit cards per Public Act 266 of 1995:

1. The Executive Director/Administrator and Board Treasurer are responsible for issuing, accounting for, monitoring, retrieving, and generally overseeing compliance with the board's credit card policy.
2. Board credit cards may be used only by an employee of the District for purchase of goods or services for the official business of the District.
3. District employees who use a District credit card shall, as soon as possible, submit a copy of the vendor's credit card slip to the Administrator. If no credit card slip was obtained, the employee shall submit a signed voucher that shows the name of the vendor or entity from which goods or services were purchased, the date and the amount of the transaction, the official business that required the transaction, and a statement of why a credit card slip was not obtained. All credit card slips shall include this information.
4. An employee who is issued a credit card is responsible for its protection and custody. If a credit card is lost or stolen, the Administrator and Board Treasurer shall be notified. The entity issuing the lost or stolen credit card shall be immediately notified to cancel the card.
5. An employee who is issued a credit card shall return the credit card to the Board Treasurer upon termination of his or her employment or service with the District.
6. The Administrator shall maintain a list of all credit cards owned by the Board, along with the name of the employee who has been issued the credit card, the limit established, the date issued, and the date returned. Each employee shall initial the list beside his or her name to indicate agreement that the credit card has been issued, and that the employee has received and read a copy of this policy.
7. The Administrator shall review each credit card statement as soon as possible to ensure that the transactions comply with this policy. Any transactions that appear on statements that are not documented with a credit card slip or a signed voucher shall be immediately investigated. Transactions that do not appear to comply with this policy shall be reported to the Board.

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8. The Board shall not approve a payment to the entity issuing the credit cards until all transactions have been verified, including the approval of all transaction invoices if issued.
9. The balance, including interest due on an extension of credit under the credit card arrangement shall be paid for within not more than 60 days of the initial statement date.
10. Employees who use a District credit card in a manner contrary to this policy shall be subject to any or all of the following disciplinary actions, as deemed appropriate by the Board:
 - Verbal counseling
 - Written reprimand
 - Reimbursement to the Board for unauthorized expenditures
 - Suspension
 - Termination

A credit card shall be issued in the name of _____ Conservation District with a limit of \$_____ on each card. Use by any other employee is prohibited without the express written consent of the Administrator.

Chairperson

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Example Policy No. _____

BOARD OF CONSERVATION DISTRICT DIRECTORS FOR _____ DISTRICT

SUBJECT: BUDGET APPROPRIATIONS ACT

ADOPTED BY THE _____ DISTRICT BOARD ON: _____

The Board of Directors will comply with Public Act 621 of 1978 as amended and adopt a General Appropriations Act Budget annually and designate the Board Treasurer for the year along with allowances for transfer of budget line items.

Chairperson

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Example Policy No. _____

BOARD OF CONSERVATION DISTRICT DIRECTORS FOR _____ DISTRICT

ADOPTED BY THE _____ DISTRICT BOARD ON: _____

SUBJECT: INVESTMENTS

It is the policy of the _____ Conservation District to invest its funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow needs of the Conservation District and comply with all state statutes governing the investment of public funds.

This investment policy applies to all financial assets of the Conservation District. These assets are accounted for in the various funds of the District and include the general fund, debt service funds, and any other funds established by the District.

The primary objectives, in priority order, of the District's investment activities shall be:

- **Safety**—safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio.
- **Diversification**—the investments will be diversified by security type and institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
- **Liquidity**—the investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.
- **Return on Investment**—the investment portfolio shall be designed with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

The _____ is designated as the investment officer of the District _____ and is responsible for carrying out investment decisions and activities as well as instructing the Board to invest excess District funds. The investment of surplus funds shall be as follows:

- In bonds, securities, and other obligation of the United States or an agency or instrumentality of the United States.
- In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
- In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase.
- In United States government or federal agency obligation repurchase agreements consisting of bonds, securities, and other obligations of the United States.
- In bankers' acceptances of United States banks.
- In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.

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The investment officer shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. The investment officer shall disclose to the public any material financial interests in financial institutions that conduct business within the county and they shall further disclose any large personal financial/investment positions that could be related to the performance of the District's portfolio. The investment officer shall subordinate their personal investment transactions to those of the District particularly with regard to the timing of purchases and sales.

The investment officer will routinely monitor the contents of the portfolio, the available markets, and the relative values of competing instruments, and will adjust the portfolio accordingly.

All security transactions shall be held by the _____ District and evidenced by safekeeping receipt.

The investment officer shall produce quarterly reports for the Board, listing by fund each investment within the fund. The report shall show the amount of investment, the institution, maturity date, and interest rate. A summary of all investments shall be shown at the end of each report, listed by institution and type of investment. A yearly report to the Board shall be provided as required by law.

Chairperson

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ANNUAL AUDITS

The audit of the Conservation District should be made in accordance with *auditing standards generally accepted* in the United States of America as approved and adopted by the membership of the American Institute of Certified Public Accountants (AICPA) in its Statements on Auditing Standards. However, if the Conservation District requires a single audit (federal aid received which is over \$500,000), the financial records must be audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, (GAS) issued by the Comptroller General of the United States. (Yellow Book)

In most cases the audit will be performed under AICPA standards depending on the amount of federal aid received. Government Auditing Standards issued by the Comptroller General of the United States involves a financial and compliance audit. The example financial statements that follow are presented for an audit performed under AICPA standards.

REPORTING FORMAT GASB # 34

In addition to the pre-GASB # 34 requirements, districts must comply with the following:

GENERAL DESCRIPTION

GASB Statement No. 34 requires that governments present certain financial statements as well as a management's discussion and analysis (MD&A) and certain other required supplementary information (RSI). See the following page from the Michigan Department of Treasury web site for instructions on how to write the management discussion and analysis.

http://www.michigan.gov/documents/unifrepformatgasb34_47528_7.PDF

The basic financial statements are broken down into the following components:

Government-Wide Financial Statements

The governmental-wide financial statements report information for the government as a whole, except for its fiduciary activities. These financial statements use the economic resources/accrual measurement focus and basis of accounting and include transactions and balances relating to all assets and liabilities, including long-term capital assets (including infrastructure) and liabilities.

Fund Financial Statements

The fund financial statements report information for the government's governmental, proprietary and fiduciary funds. These financial statements use different measurement focus and basis of

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accounting depending upon the fund category (i.e. governmental funds use the current financial resources/modified accrual measurement focus and basis of accounting, proprietary and fiduciary funds use the economic resources/accrual measurement focus and basis of accounting.

The reporting format of the fund financial statements is similar to the reporting format prior to implementation of GASB Statement No. 34.

GASB Statement No. 34 is effective in three (3) phases for the following dates based on the total annual revenues (excluding other financing sources) of the primary government. For Local/District Health Departments that are considered either “funds” or “component units” of a County or City, the effective date would be the same as the County or City.

<u>Phase</u>	<u>Total Annual Revenues in The First Fiscal Year Ending After June 15, 1999</u>	<u>Implementation for Periods Beginning After June 15,</u>
1	\$100 million	2001
2	\$10 million < \$100 million	2002
3	\$10 million	2003

Therefore, Districts must now comply with GASB #34.

The following provides a description of each component of the required reporting information including sample financial statements.

Management Discussion and Analysis (MD&A)

This report must be completed by the Administrator/Executive Director and given to the CPA firm as part of the GAAS audit. The writing of this report requires some introspection and analysis.

The MD&A gives an objective and easily readable analysis of a government’s financial activities based on currently known facts, decisions, or conditions. It presents short and long-term analyses of the government’s activities, compares current-year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Some of the minimum requirements for the MD&A are as follows.

1. A brief discussion of the basic financial statements, including how they relate to each other and the significant differences in the information they provide.
2. Condensed current and prior year financial information from the government-wide financial statements with a comparative analysis that discusses reasons for significant interperiod changes and economic factors that significantly affected current year operations.
3. An analysis of individual fund financial information, including the reasons for significant changes in fund balances (or net assets) and whether limitations significantly affect the future use of fund resources.

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4. An analysis of significant variations between original and final budget amounts and between final budget amounts and actual results for the general fund.

Government-Wide Financial Statements

These statements are to be prepared by the Administrator/Executive Director and given to the CPA firm as part of the GAAS audit.

The two (2) basic government-wide financial statements are described as follows.

STATEMENT OF NET ASSETS

The statement of net assets presents the government’s financial position at a point of time (like a balance sheet does). This statement reports all capital assets (including related accumulated depreciation) and all current and long-term liabilities as this financial statement is presented on the economic resources/accrual measurement focus and basis of accounting. Net assets are broken down between amounts related to capital assets (net of related debt) and restricted and unrestricted amounts. A separate statement of net assets is presented for the total of “governmental “and “business-type “activities. Business-type activities generally represent activities that have been reported as proprietary fund activities.

The following pages provide a sample statement of net assets.

Sample Conservation District

STATEMENT OF NET ASSETS

September 30, -----
 —

	<u>Governmental Activities</u>	<u>Business Activities</u>	<u>Total</u>
ASSETS			
Cash	\$XXXXX	\$XXXXX	\$XXXXX
Accounts receivable	XXXXX	XXXXX	XXXXX
Due from other governmental units			
Federal/State	XXXXX	XXXXX	XXXXX
Local	XXXXX	XXXXX	XXXXX
Inventory	XXXXX	XXXXX	XXXXX
Prepaid expenses	XXXXX	XXXXX	XXXXX
Capital assets (net of accumulated depreciation)	<u>XXXXX</u>	<u>XXXXX</u>	<u>XXXXX</u>
TOTAL ASSETS	<u>XXXXXX</u>	<u>XXXXXX</u>	<u>XXXXXX</u>

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LIABILITIES

Accounts payable	XXXXX	XXXXX	XXXXX
Accrued wages payable	XXXXX	XXXXX	XXXXX
Other accrued liabilities	XXXXX	XXXXX	XXXXX
Due to other governmental units			
Federal/State	XXXXX	XXXXX	XXXXX
Local	XXXXX	XXXXX	XXXXX
Deferred revenue	XXXXX	XXXXX	XXXXX
Advances from State	XXXXX	XXXXX	XXXXX
Long-term liabilities payable within one year			
Compensated absences	XXXXX	-	XXXXX
Notes, capital leases and contracts	XXXXX	-	XXXXX
Long-term liabilities payable after one year			
Compensated absences	XXXXX	-	XXXXX
Notes, capital leases and contracts	XXXXX	XXXXX	XXXXX
TOTAL LIABILITIES	XXXXX	XXXXX	XXXXX

NET ASSETS

Invested in capital assets (net of related debt)	XXXXX	XXXXX	XXXXX
Restricted for			
Grant activities	XXXXX	-	XXXXX
Unrestricted	<u>XXXXX</u>	<u>XXXXX</u>	<u>XXXXX</u>
TOTAL NET ASSETS	<u>\$XXXXX</u>	<u>\$XXXXX</u>	<u>\$XXXXX</u>

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STATEMENT OF ACTIVITIES

The statement of activities presents the government's activities during a period (like an operating statement does). This statement reports all expenses related to program operations (including depreciation expense allocated to the various program activities) as this financial statement is presented on the economic resources/accrual measurement focus and basis of accounting. Expenses are broken down between the "governmental activities" and the "business-type activities" and into program components within these activities along with reporting the revenues related to each of the program components. Conservation District Business-type activities relate to sales of trees, native plants and other conservation "products".

The following provide a sample statement of activities.

Sample Conservation District

STATEMENT OF ACTIVITIES

For the Year Ended September 30, ----

Program Revenues and Changes In Net Assets	Net (Expenses) Revenue					
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	
Governmental Activities						
Operations	\$xxxxx	\$xxxxxx	\$xxxxxx	\$xxxxxx	\$ -	\$xxxxxx
MAEAP	xxxxxx	xxxxxx	xxxxxx	xxxxxx	-	xxxxxx
Private Lands Tech. Assis.	xxxxxx	xxxxxx	xxxxxx	xxxxxx	-	xxxxxx
Other	xxxxxx	xxxxxx	xxxxxx	xxxxxx	-	xxxxxx
Interest on long-term debt	<u>xxxxxx</u>	<u>xxxxxx</u>	<u>xxxxxx</u>	<u>xxxxxx</u>	<u>-</u>	<u>xxxxxx</u>
Total governmental Activities	xxxxxx	xxxxxx	xxxxxx	xxxxxx	-	xxxxxx
Business-type Activities	<u>xxxxxx</u>	<u>xxxxxx</u>	<u>xxxxxx</u>	<u>xxxxxx</u>	<u>xxxxxx</u>	<u>xxxxxx</u>
Total activities	<u>\$xxxxxx</u>	<u>\$xxxxxx</u>	<u>\$xxxxxx</u>	xxxxxx	xxxxxx	xxxxxx
General revenues						
County appropriations				xxxxxx	-	xxxxxx
Interest and rents				xxxxxx	-	xxxxxx
Other revenue				<u>xxxxxx</u>	<u>-</u>	<u>xxxxxx</u>
Total general revenues				<u>xxxxxx</u>	<u>-</u>	<u>xxxxxx</u>
CHANGE IN NET ASSETS				xxxxxx	xxxxxx	xxxxxx
Net assets, beginning of year				<u>xxxxxx</u>	<u>xxxxxx</u>	<u>xxxxxx</u>

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APPENDIX 1

How to name/title your files when submitting reports to MDARD at MDA-ESD-Grants@michigan.gov.

You must cc: your regional coordinator on all reports. Your regional coordinator is the first step in approving grant payments.

Title your reporting email specific to the grant program:

<i>GrantDistrict</i> Minutes	<i>GrantDistrict</i> Forestry (or FAP)
<i>GrantDistrict</i> Election	<i>GrantDistrict</i> Hunting Access (or HAP)
<i>GrantDistrict</i> CleanSweep	<i>GrantDistrict</i> MAEAP
<i>GrantDistrict</i> CTAI	<i>GrantDistrict</i> Phos Init
<i>GrantDistrict</i> Farm Bill Biologist (or FBB)	<i>GrantDistrict</i> WLEB MAEAP

MDARD receives a large volume of emailed reports. If you title your email as per the examples above, this will help give credit to the correct grant and approve payments more efficiently. **Be sure technicians use the naming feature above as well.** Incorrectly named email may not be credited to the correct grant or district.

Title your reporting attachments specific to the grant program:

<i>GrantDistrict</i> CTAI Invoice 3-2015	<i>GrantDistrict</i> CTAI P&L 3-2015
<i>GrantDistrict</i> MAEAP Invoice 6-2015	<i>GrantDistrict</i> MAEAP P&L 6-2015
<i>GrantDistrict</i> Audit 2015	<i>GrantDistrict</i> Minutes April 2015
<i>GrantDistrict</i> FAP P&L 6-2015	<i>GrantDistrict</i> Phos Init Invoice 9-2015

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APPENDIX 2:

Self-Review Procedures for the Fiscal Year (FY)

The following are recommended for a self-review:

1. Balance sheet for the FY of Self-review
2. Profit and Loss Budget vs. Actual Report for the FY,
3. Class repost for all Federally Funded and MDA Grants funded by the State. Restricted funds for the FY
4. Profit and Loss report Prev Year Comparison, and a P & L by class collapsed.
5. Report for A/R Aging Detail and an A/ P Aging Detail for the FY you are in.
6. Put a copy of all payroll reports with this for the year to so you filed them timely and paid what was due.
7. List of any Vacations or sick carry over with the adjustment in your accounting systems.
8. Copies of Meeting minutes showing details of budget changes and board approval.
9. Revised Final Appropriations Act
10. Proof of general liability insurance, workers Compensation insurance and bonding or employee wrong-doing insurance for the entire FY.
11. Verification that end adjustments to the accounting software have been performed by a licensed accountant.

This is a list of Self-Review procedures developed by MDARD. **While MDARD does not want you to submit these forms to them now**, this would be a good thing to do when you do not have an audit year to make sure everything is on track.

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APPENDIX 3:

Additional information on 1099 Forms

Here is some information from the State of Michigan Financial Management Guide (FMG) Part V, Chapter 2, Section 100 which shows what is included on the 1099 miscellaneous and briefly explains who gets a 1099. Basically anyone that provides a service and is not an employee reports income in Box 7. All independent contractors and service providers get a 1099.

The most common payments reported on form 1099-MISC include the following:

- Box 1: Rents
 - a) Office space
 - b) Land
 - c) Equipment

- Box 3: Other income of \$600 or more
 - a) Prizes and awards
 - b) Payments to beneficiaries of deceased employees

- Box 4: Federal Income Tax Withheld (backup withholding)

- Box 6: Medical and health care payments, even if incorporated

- Box 7: Nonemployee compensation of \$600 or more
 - a) Payment for services, including parts and materials that are incidental to providing the service
 - b) Independent contractors

- Box 14: Gross proceeds of \$600 or more paid to an attorney, even if incorporated

See table below also from the FMG

See this link for list of Object codes which helps determine what types of payments are reported in what box on the form. The ones with the M are MISC:

http://connect.michigan.gov/portal/binary/com.epicentric.contentmanagement.servlet.ContentDeliveryServlet/Budget/OFM/Policies_and_Procedures/Financial_Management_Guide/PART_V_TAX_REPORTING/Ch02/Section_100_1099_Reporting_Exhibit_A_1099_Reportable_Compptroller_Objects.pdf

More examples of form 1099 MISC tax form instructions are at
<http://www.irs.gov/pub/irs-pdf/i1099misc.pdf>

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APPENDIX 4

SPECIFIC SALES AND USE TAX RULES

R 205.51 Agricultural producing.

Rule 1. (1) For the purpose of this rule, "agricultural producing" means the commercial production, for sale, of crops, livestock, poultry, and other products by persons regularly engaged in business as farmers, nurserymen, or agriculturists.

(2) Sales of tangible personal property are subject to the sales or use tax under this rule, if the sales are to persons other than those specified in subrule (1), or if the sales are made to persons specified in subrule (1), but the property is used or consumed by those persons for a purpose other than the commercial production of agricultural products for sale.

(3) Sales to farmers of fuel, clothing, and all other tangible personal property for personal living or human consumption or use are taxable. Sales of tangible personal property to all persons are taxable when the property is used in producing food or other products for personal consumption and not for sale.

(4) All sales to persons using land, but not included in the definition of "agricultural producing" in subrule (1), are taxable. For example, a mowing machine is taxable when sold to the operator of a riding stable for use in cutting hay to be fed to the operator's riding horses. The sale of the machine is exempt, however, if made to a person regularly engaged in business as a farmer for use in cutting hay to be fed to the farmer's work horses or cattle.

(5) Sales of the following are exempt only when used in "agricultural producing" as defined in subrule (1):

(a) Seeds and other propagative portions of plants.

(b) Fertilizer and similar substances for improving quality of the soil.

(c) Spray materials for insecticides, germicides, and fungicides.

(d) Livestock, poultry, their feeds, and foodstuffs, including salt, bone meal, cod liver oil, limestone, grit, oyster shell, and other similar substances used to sustain animals or poultry.

(e) Sacks, wrappers, and other nonreturnable containers resold with crops; also, binding twine and baling wire.

(f) Machinery, tools, other equipment, repair parts, motor fuel, oil, grease, and other tangible personal property necessary for their operation and maintenance, except that sales of such equipment are taxable under the following circumstances:

(i) If the equipment is to be attached to and becomes a part of real estate.

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(ii) If a motor vehicle is used on a public highway and is required by the motor vehicle law to have registration license plates.

(iii) Gasoline, oil, tires, and parts for a motor vehicle specified in paragraph (ii).

(g) Electricity or gas used directly in producing agricultural products. When a separate meter is not installed for recording exempt electrical use, an allocation for exemption may be utilized if the total electrical consumption exceeds 1,500 kwh per month, or 2,500 kwh per month for homes with electric heat during the months of November to March. (See R 205.115)

(6) Sales of all tangible personal property used to improve real estate, or attached to and becoming a structural part of real estate, are taxable. Sales of tangible personal property consumed or used in the construction, alteration, repair, or maintenance of houses, barns, water supply systems, fences, drains, and all other structures and appurtenances forming a part of real estate are taxable. Readily movable equipment, such as portable hog houses and feeding troughs, is not considered a part of real estate and is not taxable if used in commercial agricultural producing. Sales of tangible personal property used in clearing land of trees, stumps, and rocks or used in ditching, tiling, or otherwise improving real estate are taxable.

(7) Sales of seed, fertilizer, equipment, and all other tangible personal property to anyone for use on homes or other noncommercial gardens, lawns, parks, boulevards, and golf courses or for use by landscape gardeners are taxable.

(8) Every person, including farmers, nurserymen, and agriculturists, who sells tangible personal property, other than food at retail, to persons for consumption or use, and not for resale, shall obtain a sales tax license and pay the tax to the state on the entire gross proceeds from those sales. It is immaterial whether the retail sales are made at the place of production, a roadside stand, a market, from a vehicle, or elsewhere.

(9) A retail sale of tangible personal property used for agricultural production may be deducted from gross proceeds before computation of the tax if, at the time of sale, the following certificate is signed by the purchaser: (see following page)

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CERTIFICATE UNDER AGRICULTURAL
PRODUCING EXEMPTION

The undersigned hereby certifies that all items, except as indicated hereon, are purchased for use of consumption in connection with the production of horticultural or agricultural products as a business enterprise, and agrees to reimburse the seller the sales tax if used or consumed otherwise.

DATE _____

SIGNED _____
Purchaser

ADDRESS _____

Unlawful use of this certificate subjects persons to the penalties of the sales tax act. (10) A deduction for sales in agricultural producing shall not be taken from gross sales for agricultural production in the absence of an executed exemption certificate, as specified in subrule (9), covering each deductible sale. A blanket or so-called standing or continuous certificate is not acceptable, except for continuous sales of utilities wherein the taxability for consumption does not change from month to month.

APPENDIX 5

Instructions—How to Make Journal Entries for Petty Cash Funds

Petty cash fund is a small amount of money a business puts aside for miscellaneous expenses. A petty cash fund is small amounts of cash a business sets aside for common expenditures such as office supplies, postage due on mail or fuel expenses. It is a fund allocated to pay expenses for which the company does not write a check or purchase on account. Also known as an "imprest fund," it is replenished exactly in the amount that is expended from it. The balance of the fund should always equal the balance amount established for the fund.

1. Write the journal entry when the petty cash fund is established. Assume that the local bookstore determined that \$100 cash should be kept on hand for miscellaneous expenses. A two-line journal entry should be recorded for this transaction:

Line 1: Petty Cash: Debit: 100.00;

Line 2: Cash: Credit: 100.00;

As the entry indicates, no funds have been spent on miscellaneous expenses thus far.

2. Record the journal entry for miscellaneous expenses and replenish the petty cash fund. Assume, reusing the example in Step 1, the bookstore spent \$25 on gas, \$12.50 on office supplies, \$28 on meals and \$11.50 on postage. The following entries should be recorded under the "expenses from petty cash" heading:

Line 3: Expenses from Petty Cash

Line 4: Gas: Debit: 25.00;

Line 5: Office Supplies: Debit: 12.50;

Line 6: Meals: Debit: 28.00;

Line 7: Postage: Debit: 11.50;

Line 8: Cash: Credit: 77.00;

You deplete the cash from the fund with the purchases. Therefore, the purchased goods, Line 4 through Line 7, are debited, and the total depleted amount of cash is credited on Line 8. The receipt for expenses in this example is \$77. Therefore, cash in the amount of \$77 must be added to the petty cash drawer to replenish the fund.

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3. Make adjustments for the cash short and over. Although careful steps are taken to ensure internal cash management, errors do occur. Especially when handling petty cash and change, the sum is not always equal to its parts. If \$21 is the amount left in the petty cash drawer, but the receipts only add up to \$77, the amount left in the drawer and the receipts add up to \$98; the \$2 shortage from the first established petty cash fund of \$100 is referred as cash short and over. Now the journal entry will look as follows:

Line 3: Expenses from Petty Cash

Line 4: Gas: Debit: 25.00;

Line 5: Office Supplies: Debit: 12.50;

Line 6: Meals: Debit: 28.00;

Line 7: Postage: Debit: 11.50;

Line 8: Cash Short & Over: Debit: 2.00;

Line 9: Cash: Credit: 79.00;

In this case, the cash of \$79 must be added to the petty cash drawer to replenish the fund.