

Riverside County

YEAR-END MANUAL

For Fiscal Year Ending June 30, 2011



Important Year-end Dates

May 19

All FY 2011 Requisitions for goods and services outside department authority are due to Purchasing.

May 26

ISF Billing through April 30 should be posted on or before May 30

June 1

Reminder to submit AP Signature List to ACO for FY 2012

June 22

Last day to enter AP vouchers in the PeopleSoft AP module in FY 2011

July 1

First day to enter AP vouchers in the PeopleSoft AP module in FY 2012

July 14

Yearend Schedules due (except P and W)

August 1

Final June (Period 12) reports release

August 4

Schedules P and W are due



COUNTY OF RIVERSIDE
AUDITOR-CONTROLLER

Prepared by the office of :

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Riverside County Auditor-Controller



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Preface

The Office of the Auditor-Controller has prepared this manual to help facilitate, coordinate, and help make year-end closing procedures more efficient. Prolonged and sometimes complicated accounting concepts have been condensed to the main ideas necessary for year-end closing purposes.

For a more comprehensive treatment of governmental accounting standards and procedures, please log onto the California State Controller’s website at <http://www.sco.ca.gov/ard/manual/cntyman.pdf> . Of particular value at that website is an extensive Glossary of Accounting Terms.

Acronyms used in this manual

| | |
|-------|---|
| CAFR | Comprehensive Annual Financial Report |
| GAAP | Generally Accepted Accounting Principles |
| GASB | Governmental Accounting Standards Board |
| HRMS | Human Resources Management System |
| OASIS | Online Administrative Services Information System |

| Assets | | = | Liabilities | | + | Fund Balance /Net Assets | |
|-----------------|-----------------|---|-----------------|-----------------|---|--------------------------|-----------------|
| Debit (+) | Credit (-) | | Debit (+) | Credit (-) | | Debit (+) | Credit (-) |
| Increase | Decrease | | Decrease | Increase | | Decrease | Increase |

| |
|-------------------------|
| Normal Balances |
| <u>Debits</u> |
| Assets |
| Expenditures/Expenses |
| <u>Credit</u> |
| Liabilities |
| Fund Balance/Net Assets |
| Revenues |

| | |
|-----------------|-----------------|
| <u>Revenues</u> | |
| Debit (+) | Credit (-) |
| Decrease | Increase |

| | |
|------------------------------|-----------------|
| <u>Expenditures/ Expense</u> | |
| Debit (+) | Credit (-) |
| Increase | Decrease |



Chapter 1 Introduction

Purpose of the Manual

The purpose of the Year-end Manual is to provide guidance to the organizational units of the County with the goal of ensuring uniformity and consistency in the procedures to be followed for reporting year-end financial data.

Retention of Manual

We encourage you to make copies of this manual and to use applicable sections for the training of County personnel. Updated versions of this manual are issued annually and older versions should be discarded.

Organizational Units Affected

All organizational units controlled by agencies that are governed by the County Board of Supervisors are affected by the requirements contained within this manual.

Reasons for Closing Procedures

1. To provide internal users of the County financial system with accurate, timely and reliable information.

Accuracy is served by ensuring that transactions are represented in the appropriate accounting period. The goal of timeliness is met by adhering to a set schedule of deadlines. Reliable information on year-end closing transactions is maintained by the supporting documentation provided by participating departments. With this information management can make better decisions regarding the County's assets, liabilities, revenues, expenditures, and fund balance/net assets.

2. To provide external users of County Financial Statements with accurate, timely and reliable information.

Lending institutions, bond rating agencies, and other major users of the County's financial statements also make decisions based on the information included in County financial reports. All organizational units of the County benefit by participating in the year-end closing procedures.



3. To provide independent auditors with information that conforms to generally accepted accounting principles (GAAP).

The goal of the independent auditor is to obtain reasonable assurance that the financial statements are fairly presented and free from material misstatement. The schedules and supporting documentation provide this assurance to them.

Chapter 2 Fiscal Year-End Budgetary Control Procedures

Budget Deficits at Year-End

Governmental Code §29120 limits expenditures to only those amounts approved by the Board of Supervisors in the annual budget (as originally adopted, or through amendments to the budget as approved by Board action). Therefore, budgetary organizations cannot legally exceed their Board-approved appropriations.

1. Since the County Budget Act (Government Code § 29009 through § 30200) requires annual operating budgets for governmental funds, the Auditor-Controller's Office cannot close the fiscal year until all appropriation budget deficits are eliminated by Board-approved budget action. Proprietary funds can also have legally-prescribed budgets, subject to Board discretion, and must also have appropriation budget deficits eliminated by Board-approved budget action.
2. It is the responsibility of each organizational unit to prevent excessive expenditures or to immediately resolve such budget deficits when they occur.

Cash Deficits at Year-End

1. It is the policy of the Auditor-Controller's Office not to close the fiscal year until all County funds, with monies deposited in the County treasury, are cleared of any cash deficit positions.
2. The Auditor-Controller's Office shall not issue warrants for any expenditures or other disbursements resulting in a fund going into a negative cash position.
3. It is the responsibility of the organizational unit to prevent cash deficits or to immediately resolve such occurrences.





Chapter 3 Preparing and Submitting Closing Documents

General

This manual serves as a single source of information for fiscal year-end closing procedures. All organizational units must follow the procedures set forth in this manual.

The fiscal accounting period for all organizational units is July 1 through June 30.

Basis of Accounting

State and local governments account for Internal Service Funds, Enterprise Funds, and Fiduciary Funds for year-end closing transactions on the accrual basis of accounting. All other funds are required to use the modified accrual basis of accounting.

Schedule Instructions

1. Submit the original of each schedule to the Auditor-Controller's Office no later than the deadline specified in the Year-end Closing Calendar. Exceptions to deadlines must be approved by the Auditor-Controller's Office in advance of the cutoff date. The organizational unit must make its request in writing to the year-end coordinator and receive written approval. The use of e-mail (ACOYearend@co.riverside.ca.us) for making these requests is acceptable. In addition, any request requiring an increase in budgeted appropriations requires the approval of the County Executive Office.
2. The Transmittal Letter (Schedule N) summarizes the closing schedules submitted for each budgetary unit (Fund/Dept. ID) and must accompany their closing package. Schedule N provides positive verification of the applicability of each schedule. Please add your mail stop number in the space provided in the upper right hand corner of the Schedule N. **A transmittal letter must be returned for each budgetary unit even if there are no closing schedules.** (A budgetary unit represents a high-level Fund/Dept. ID combination where the Board of Supervisors establishes an official budget). Check the appropriate box in each column to indicate what schedule(s) and journal(s) are included in the packet. (See Appendix A).
3. Schedules are required to be signed by the person preparing them and **must be approved by the department head or their management level designee.**



4. Copies of the schedules must be retained by the organizational unit along with supporting documents for future audits.
5. Report all dollar figures in whole dollars. Do not include cents.
6. If an amount is estimated, an explanation must accompany the schedule as to how the amount was determined. Indicate amounts estimated by inserting “(E)” in the estimate (EST) column.
7. Include the Fund Number, Business Unit, Dept. ID and Journal Entry number on the top of all schedules in the appropriate fields.
8. All schedules are available in Excel format from the Auditor-Controller’s website: <http://www.auditorcontroller.org/opencms/yearend/index.html>
9. Schedules S-12 (Deferred Revenue), T-12 (Due from Other Governments) and V-12 (Due to Other Governments) must reconcile to the General Ledger Balance as of June 30. Proper supporting documentation for all transactions must be attached.
10. If you have any questions regarding the year-end process, please contact Emily Lin at 955-9380. You may also contact us by e-mail at ACOYearend@co.riverside.ca.us.

Preparing the Year-End Journal Entry

A copy of each online accrual journal entry (JE) as well as its accompanying accrual reversal must be submitted with the applicable original signed closing schedule no later than the date indicated in the Year-End Closing Calendar. **The accrual journal entry must tie to the corresponding schedule.** The journal number must be referenced in the upper right hand side of the supporting accrual schedule.

Step 1: Go to General Ledger>Journals>Create Journal Entries>

ORACLE

Create Journal Entry

Find an Existing Value | Add a New Value

Business Unit: RIVCO

Journal ID: NEXT

Journal Date: 06/30/2011

Add

[Find an Existing Value](#) | [Add a New Value](#)

Type Business Unit: RIVCO

Type Journal Date: 06-30-2011 (The JE will post to period 12)

Click: ADD

Step 2: Header tab

Create Journal Entries - Windows Internet Explorer

Unit: RIVCO Journal ID: NEXT Date: 06/30/2011

Long Description: YE11 AccrSch...

*Ledger Group: ACTUALS Auto Generate Lines

Ledger: Adjusting Entry: Non-Adjusting Entry

*Source: YE Fiscal Year: 2011

Reference Number: Period: 12

SJE Type: ADB Date: 06/30/2011

Journal Class: Save Journal Incomplete Status

Transaction Code: GENERAL

Currency Defaults: USD / ORRNT / 1

Reversal: Do Not Generate Reversal Commitment Control

Save Notify Refresh Add Update/Display

Header | Lines | Totals | Cash Edit | Errors | Approval

Long Description: YE11 AccrSch—(Type a description of the accrual)

Source: YE

Reference Number: Enter your department business ID

Adjusting Entry: Non-Adjusting Entry

Fiscal Year: 2011 (System default)

Accounting Period: 12 (System default)

Step 3: Click Lines tab and complete the accounting entry

Create Journal Entries - Windows Internet Explorer

Unit: RIVCO Journal ID: NEXT Date: 06/30/2011 *Process: Edit Journal Process

Lines to add: 1

| Select | Line | Ledger | Source Type | Account | Fund | Dept | Program | Class | Bud Ref | Project | Amount | Stat | Stat Amt | Reference |
|--------------------------|------|---------|-------------|---------|------|------|---------|-------|---------|---------|--------|------|----------|-----------|
| <input type="checkbox"/> | 1 | ACTUALS | | | | | | | | | | | | |

| Unit | Total Lines | Total Debits | Total Credits | Journal Status | Budget Status |
|-------|-------------|--------------|---------------|----------------|---------------|
| RIVCO | 1 | 0.00 | 0.00 | IS | IS |

Save Notify Refresh Add Update/Display

Header | Lines | Totals | Cash Edit | Errors | Approval

To copy and reverse the accrual journal entry:

It is the policy of the Auditor-Controller's office that year-end reversals are created by manually copying and reversing the accrual Journal Entry at the same time the accrual is entered. Forward both documents to the Auditor-Controller's Office. This ensures that all accruals are reversed.

Step 1: Go to General Ledger/Journals/Journal Entry/Find an Existing Value

The screenshot shows the Oracle 'Create Journal Entry' web interface. The browser address bar displays the URL: http://oasisfs.oasis.icl/psp/FPDS/EMPLOYEE/ERP/C/PROCESS_JOURNALS.JOURNAL_ENTRY_IE.GBL?FolderPath=PORT. The page title is 'Create Journal Entry'. Below the title, there is a search form with the following fields and values:

- Business Unit: = [RIVCO]
- Journal ID: begins with [0001446367]
- Journal Date: = []
- Line Business Unit: begins with []
- Journal Header Status: = []
- Budget Checking Header Status: = []
- Source: = []

Buttons at the bottom of the form include 'Search', 'Clear', 'Basic Search', and 'Save Search Criteria'. Below the form, there are links for 'Find an Existing Value' and 'Add a New Value'.

Business Unit: RIVCO

Journal ID: Type the value of original Journal ID number

Click: Search

Step 2: When journal opens, select the Lines tab

The screenshot shows the Oracle 'Create Journal Entry' web interface with the 'Lines' tab selected. The browser address bar displays the URL: http://oasisfs.oasis.icl/psp/FPDS/EMPLOYEE/ERP/C/PROCESS_JOURNALS.JOURNAL_ENTRY_IE.GBL?FolderPath=PORTAL_ROOT_. The page title is 'Create Journal Entries'. Below the title, there is a header section with the following information:

- Unit: RIVCO
- Journal ID: 0001446367
- Date: 04/30/2011
- *Process: Edit Journal
- Process button

Below the header, there is a 'Lines' table with the following columns: Select, Line, Ledger, SpeedType, Account, Fund, Dept, Program, Class, Bud Ref, and Prc. The table contains four rows of data:

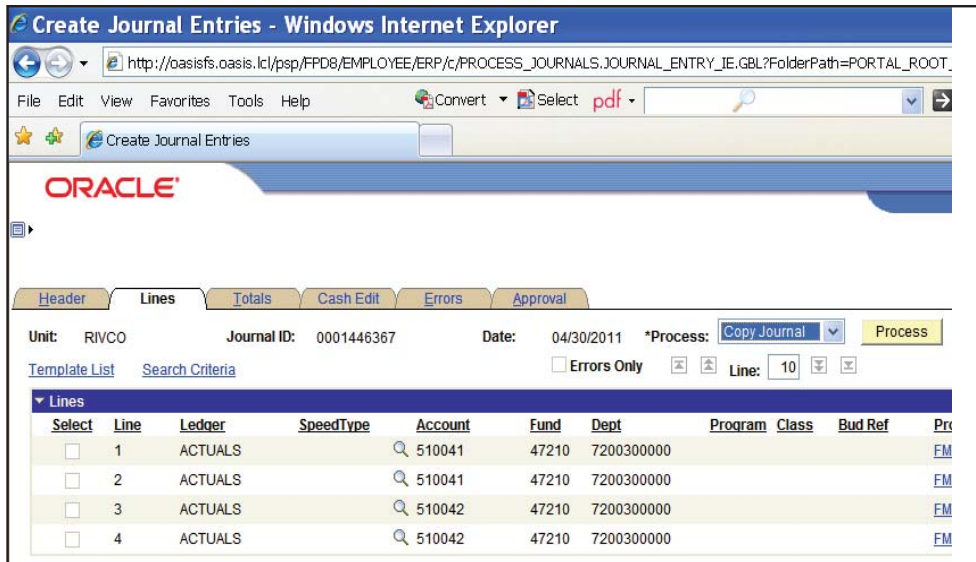
| Select | Line | Ledger | SpeedType | Account | Fund | Dept | Program | Class | Bud Ref | Prc |
|--------------------------|------|---------|-----------|---------|-------|------------|---------|-------|---------|-----|
| <input type="checkbox"/> | 1 | ACTUALS | | 510041 | 47210 | 7200300000 | | | | EM |
| <input type="checkbox"/> | 2 | ACTUALS | | 510042 | 47210 | 7200300000 | | | | EM |
| <input type="checkbox"/> | 3 | ACTUALS | | 510042 | 47210 | 7200300000 | | | | EM |
| <input type="checkbox"/> | 4 | ACTUALS | | 510042 | 47210 | 7200300000 | | | | EM |

Below the table, there is a 'Totals' section with the following information:

| Unit | Total Lines | Total Debits | Total Credits | Journal Status | Budget Status |
|-------|-------------|--------------|---------------|----------------|---------------|
| RIVCO | 4 | 1,819.66 | 1,819.66 | P | V |

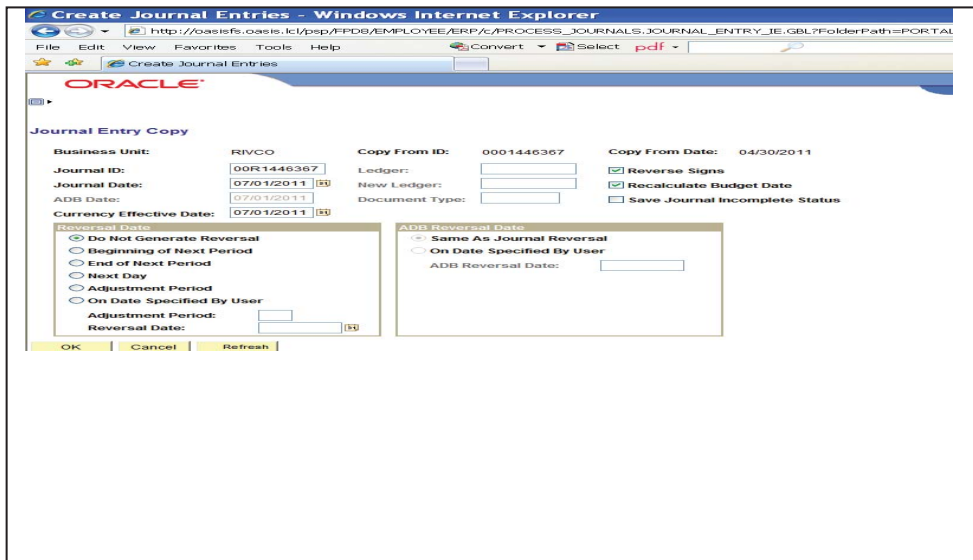
Buttons at the bottom of the page include 'Save', 'Return to Search', 'Notify', and 'Refresh'. Below the buttons, there are links for 'Header', 'Lines', 'Totals', 'Cash Edit', 'Errors', and 'Approval'.

Step 3: Go to *Process:



Select “**Copy Journal**” from pull down menu and
Click the yellow “**Process**” button to the right of the menu

Step 4: The following screen will shown



Journal ID: Type the original Journal ID but replace the 3rd number from the left with an **R** (for reversal - i.e., 00R1446367).

Journal Date: 07/01/11

Check the box “**Reverse Signs**”

Check the box “**Recalculate Budget Date**”

Reversal Date Panel: check “**Do not Generate Reversal**” button

Additional Journal Entry Instructions

1. Accrual journal entries are to be prepared at the organization level ordinarily used by the business unit to capture the accounting needs of the organization. However, if the lower level posting result in 50 or more journal entry line items accrued, business units are required to submit a level 4 operating fund level summary for each Dept. ID. The purpose for this summary is to facilitate Debit/Credit analysis.
2. Make a minimum of one journal entry per accrual schedule. Do not merge multiple Year-end Closing Schedules into a single journal entry transaction.
3. Prepare reversal journal entries at the organization level ordinarily used by the business unit to capture the accounting needs of the organization.
4. Reverse revenue/expenditures accruals from the same revenue/expenditures account code(s) in which accrued.
5. For each accrual schedule submitted, there will be a journal entry entered into the financial system by the department to post the accrual, and Schedule N-Transmittal Letter will indicate the submission.
6. It is important to meet the following requirements when you submit year-end schedule to Auditor-Controller's Office.
 - a. Submit one copy of each journal entry prepared to post accruals into the financial system.
 - b. Attach supporting documentation for each journal entry/schedule to validate the accrual.
 - c. All journal entries must have a valid Edit/Budget check and be department approved through the financial system. Please contact ACO by e-mail at ACOChartofAccount@co.riverside.ca.us, for edit check errors, ACOBudgets@co.riverside.ca.us for budget errors.
 - d. It is the responsibility of the organizational unit originating the journal entry to obtain agreement to post the transaction and provide documentation to other agencies involved.



Chapter 4 Receivables

Definitions and Accounting Treatment

The term accounts receivable includes a variety of claims that will result in future inflow of cash to the County. Accounts receivable come into existence as (1) a result of goods sold or services rendered between organizational units within the County or between the County and outside entities, (2) from a legal liability on the part of the homeowners to pay property taxes, (3) from the state or federal government in the form of grants or subventions, administrative claims, mandated cost claims and (4) various other amounts due to County organizational units for goods and services rendered on or before June 30, 2011.

Revenue Recognition

Revenue and receivables can result from exchange or non-exchange transactions. In exchange transactions, a County organizational unit provides goods or services to individuals, private businesses, organizations or other governmental entities in exchange for value. Generally, the County recovers revenue in an amount equal to the cost of providing goods or services; however, in some instances a lesser amount, as authorized by the Board of Supervisors, is recovered.

Non-exchange transactions are the result of the County receiving value without giving equal value in exchange. The most significant portion of the County's revenue is derived from non-exchange transactions such as property taxes, state and federal grants, entitlements, and other financial revenues. GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transaction*, provides the governmental accounting and financial reporting standards for non-exchange transactions.

For revenue recognition to occur, the County must be entitled to the revenue. In order to be entitled, the following criteria must have been met: (1) the underlying exchange has occurred, (2) taxes have been levied, (3) the claim is legally enforceable or (4) all applicable eligibility requirements have been met.

Availability Period

For Governmental Funds, revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The County has adopted the following availability periods for accruing Governmental Fund revenues:



1. Property and sales taxes are considered available for the year levied and are accrued when received within sixty (60) days after fiscal year-end.
2. Revenue received from expenditure driven (cost-reimbursement) grants, as defined by GASB Statement No. 33, are considered available and accrued if expected to be received within twelve months after fiscal year-end. A copy of the grant documentation, such as a claim form, demonstrating that the grant is “Expenditure Driven” should be included with the applicable Schedule(s).
3. All other revenue streams are considered available and accrued if they are expected to be received within ninety (90) days after the fiscal year-end.

For revenue received in advance, a deferred revenue liability should be recorded and released upon revenue entitlement. Revenue received in advance is revenue that has not yet been earned and which the County is not entitled. For revenue that the County is entitled to, but receipt is not expected until after fiscal year-end but within the availability period, the revenue should be recognized (credited) with an offsetting entry (debit) to a receivable account. See Chapter 8, Deferred Revenue for more information.

Instructions: Schedules A, B, & C for Reporting Receivables

When a County organizational unit is entitled to receive measurable amounts of \$5,000 or greater, Schedules **A, B, & C** are required to record the asset and accrue revenue. Substantiate each item on Schedules **A, B, & C** by a formal claim for reimbursement or billing and attach a copy of the claim or billing to the back of the schedule on which it is listed. If estimated, attach an explanation of how the estimate was determined.

Receivable Categories

1. Taxes Receivable (No Schedule Required)

Property taxes are imposed non-exchange revenue transactions that the County is entitled to recognize as revenue in the period for which the taxes are levied and assessed—even if an enforceable claim or the due date for payment occurs in a different period. The amounts owed by property owners for property taxes, which are received within 60 days after fiscal year-end are available to accrue to the old fiscal year. Therefore, the amount of property taxes received and apportioned through August 30 for lien dates prior to July 1, qualify as measurable and available for revenue recognition to the old fiscal year.

Since the Auditor-Controller’s Office performs an apportionment in July, the revenue is posted and recognized to the old fiscal year and organizational units require no accrual. Taxes receivables are accounted for under asset section (110100).

2. Interest Receivable (No Schedule Required)

Treasurer’s Pooled Cash Investment: After June 30 each fiscal year, two interest apportionment transactions are posted for 4th quarter interest earnings for cash held in the County Treasury. Treasurer interest apportionments can be identified by the unique source code “IT”.

The first transaction is to apportion cash dividends and interest received by the Treasury as of June 30. Cash and related revenue is recognized in the specific fund entitled to receive interest earnings as of June 30. The second transaction is to apportion dividends and interest earned by the Treasury, but not yet received. The interest accrual is posted in each fund entitled to receive interest as follows:

ACCRUAL ENTRY (OLD YEAR POSTING)

| Account Description | Dr | Cr |
|---|-----|-----|
| Interest Receivable (Asset Account 116100) | XXX | |
| Investment Income (Revenue account code 740XX0) | | XXX |

ENTRY TO REVERSE ACCRUAL (NEW YEAR POSTING)

| Account Description | Dr | Cr |
|--|-----|-----|
| Investment Income (Revenue account code 740XX0) | XXX | |
| Interest Receivable (Asset account 116100) | | XXX |

ENTRY TO POST IN THE NEW YEAR WHEN CASH IS AVAILABLE TO PAY THE ACCRUAL

| Account Description | Dr | Cr |
|---|-----|-----|
| Cash (Asset account 101100) | XXX | |
| Investment Income (Revenue account code 740XX0) | | XXX |

If there are **other** interest earnings receivable separate from the Treasurer’s Pooled Cash Investments, you may report these as **Operating Accounts Receivable (Schedule C)**.

3. Due From Other Funds (Schedule A Required)

When a receivable and corresponding liability exists between operating funds at June 30 **and cash is not available** to satisfy the liability, an internal receivable “Due From Other Funds” should be established for the entitled amount. In addition, a corresponding liability “Due To Other Funds” is required in the other fund for the same amount.

The organizational unit entitled to the revenue should prepare Schedule A and must coordinate the receivable and payable transaction to ensure both parties are in agreement on the amount and account.

Example:

The Sheriff department provides services to Regional Medical Center. The Sheriff (Governmental Fund) is entitled to receive the revenue and record the receivable (Due From) and applicable revenue. Regional Medical Center (Proprietary Fund) is the liable department that will incur a payable (Due To) and an applicable expense account.

The transaction should be recorded as follows:

ACCRUAL ENTRY (OLD YEAR POSTING)

In the fund entitled to receive revenue:

| Account Description | Dr | Cr |
|---|-----|-----|
| Due From Proprietary Funds (Asset account 125200) | XXX | |
| Applicable revenue code | | XXX |

In the fund liable for payment, record the following after coordinating the transaction:

| Account Description | Dr | Cr |
|--|-----|-----|
| Expenditure account | XXX | |
| Due To Governmental Funds (Liability account 206200) | | XXX |

ENTRY TO REVERSE ACCRUAL (NEW YEAR POSTING)

In the fund entitled to receive revenue:

| Account Description | Dr | Cr |
|---|-----|-----|
| Revenue code (Same as used on accrual JE) | XXX | |
| Due From Proprietary Funds (Asset account 125200) | | XXX |

In the fund liable for payment, record the following:

| Account Description | Dr | Cr |
|--|-----|-----|
| Due To Governmental Funds (Liability account 206200) | XXX | |
| Expenditure account (Same as used on accrual JE) | | XXX |

Other “Due to Funds” liability accounts are listed among the liability chartfields, (such as account numbers “2062XX”), and available to accrue expenditures against specific County Programs.

4. Due From Other Governments (Schedules B and T-12 are Required)

When a County organizational unit is entitled to revenue from a federal, state, city or other local governmental entity (external to the County), **and payment has not been received by June 30**, a receivable Due from Other Governments(DFOG) should be established for the entitled amount. The receivable could be the result of services rendered, or a non-exchange transaction such as sales tax revenue. The County is entitled to accrue the receivable and recognize the revenue in the old fiscal year when services are rendered, eligibility requirements are fulfilled, and the amount earned is measurable.

If revenue is earned, but not available because of availability period rule described in Chapter 4, then revenue should be deferred. The accrual of revenue to specific DFOG receivable account should be posted in the old fiscal year, segregating the DFOG accounts by source (federal, state, city, other) as follows:

118302-DFOG-Federal-YE

118402-DFOG-State-YE

118502-DFOG-City-YE

118602-DFOG-Other-YE

DFOG asset accounts ending in “02” are to be used for Year-end accrual only.

ACCRUAL ENTRY (OLD YEAR POSTING)

| Account Description | Dr | Cr |
|---|-----|-----|
| Due From Other Governments (Asset account 118X02) | XXX | |
| Applicable revenue code or Deferred Revenue | | XXX |

ENTRY TO REVERSE ACCRUAL (NEW YEAR POSTING)

| Account Description | Dr | Cr |
|--|-----|-----|
| Applicable revenue code (Same revenue account used for accrual) | XXX | |
| Due From Other Governments (Asset account 118X02) | | XXX |

In Governmental funds, if the “Deferred Revenue” account is recorded rather than the “Revenue” account, the accrual will not be reversed until the revenue is recognized.

Schedule T-12 is required for all departments with outstanding balances as of June 30 in accounts 118XXX. Schedule T-12 serves as an aging report of outstanding receivable. This Schedule should summarize all pending receivables from other governments (including amounts accrued prior to 6/30 plus new accruals for 6/30). The list should outline the entity name, amount receivable, grant name, contract name, period earned and estimated date of receipt. The total balance reported in Schedule T-12 must match the PeopleSoft general ledger balance for accounts 118XXX. Attach proper documentation for each line item in Schedule T-12.

5. Operating Accounts Receivable (Schedule C Required)

Operating Accounts Receivables are amounts owed to the County from private individuals, businesses or organizations for goods and services provided by the County. These receivables exclude amounts due internally (from other County funds), from other government entities, or amounts based on assessment—such as, property taxes, interest, and special assessments, which are all separately classified. Accounts receivable accruals should be captured through routine billings and the majority of these receivables will be captured through the billing module (Accounts Receivable system asset account 112100), only if no reversal is required and the actual invoice amount is known (not an estimate).

For departments that do not utilize the billing module or have some receivables maintained outside of the financial system, a journal entry will be needed to accrue for amounts entitled to as of June 30.

ACCRUAL ENTRY (OLD YEAR POSTING)

| Account Description | Dr | Cr |
|--|-----|-----|
| Accounts Receivable (Asset account 112200) | XXX | |
| Applicable revenue code | | XXX |

ENTRY TO REVERSE ACCRUAL (NEW YEAR POSTING)

| Account Description | Dr | Cr |
|--|-----|-----|
| Applicable revenue code (Same Revenue account used for accrual) | XXX | |
| Accounts Receivable (Asset account 112200) | | XXX |

Chapter 5 Accounts Payable

Definitions and Accounting Treatment

Accounts payable are current (short-term) liabilities that are the result of goods or services received by a County organizational unit for which payment is not going to be made until a subsequent accounting period. For year-end accrual purposes, goods or services received as of June 30 and expected to be paid within the next 12 months should be expensed/expensed and accrued in the old fiscal year.

Throughout the fiscal year vendors' vouchers are routinely recorded through the accounts payable module. Expenditures/expenses are recorded in the operating funds through voucher processing and cash is transferred to a warrant-clearing fund. The warrant-clearing fund records the liability account and receipts the cash until the warrants are honored or approved for payment by the Treasurer.

Accruals for payroll and vendors are posted at year-end by the Auditor-Controller's office. However, at fiscal year-end, additional accruals are required to account for short-term liabilities such as due to other funds maintained in the County Treasury (Governmental and Proprietary Funds), due to other government entities, and due to outside entities such as private parties and businesses.

Accounts Payable Categories—Schedules A, G, and I

In the financial system, the County has five types of short-term liability (payable) categories available for recording the amounts owed as of June 30:

- **Operating Accounts Payable** (No Schedule Required)
- **Salaries and Benefits Payable** (No Schedule Required)
- **Due To Other Funds** (Schedule A Required)
- **Due To Other Governments** (Schedule G Required)
- **Accounts Payable Other** (Schedule I Required)

An explanation for each category follows:



1. Operating Accounts Payable (No Schedule Required)

Creating accounts payable vouchers with an accounting date in fiscal year 2011 will be disallowed beginning July 1. Instead, departments have been instructed to create vouchers with a new fiscal year accounting date, but an old fiscal year invoice date. The invoice date field will determine which period the amount is reported. The Auditor-Controller’s Office will create the Operating Accounts Payable accrual journal entries by AP Business Unit based on the following criteria:

- a. Voucher invoice date must be equal to June 30 or prior. Departments should review transaction very carefully in July and August to ensure that invoice dates are correct. For assistance in selecting appropriate invoice date, see Appendix B.
- b. Two accrual journal entries will be processed: The first will be posted by **July 28**, including vouchers delivered to ACO **July 1 through July 14**. The second journal entry will post by **August 31**, including vouchers delivered to ACO **July 15 through August 18**. (September will be evaluated for materiality). Wires will be evaluated over the same periods.
- c. The first journal for July 1 through July 14 will include all vouchers with an invoice date of June 30 or earlier. After that, only vouchers greater than or equal to \$5,000 will be accrued.

ACCRUAL ENTRY (OLD YEAR POSTING)

| Account Description | Dr | Cr |
|--------------------------------|-----|-----|
| Applicable expenditure account | XXX | |
| Accounts Payable-YE (201103) | | XXX |

ENTRY TO REVERSE ACCRUAL (NEW YEAR POSTING)

| Account Description | Dr | Cr |
|--------------------------------|-----|-----|
| Accounts Payable-YE (201103) | XXX | |
| Applicable expenditure account | | XXX |

2. Salaries and Benefits Payable (No Schedule Required)

Biweekly employee payroll is paid through the Human Resources Management System (HRMS) interface and can be identified by its unique “PR” source code in the financial system. For services rendered by employees through the end of the fiscal year, County organizational units have a liability for the amounts due for salaries, benefits, compensating absences as well as other accrued payroll liabilities. Other examples of such liabilities are the County’s share of Social Security, Medicare taxes, and contributions to retirement plans.

The journal date corresponds to the pay date for the given pay period, with the exception of the dates used for the accrual journals at year end. Below are the scheduled accrual journals for FY 2011.

| Pay Period | Dates Covered | Pay date | FY 11 Accrual |
|--------------|--------------------|-----------|---------------|
| PP 14 (100%) | 6/16/11 to 6/29/11 | 7/13/2011 | 6/30/2011 |
| PP15 (10%) | 6/30/11 to 7/13/11 | 7/27/2011 | 6/30/2011 |

Since payroll entries are posted through a payroll interface, the old year accruals and new year accrual reversals are also posted electronically through the interface.

ACCRUAL ENTRY (OLD YEAR POSTING)

| Account Description | Dr | Cr |
|---|-----|-----|
| Applicable payroll expenditure accounts | XXX | |
| Salaries & Benefits Payable (202100) | | XXX |

ENTRY TO REVERSE ACCRUAL (NEW YEAR POSTING)

| Account Description | Dr | Cr |
|---------------------------------------|-----|-----|
| Salaries & Benefits Payable (202100) | XXX | |
| Cash (101100) | | XXX |

3. Due To Other Funds (Schedule A Required)

When a liability and corresponding receivable exists between funds at June 30 and cash is not available to satisfy the liability, but it is expected to be paid within the next fiscal year, an internal liability “Due To Other Funds” should be established for the amount due. In addition, a corresponding receivable “Due From Other Funds” is required in the other fund for the same amount.

See Receivables Chapter for procedures regarding Due from Other Funds. **Do not prepare Schedule A, or the journal entry if your organizational unit is responsible for the liability and the related expenditure.**

4. Due To Other Governments (Schedules G and V-12 are Required)

When an amount is due to a federal, state, city, or other local governmental entity outside the County and has not been paid as of June 30, a liability “Due To Other Governments” should be recorded for the amount due. The liability could be the result of services received (an exchange transaction) where a County organizational unit received resources/funding from another governmental entity for specific programs such as those outlined in agreements or

legislation (non-exchange transaction).

In the accounting period when services are received, the amount is due, and is expected to be paid within the next fiscal year, the County should accrue the payable and record the expense in the appropriate fiscal year. If services are received in the old fiscal year, the accrual should be posted to 06/30/2011 and to the specific “Other Government” payable account, which is identified in the financial system under liability account number “2081XX” series. The accrual and accrual reversal journal entry should be posted as follows:

ACCRUAL ENTRY (OLD YEAR POSTING)

| Account Description | Dr | Cr |
|---|-----|-----|
| Applicable expenditure account code (5XXXXXX) | XXX | |
| Due To Other Governments (208100) | | XXX |

ENTRY TO REVERSE ACCRUAL (NEW YEAR POSTING)

| Account Description | Dr | Cr |
|---|-----|-----|
| Due To Other Governments (208100) | XXX | |
| Applicable expenditure account (Same code used for the accrual) | | XXX |

Other “Due To Other Governments” liability accounts, which are listed in the financial system liability sub-accounts, as account numbers “2081XX”, are also available to accrue current liabilities against specific government programs.

Example:

The County entered into a contract with an educational institution (say, UCR Extension) to educate, and to develop the skills of 10 eligible youth through the Workforce Investment Act Program. With the service for the 4th QTR of FY11 having been received by the County and the billing forthcoming, the \$100,000 payable amount to UCR should be recorded as DTOG on Schedule G and Schedule V-12 as of 6/30.

Schedule V-12 is required for all departments with outstanding balances as of June 30, 2011 in accounts 2081XX. Schedule V-12 serves as an aging report of outstanding liabilities in accounts 2081XX. This Schedule should summarize all pending liabilities to other governments (including amounts accrued prior to 6/30 plus new accruals for 6/30). The list should outline the entity name, amount payable, contract description, date incurred, and estimated date of payment. The total balance reported in Schedule V-12 must match the PeopleSoft general ledger balance for accounts 2081XX. Attach proper documentation for each line item in Schedule V-12.

5. Accounts Payable Other (Schedule I Required)

For amounts due by a County organizational unit which will be settled within the next fiscal year and the amount does not specifically fall into one of the four liability accounts described above, this “Other” account should be used for accrual journal entries. The accrual should

also be listed on Schedule I.

Following is the accounting transaction required:

ACCRUAL ENTRY (OLD YEAR POSTING)

| Account Description | Dr | Cr |
|--|-----|-----|
| Applicable expenditure account (5XXXXXX) | XXX | |
| Accounts Payable Other (201200) | | XXX |

ENTRY TO REVERSE ACCRUAL (NEW YEAR POSTING)

| Account Description | Dr | Cr |
|--|-----|-----|
| Accounts Payable Other (201200) | XXX | |
| Applicable expenditure account (5XXXXXX) | | XXX |

No Accounts Payable accruals required for the following

- 1. Recurring Charges Due to the General Fund:** Do not include amounts due to General Fund for recurring charges such as central mail or payroll related charges. They will be determined and reported by the General Fund organization.
- 2. Encumbrances** are commitments related to unperformed contracts for goods or services. Since the commitments have not been fulfilled at fiscal year-end, these amounts should not be included on any accounts payable schedules and they should not be accrued as liabilities at year-end. In order to reserve old year fund balance to satisfy these commitments once they have been fulfilled, Board of Supervisors approval must be obtained. See Chapter 6, Reserve for Encumbrances, for requirements on reserving fund balance for encumbrances at fiscal year-end.

3. **Amounts due to Internal Service Funds: Do not** include amounts due to the following funds since they will be determined and reported by the individual Internal Service Fund:

| FUND | FUND NAME |
|-------------|---------------------------------------|
| 45100 | Records Management & Archives Program |
| 45300 | ISF Automotive Maintenance |
| 45400 | ISF RIFMIS Project |
| 45420 | OASIS |
| 45500 | ISF Information Technology |
| 45510 | ISF RCIT Pass Thru |
| 45600 | ISF Printing Services |
| 45620 | ISF Central Mail Service |
| 45700 | ISF Supply Services |
| 45800 | ISF Exclusive Provider OPTN |
| 45840 | ISF Concordia Preferred Dental |
| 45860 | ISF Delta Dental Self Ins |
| 45870 | ISF Freedom Dental Plan |
| 45900 | ISF Local Adv Plus Dental |
| 45920 | ISF Local Adv Blyth Dental |
| 45960 | ISF Liability Insurance |
| 46000 | ISF Malpractice Insurance |
| 46020 | ISF Property Insurance Fund |
| 46040 | ISF Safety Loss Control |
| 46060 | ISF Std Disability Ins |
| 46080 | ISF Unemployment Insurance |
| 46100 | ISF Workers Comp Insurance |
| 46120 | ISF Occupational Health & Well |
| 47000 | Temporary Assistance Pool |
| 47200 | EDA-Custodial Services |
| 47210 | EDA-Maintenance Services |
| 47220 | EDA-Real Estate |
| 48000 | Hydrology Services |
| 48020 | Garage Fleet Operations |
| 48040 | Project Maintenance Operation |
| 48060 | Mapping Services |
| 48080 | Data Processing |
| 48100 | Photography |
| 48101 | Flood County Flight Photos |

Chapter 6 Encumbrances (Governmental Funds)

Definitions and Accounting Treatment

When the Board of Supervisors approves a contract or a purchasing buyer authorizes a Purchase Order for goods or services, a legally binding commitment has been created by that organizational unit. However, until the goods or services are received, the County has no obligation to pay and therefore the accounting entry to record the expenditure and related liability are not yet necessary.

Schedule K Required

At fiscal year-end, numerous commitments exist related to unfulfilled contracts for goods or services. These commitments are referred to as **Encumbrances**. If the organizational unit waits until the next fiscal year when the commitments are fulfilled (goods or services are received) to record the related expenditures, the unit may not have appropriations available to satisfy the payments. Therefore, in order to use budgeted appropriations from the fiscal year when the commitment was established, Board of Supervisor approval must be obtained to increase the appropriation. When encumbering amounts for specific purposes for which the resources have already been restricted, committed or assigned this will not result in a separate display of the encumbered amounts within those classifications. Encumbered amounts for specific purposes for which amounts have not been restricted, committed or assigned should not be classified as unassigned but, rather, should be assigned fund balance.

How To Increase your Appropriation for Encumbrances:

1. A request to increase your appropriation due to an established encumbrance must be submitted through the year-end accrual process by completing either the Schedule K (Purchase Orders) or Schedule K-1 (Other Commitments).
2. Subject to availability of appropriations and Net County Cost requirements, the County Executive Office will review the request for Encumbrance amounts and recommend the classification to its appropriate fund balance (i.e., restricted, committed, or assigned).
3. Once the Board of Supervisors has approved the encumbrance amounts, a journal entry will be posted to reclassify the approved amounts from either an unassigned fund balance (formerly known as unreserved, undesignated fund balance) (370100) to Assigned for Encumbrance (350500) or from a restricted fund balance to Restricted for Encumbrance (321169) or from a committed fund



balance to Committed for Encumbrance (330150). Only Equity accounts are affected in this process and these balances will roll-forward into the new fiscal year.

- The fund balance reclassification will then be appropriately reflected in the new fiscal year and budgeted appropriations will be increased in the original budgeted expenditure account to satisfy the commitment.

Accounting Treatment

The Auditor-Controller’s Office will post the following reclassification journal entry:

RECLASSIFICATION ENTRY (OLD YEAR POSTING)

| Account Description | Dr | Cr |
|---|-----|-----|
| Unassigned Fund Balance (370100) or Restricted General (321100) or Committed Fund Balance (330100) | XXX | |
| Assigned for Encumbrances (350100) or Restricted for Encumbrances (321169) or Committed for Encumbrances (330150) | | XXX |

ENTRY TO REVERSE RECLASSIFICATION (NEW YEAR POSTING)

| Account Description | Dr | Cr |
|---|-----|-----|
| Assigned for Encumbrances (350100) or Restricted for Encumbrances (321169) or Committed for Encumbrances (330150) | XXX | |
| Unassigned Fund Balance (370100) or Restricted General (321100) or Committed Fund Balance (330100) | | XXX |

Commitments Qualifying for Encumbrances

- Encumbrances (Schedule K), is restricted to approved contracts and purchase orders, where the County has an unfulfilled commitment for goods or services that have not been satisfied or received as of June 30. If goods or services have been received as of June 30, the expenditure should either be recorded through the PeopleSoft voucher system or recorded based on the appropriate accounts payable accrual schedule (Year-end schedules G or I).
- Only commitments with **available budgeted appropriations** (see the RVPOA621E Schedule K Budgetary Appropriations report) can be encumbered through the year-end process. In addition, requests for reserve for encumbrances may not cause the budgetary units to exceed their approved Net County Cost. See below for computation to determine approved Net County Cost.

STEP #1: Determine Budgeted Net County Cost:

| | |
|---------|--|
| | Budgeted Appropriations |
| Less: | <u>Estimated Departmental Revenues</u> |
| Equals: | <u><u>Budgeted Net County Cost</u></u> |

STEP #2: Determine Actual Net County Cost:

| | |
|---------|--|
| | Actual Expenditures plus Reserve Request |
| Less: | <u>Actual Departmental Revenue</u> |
| Equals: | <u><u>Actual Net County Cost</u></u> |

Each Budgetary unit's **Actual Net County Cost** must be less than its **Budgeted Net County Cost** to qualify for Reserve for Encumbrance.

3. Outstanding contracts and purchase orders in the **amount of \$5,000 or more** will be subject to reserve. **It is not allowed to combine multiple purchase orders and contracts as part of \$5,000 guideline.** If the individual commitment does not reach the \$5,000 limit, it should not be included in the Encumbrance request to the Board of Supervisors.
4. The following reports are available through the website of the Auditor-Controller's office in excel format:
 - a. Schedule K (RVPOA621D) Summary
 - b. Encumbrance Line Report (RVPOA621) Detail Report
5. For each business unit, **submit a separate Schedule K (RVPOA621D).** This report provides the total available amounts for each unique budget level Fund/Appropriation Dept. ID/ Appropriation account related to each individual business unit.
6. Each department is responsible for reviewing and completing the Encumbrance Line Report (RVPOA621). The following steps are required:
 - a. **Review** the Schedule K Encumbrance Detail Line Report (RVPOA621) to identify Purchase Orders that the department wants to submit to the Board for approval.
 - b. **Subtract** Purchase Orders/Invoices that would be accrued through the Accounts Payable accrual process from Schedule K Report and the Reserve for Encumbrance Line Report.
 - c. **Total** all applicable amounts by their unique budget level Fund/Appropriation Dept. ID/ Appropriation account.
 - d. **Enter** the amount on the Schedule K (RVPOA621D).
 - e. **Sign and Date** each Schedule K (RVPOA621D) before submitting it for approval.
7. Each schedule K (RVPOA621D) along with the accompanying Reserve for Encumbrance Line

Report (RVPOA621) **must first be submitted** to the County Executive Office for Analyst review and encumbrance recommendation. The Schedule K packet should be presented as follows:

1st Section Schedule K (RVPOA621D)

2nd Section Encumbrance Line Report (RVPOA621)

The approved schedules will be forwarded to the Auditor-Controller's Office for further action. Executive Office and Auditor-Controller's Office submission deadlines are included in the Year-end Closing Calendar.

8. The total requests qualifying for reserve **will be summarized** by the Auditor-Controller's Office. The data will be provided to the Executive Office, consolidated into one Countywide Form 11, and submitted to the Board of Supervisors for approval based on their scheduled meeting date established in the Year-end Closing Calendar.

Schedule K-1 Optional

Schedule K-1 has been added to capture other legal commitments that do not have a related purchase order. Items to be reported on Schedule K-1 are Form-11s, contracts, MOUs, and other commitments that are greater than or equal to \$5,000. The schedule and all supporting documentation are to be routed through the County Executive Office using the same guidelines and deadlines as the traditional Schedule K. These items will be consolidated with the purchase order related encumbrances.

Do not include on Schedule K or K-1 any of the following items:

1. **Goods or services received prior to or on June 30**, which have not been paid through the financial system for old fiscal year posting. These items represent liabilities rather than commitments of the County and should be accrued as payable utilizing one of four payable schedules (Schedule A, G, H or I). See Chapter 5 Accounts Payable.
2. **Undelivered goods or services as of June 30**, which are less than \$5,000.
3. **Requisitions** are requests, not commitments or obligations to pay and are not recordable transactions. Requisitions will be canceled in the financial system based on the Year-end Closing Calendar and will not roll forward to the new fiscal year.
4. **Blanket Purchase Orders** covering multiple deliveries during the year, do not qualify for Encumbrance.

Pre-Encumbrance and Encumbrance Cleanup

In order to maximize budgets, departments are strongly recommended to review the Outstanding Pre-Encumbrances Report (RVPOA551) and the Outstanding Encumbrances Report (RVPOA591) on a weekly basis. Please see the following samples. These reports can be found in Dazel under "Purchasing Reports" and are generated every Saturday.

| County of Riverside | | | | | | | | | | | |
|--------------------------------|----------|---|---|---|-------|------------|------|---------------------|-------------------|-------------|------------------|
| REMAINING PRE-ENCUMBRANCES RPT | | | | | | | | | | | |
| Report ID: | RVPOA551 | | | | | | | | Page No. 1 | | |
| | | | | | | | | Run Date 05/07/2011 | Run Time 19:12:21 | | |
| PO | S | B | P | H | BU | REQ ID | Line | ScheduleDistrib | REQ Amount | PO Amount | Remaining Amount |
| | | | | | ACARC | 0000000050 | 1 | 1 1 | \$14,949.00 | \$0.00 | \$14,949.00 |
| ----- | | | | | | | | | | | |
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| Y | | | | | ASARC | 000003468 | 2 | 1 1 | \$202.23 | \$202.22 | \$0.01 |
| Y | | | | | ASARC | 000003471 | 1 | 1 1 | \$13,750.00 | \$10,450.00 | \$3,300.00 |
| Y | | | | | ASARC | 000003477 | 1 | 1 2 | \$19,079.50 | \$19,076.81 | \$2.69 |
| | | | | | ASARC | 000003495 | 1 | 1 1 | \$456.56 | \$0.00 | \$456.56 |
| W | | | | | ASARC | 000003495 | 1 | 1 1 | \$456.56 | \$0.00 | \$456.56 |
| | | | | | ASARC | 000003495 | 2 | 1 1 | \$1,473.50 | \$0.00 | \$1,473.50 |
| W | | | | | ASARC | 000003495 | 2 | 1 2 | \$1,473.50 | \$0.00 | \$1,473.50 |
| | | | | | ASARC | 000003498 | 1 | 1 1 | \$3,200.00 | \$0.00 | \$3,200.00 |
| W | | | | | ASARC | 000003501 | 1 | 1 1 | \$25,000.00 | \$0.00 | \$25,000.00 |
| W | | | | | ASARC | 000003501 | 2 | 1 1 | \$8,366.00 | \$0.00 | \$8,366.00 |
| | | | | | ASARC | 000003502 | 1 | 1 1 | \$7,154.00 | \$0.00 | \$7,154.00 |
| | | | | | ASARC | 000003502 | 2 | 1 1 | \$2,339.00 | \$0.00 | \$2,339.00 |
| | | | | | ASARC | 000003503 | 1 | 1 1 | \$27,300.00 | \$0.00 | \$27,300.00 |
| ----- | | | | | | | | | | | |
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| W | | | | | DBARC | 0000000082 | 1 | 1 1 | \$2,850.00 | \$0.00 | \$2,850.00 |
| ----- | | | | | | | | | | | |
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| W | | | | | CCARC | 0000000023 | 1 | 1 1 | \$443.84 | \$0.00 | \$443.84 |
| W | | | | | CCARC | 0000000023 | 2 | 1 1 | \$1,688.00 | \$0.00 | \$1,688.00 |
| W | | | | | CCARC | 0000000023 | 3 | 1 1 | \$350.00 | \$0.00 | \$350.00 |
| ----- | | | | | | | | | | | |
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| | | | | | DHARC | 000002182 | 1 | 1 1 | \$235.00 | \$0.00 | \$235.00 |
| | | | | | DHARC | 000002192 | 1 | 1 1 | \$4,800.00 | \$0.00 | \$4,800.00 |
| | | | | | DHARC | 000002197 | 1 | 1 1 | \$92.25 | \$0.00 | \$92.25 |
| | | | | | DHARC | 000002197 | 2 | 1 1 | \$112.50 | \$0.00 | \$112.50 |
| | | | | | DHARC | 000002197 | 3 | 1 1 | \$155.40 | \$0.00 | \$155.40 |
| | | | | | DHARC | 000002197 | 4 | 1 1 | \$71.00 | \$0.00 | \$71.00 |
| | | | | | DHARC | 000002197 | 5 | 1 1 | \$89.55 | \$0.00 | \$89.55 |
| | | | | | DHARC | 000002197 | 6 | 1 1 | \$16.50 | \$0.00 | \$16.50 |
| | | | | | DHARC | 000002197 | 7 | 1 1 | \$37.75 | \$0.00 | \$37.75 |

| County of Riverside | | | | | | | | | | | |
|-------------------------------|----------|---|---|---|-------|------------|------|---------------------|-------------------|-----------------|------------------|
| REMAINING ENCUMBRANCES REPORT | | | | | | | | | | | |
| Report ID: | RVPOA591 | | | | | | | | Page No. 1 | | |
| | | | | | | | | Run Date 05/07/2011 | Run Time 20:14:52 | | |
| V | R | B | P | H | BU | PO ID | Line | ScheduleDistrib | PO Amount | Posted Vouchers | Remaining Amount |
| V | N | | | | ACARC | ACA0001073 | 1 | 1 1 | \$4,500.00 | \$0.00 | \$4,500.00 |
| Y | W | N | | | ACARC | ACA0001094 | 1 | 1 1 | \$1,620.00 | \$1,619.10 | \$0.90 |
| W | N | | | | ACARC | ACA0001159 | 1 | 1 1 | \$657.94 | \$0.00 | \$657.94 |
| W | N | | | | ACARC | ACA0001159 | 2 | 1 1 | \$27.19 | \$0.00 | \$27.19 |
| W | N | | | | ACARC | ACA0001159 | 3 | 1 1 | \$543.75 | \$0.00 | \$543.75 |
| W | N | | | | ACARC | ACA0001159 | 4 | 1 1 | \$27.19 | \$0.00 | \$27.19 |
| V | N | | | | ACARC | ACA0001165 | 1 | 1 1 | \$4,350.00 | \$0.00 | \$4,350.00 |
| W | N | | | | ACARC | ACA0001167 | 1 | 1 1 | \$317.64 | \$0.00 | \$317.64 |
| W | N | | | | ACARC | ACA0001167 | 2 | 1 1 | \$735.84 | \$0.00 | \$735.84 |
| W | N | | | | ACARC | ACA0001169 | 1 | 1 1 | \$2,295.00 | \$0.00 | \$2,295.00 |
| V | N | | | | ACARC | ACA0001172 | 1 | 1 1 | \$774.30 | \$0.00 | \$774.30 |
| W | N | | | | ACARC | ACA0001173 | 1 | 1 1 | \$12,904.82 | \$0.00 | \$12,904.82 |
| W | N | | | | ACARC | ACA0001173 | 2 | 1 1 | \$3,128.87 | \$0.00 | \$3,128.87 |
| W | N | | | | ACARC | ACA0001173 | 3 | 1 1 | \$144.00 | \$0.00 | \$144.00 |
| W | N | | | | ACARC | ACA0001174 | 1 | 1 1 | \$20,228.02 | \$0.00 | \$20,228.02 |
| ----- | | | | | | | | | | | |
| | | | | | ACARC | | | | \$52,254.56 | \$1,619.10 | \$50,635.46 |
| W | N | | | | AGARC | AGA0000330 | 1 | 1 1 | \$1,892.25 | \$0.00 | \$1,892.25 |
| W | N | | | | AGARC | AGA0000330 | 2 | 1 1 | \$630.00 | \$0.00 | \$630.00 |
| W | N | | | | AGARC | AGA0000332 | 1 | 1 1 | \$72.00 | \$0.00 | \$72.00 |
| W | N | | | | AGARC | AGA0000332 | 2 | 1 1 | \$43.75 | \$0.00 | \$43.75 |
| W | N | | | | AGARC | AGA0000332 | 3 | 1 1 | \$8.59 | \$0.00 | \$8.59 |
| W | N | | | | AGARC | AGA0000333 | 1 | 1 1 | \$297.54 | \$0.00 | \$297.54 |
| W | N | | | | AGARC | AGA0000333 | 2 | 1 1 | \$83.19 | \$0.00 | \$83.19 |
| W | N | | | | AGARC | AGA0000333 | 3 | 1 1 | \$13.19 | \$0.00 | \$13.19 |
| W | N | | | | AGARC | AGA0000333 | 4 | 1 1 | \$3.15 | \$0.00 | \$3.15 |
| W | N | | | | AGARC | AGA0000334 | 1 | 1 1 | \$1,363.14 | \$0.00 | \$1,363.14 |
| W | N | | | | AGARC | AGA0000334 | 2 | 1 1 | \$3.82 | \$0.00 | \$3.82 |
| W | N | | | | AGARC | AGA0000334 | 3 | 1 1 | \$27.50 | \$0.00 | \$27.50 |
| W | N | | | | AGARC | AGA0000334 | 4 | 1 1 | \$127.52 | \$0.00 | \$127.52 |
| W | N | | | | AGARC | AGA0000334 | 5 | 1 1 | \$27.41 | \$0.00 | \$27.41 |
| W | N | | | | AGARC | AGA0000334 | 6 | 1 1 | \$5.24 | \$0.00 | \$5.24 |
| W | N | | | | AGARC | AGA0000335 | 1 | 1 1 | \$565.50 | \$0.00 | \$565.50 |
| ----- | | | | | | | | | | | |
| | | | | | AGARC | | | | \$5,163.79 | \$0.00 | \$5,163.79 |
| V | N | | | | ASARC | ASA0006222 | 1 | 1 1 | \$534.00 | \$0.00 | \$534.00 |
| V | N | | | | ASARC | ASA0006222 | 1 | 1 2 | \$534.00 | \$0.00 | \$534.00 |

Print out the page(s) with your department's business unit(s).

Departments must analyze and determine which requisitions (REQ) and purchase orders (PO) have already been fulfilled and which are still outstanding. If they are not needed or fulfilled with budget still being tied up, please make sure to clear them out of the system to free up department budget.

Pre-Encumbrance and Encumbrance Documentation for Schedule K and K-1

Once the pre-encumbrances and encumbrances are cleared up as much as possible, proceed with the following steps as a supplement to Schedule K and K-1:

1. Create a spreadsheet of all the remaining REQs and POs that are valid.
2. Print the spreadsheet and attach it to the RVPOA551 and RVPOA591.
3. Have the department head certify this list with a signature and date.
4. Submit the package to your management analyst at the County Executive Office by Thursday, July 14, 2011.

Chapter 7 Inventories

Definitions and Accounting Treatment

Materials and supplies held in the normal course of operations for future consumption are referred to as inventory. Examples of inventory include office supplies, medical supplies, automotive parts, hoses, nozzles, safety gear, child care supplies, and forms unique to a department's mission and purpose. Office supplies are broadly defined as copier paper, writing instruments, and other supplies necessary for routine office operations.

Inventories (Schedule E)

Inventory values of \$50,000 or more in aggregate, per department, are reportable. Departments maintaining inventory valued less than \$50,000 should expense, rather than capitalize, inventory in the period purchased.

The County uses the average cost method for valuing inventory costing. Under the average cost method, inventory used or on hand is valued at the average unit cost. The average cost is determined by dividing the total cost of the identical commodity on hand by the total number of units on hand.

Organizational units with an estimated inventory value of \$50,000 or more are required to perform an annual inventory count in accordance with procedures outlined in the Auditor-Controller's Office Internal Control Handbook, and Annual Physical Inventory of Parts and Supplies. Inventory counts should be completed on or as close to June 30 as possible.

For organizational units using the Inventory Module

Once the ending inventory value is determined, the quantities should be recorded in the inventory module.

For all organizational units

For changes in inventory balances of \$5,000 or more, the inventory balance should be adjusted and posted to the financial system by journal entry. The required accounting transactions will be dependent on the account used to routinely record purchases of inventory.

The inventory adjustment computation is as follows:

| | |
|----------------|---|
| | Inventory at the end of the current fiscal year |
| Less: | Inventory at the beginning of the same fiscal year |
| | <hr/> |
| Equals: | Increase (decrease) to inventory |
| | <hr/> <hr/> |



Accounting for Changes to Governmental Fund Inventory

Schedule E should be completed to support the adjustment to inventory. For organizational units with a change in inventory valuation of \$5,000 or more, a journal entry should be prepared to adjust the related accounts as follows:

ENTRY TO INCREASE INVENTORY BALANCE

| Account Description | Dr | Cr |
|--|-----|-----|
| Inventory of Materials & Supplies account (170100) | XXX | |
| Applicable expenditure account (5XXXXXX) | | XXX |
| Unassigned Fund Balance (370100) | XXX | |
| Fund Balance-Nonspendable for Inventory (315100) | | XXX |

ENTRY TO DECREASE INVENTORY BALANCE

| Account Description | Dr | Cr |
|--|-----|-----|
| Inventory of Materials & Supplies account (170100) | | XXX |
| Applicable expenditure account (5XXXXXX) | XXX | |
| Unassigned Fund Balance (370100) | | XXX |
| Fund Balance-Nonspendable For Inventory (315100) | XXX | |

Accounting for Changes to Proprietary Fund Inventory

Since Proprietary Funds present their financial statements on the accrual basis of accounting and the economic resources measurement focus, inventory is recorded to the inventory asset account when acquired and expensed as consumed. Below is the required accounting transaction for inventory adjustments at fiscal year-end.

ENTRY TO INCREASE INVENTORY BALANCE

| Account Description | Dr | Cr |
|--|-----|-----|
| Inventory of Materials & Supplies (Asset account 170100) | XXX | |
| Applicable expense account (5XXXXXX) | | XXX |

ENTRY TO DECREASE INVENTORY BALANCE

| Account Description | Dr | Cr |
|--|-----|-----|
| Inventory of Materials & Supplies (Asset account 170100) | | XXX |
| Applicable expense account (5XXXXXX) | XXX | |

Valuation Methods

Proprietary Fund inventory values must be reported at the lower of cost or market. For Governmental Funds, inventory values must be reported at cost unless the inventory has been affected by physical deterioration or obsolescence, in which case the inventory should be written down based on the estimated value.



Chapter 8 Deferred Revenue

Definitions and Accounting Treatment

For revenue recognition to occur, the County must be entitled to the revenue. In order to be entitled the following criteria must have been met: (1) the underlying exchange has occurred, (2) taxes have been levied, (3) the claim is legally enforceable or (4) all applicable eligibility requirements have been met.

Availability Period

As discussed in Chapter 4, revenues are considered available for governmental funds when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The County has adopted the following availability periods for accruing governmental fund revenues:

1. Property and sales taxes are considered available for the year levied and are accrued when received within **sixty (60) days** after fiscal year-end.
2. Revenue received from expenditure driven (cost-reimbursement) grants, as defined by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transaction*, are considered available and accrued if expected to be received within **twelve months** after fiscal year-end. A copy of the grant documentation, such as a claim form, demonstrating that the grant is “expenditure driven” should be included with the applicable Schedule(s)
3. All other revenue streams are considered available and accrued if they are expected to be received within **ninety (90) days** after the fiscal year-end.

Deferred Revenue is a liability account used to record resource inflows that do not yet meet the criteria for revenue recognition.

There are two types of deferred revenue in the public sector:

1. **Advanced Revenue:** Under both the accrual and the modified accrual basis of accounting, cash received in advance but not earned must be deferred until it is earned. Revenue is earned when products have been delivered or services have been performed. Non-exchange revenue, like taxes, are earned when the County has legal claim to the resources.
2. **Unavailable Revenue:** Under the modified accrual basis of accounting, revenue is deferred if it is not available to pay current expenditures or additional eligibility criteria have not been met. Modified accrual only applies to governmental funds.



Two schedules have been developed to distinguish which type of deferred revenue is being posted. Since the criteria and the related accounting treatment is different for the two types of deferred revenue transactions, both are described in the sections below.

1. Schedules L-1 (Advance) and S-12: Deferred Revenue Resulting From Cash Received In Advance of Revenue Entitlement.

When cash is received in advance of entitlement, a deferred revenue liability should be reported until the exchange has occurred or eligibility requirement(s) have been met.

In an **exchange** transaction where the County receives the monetary amount prior to performing services or providing goods, a deferred revenue liability is recorded until the earning process is complete.

In **non-exchange** transactions, the County receives monetary amounts without giving value in return. Therefore, revenue cannot be recognized for the advance proceeds until the County has a legally enforceable claim or other eligibility requirements are met. Eligibility requirements are stipulations placed on provided resources, such as:

- Costs allowed on claims for reimbursement
- Time requirements to expend or start expending resources
- Other contingencies
- Characteristics of recipients to qualify for resources

In organizational units that recognize revenue upon receipt and an amount is not earned as of June 30, and the transaction is in excess of \$5,000, a reclassification journal entry should be posted and the deferred revenue should be included on **Schedules L-1 (Advance) and S-12.**

For example: On March 15, 2011, Department ABC received \$500,000 from the state for use in a road repair project.

03/15/2011—CASH RECEIVED / RECOGNIZED AS REVENUE

| Account Description | Dr | Cr |
|--------------------------------------|---------|---------|
| Cash (101100) | 500,000 | |
| Applicable revenue account (7XXXXXX) | | 500,000 |

As of June 30, 2011, only 50% of the project has been completed. A reclassification entry is then needed to account for the \$250k not yet earned.

6/30/2011—RECLASSIFICATION ENTRY (OLD YEAR POSTING)

| Account Description | Dr | Cr |
|--------------------------------------|---------|---------|
| Applicable revenue account (7XXXXXX) | 250,000 | |
| Deferred Revenue (2301XX) | | 250,000 |

7/01/2011—ENTRY TO REVERSE RECLASSIFICATION (NEW YEAR POSTING)

| Account Description | Dr | Cr |
|--------------------------------------|---------|---------|
| Deferred Revenue (2301XX) | 250,000 | |
| Applicable revenue account (7XXXXXX) | | 250,000 |

The transaction is reversed once the revenue recognition cycle is complete. If the earning process is not completed promptly, the business unit should consider the appropriateness of routinely recognizing revenue upon receipt and consider using a ‘deferred revenue’ liability account to initially receive proceeds. Factors such as the duration of the earning cycle and materiality of amounts received should be part of the decision process.

2. Schedule L-2 (Unavailable) and S-12:Deferred Revenue in Governmental Funds When Revenue Is Earned, But Not Available.

Since governmental funds are entitled to recognize revenue only when it is available for use to pay current expenditures, unavailable amounts should be reported as deferred revenue. When the unavailable amount is **\$5,000** or greater, a journal entry should be posted and the deferred revenue should be included on **Schedules L-2 (Unavailable)** and **S-12** with the following accounting transaction:

For example:

On 06/15/2011, a governmental fund completed services for a city costing \$500,000. An invoice was sent to the city for the service provided and payment is not expected to be received until October 15, 2011. If the offset chosen was a revenue account, the following entry should be recorded at June 30:

GOVERNMENTAL FUND ACCRUAL ENTRY (OLD YEAR POSTING)

| Account Description | Dr | Cr |
|---------------------------|---------|---------|
| Revenue (7XXXXXX) | 500,000 | |
| Deferred Revenue (2301XX) | | 500,000 |

When the payment is received, the above entry should be reversed as follows.

ENTRY TO REVERSE ACCRUAL (NEW YEAR POSTING)

October 15, 2011

| Account Description | Dr | Cr |
|--|---------|---------|
| Deferred Revenue (2301XX) | 100,000 | |
| Revenue (Use same account as original invoice) | | 100,000 |

Schedule S-12 is required for all departments with outstanding balances as of June 30, 2011 in accounts 230XXX. Schedule S-12 serves as an aging report of deferred revenue in accounts 230XXX. This Schedule should summarize all deferred revenue (including amounts deferred prior to June 30, plus new deferrals for June 30). The list should outline the entity name, amount deferred, reason for deferral (unearned or unavailable), description of program, and estimated period when revenue will be recognized. The total balance reported in Schedule S-12 must match the PeopleSoft general ledger balance for accounts 230XXX. Attach proper documentation for each line item in Schedule S-12.

Transactions Not Qualifying As Deferred Revenue

1. When operational units receive advances as a condition of performance and it expects to refund these amounts—or the majority of amounts received—upon performance of the established condition(s), the advances should be reported as “Customer Deposits” rather than “Deferred Revenue”. Although both accounts are liabilities, they differ based on the expectation of the advances.

Deferred revenue is received with the expectation that the County has a liability to fulfill before being entitled to recognize revenue. Customer deposits are received from a third party and are held to motivate them to fulfill some stipulated conditions. It is the desire of the County to have the established conditions met and refund the money; however, if the conditions are not met, some or all of the money is forfeited by the customer and recognized by the County as revenue. Generally, customer deposits are accounted for under liability section (201800); however, some specific accounts were established for departments requiring multiple refundable deposits and these liability accounts have prefixes of “2018XX”.

2. When amounts are earned by a Proprietary Fund, but not available, revenue should be recognized, rather than deferred. Proprietary Funds use the accrual basis of accounting and revenue should be recognized when earned or when the organizational unit is entitled to the proceeds.

Note: Estimates of accruals should not be entered through the Accounts Receivable system.

Chapter 9 Prepaid Expenses

Definitions and Accounting Treatment

A prepaid expense is the amount paid for a commodity or service that has not been received at the end of the fiscal year. The monetary amount that has been paid is capitalized in a prepaid expense account (Asset account 140200) to be expensed over the period used. Prepaid items are costs of operations that are capitalized at year end and will be consumed within the next fiscal year. Examples of prepaid expenses include insurance premiums and rent which are paid in advance.

For example, if on January 1, an organizational unit pays \$12,000 to rent a facility for a 12-month period, six months worth or \$6,000 of the expenditure/expense would be capitalized at June 30. The remaining \$6,000 must be expensed in the new fiscal year for the amount of rent attributed to July through December.

Schedule M Required

Schedule M should be completed for those prepaid items of **\$5,000 or more** as of June 30 in any one organizational unit and a JOURNAL ENTRY should be prepared to post the following accounting transaction:

ACCRUAL ENTRY (OLD YEAR POSTING)¹

| Account Description | Dr | Cr |
|--|-----|-----|
| Prepaid Expense (140200) | XXX | |
| Applicable expenditure account (5XXXXXX) | | XXX |
| Fund Balance (3XXXXXX) | XXX | |
| Nsb For Prepaid Items (316100) | | XXX |

ENTRY TO REVERSE ACCRUAL (NEW YEAR POSTING)

| Account Description | Dr | Cr |
|---|-----|-----|
| Applicable expenditure account (Same expenditure account used for accrual: 5XXXXXX) | XXX | |
| Prepaid Expense (140200) | | XXX |
| Nsb For Prepaid Items (316100) | XXX | |
| Fund Balance (3XXXXXX) | | XXX |

1) If prepayment is applied to insurance, asset account 140100 should be used and interest prepaid by RCRMC should be capitalized to Asset account 140201



Example:

Facilities Management negotiated a very favorable lease agreement of an office building on behalf of a county department. The agreement calls for the annual lease payments of \$30,000 to be made on January 2nd of each year. The unused portion of the lease amount, \$15,000, should be recorded as prepaid on Schedule M as of 6/30.

Expenses Not Qualifying As Prepaid Expenses:

1. Deferred charges: Non-recurring, non-capital costs of operations that benefit future periods should be specifically capitalized as deferred charges under Asset account 180100. These expenditures include costs incurred for the issuance of debt such as underwriter and legal fees.
2. Internal Service Fund expenses: Expenditures paid to internal service funds, such as County self-insurance, do not qualify as prepaid expenses. These costs are considered incurred during the fiscal year and do not benefit future periods.

Chapter 10 Depreciation

Definitions and Accounting Treatment

Capital assets include land, land improvements, easements, buildings, building improvements, vehicles, machinery, equipment, infrastructure, and all other tangible or intangible assets that have value beyond one fiscal year and are used in operations. To qualify as a capital asset, the amount capitalized must be at least **\$5,000 or more**. **Capitalized costs** include the value paid for the asset, sales tax, interest, transportation charges, insurance while in transit, and costs associated with preparing the asset for its intended use such as special foundations and installation costs. The cost of capital assets should be systematically expensed over the estimated period of time the asset is in service or will be of value to the organizational unit.

The estimated time of service is referred to as the **useful life** of the asset. The systematic expense of the asset cost is referred to as **depreciation**. Some assets are inexhaustible, such as land and land improvements, and are not depreciated since they retain their value.

There are various methods to calculate depreciation. The County uses the **straight-line method** of depreciation. The straight-line method of depreciation provides for equal periodic charges to expense over the estimated life of the asset as follows:

$$\frac{\text{Cost of Asset - Salvage Value (If any)}}{\text{Useful Life of Asset}} = \text{Depreciation Expense}$$

Asset depreciation is calculated in the financial system Asset Management Module for all depreciable capital assets (Proprietary Funds, as well as Governmental Funds). The difference between the two fund classifications is that for Proprietary Funds, the depreciation expense will be posted directly to actual ledger of the fund. For Governmental Funds, there will be no expense posted to the fund. Instead, in accordance with GASB Statement No. 34, the expense will be included in the Government-Wide financial statements for CAFR purposes only.

Since depreciation is calculated through the financial system Asset Management Module (identified by journal entry source code “AMD”), which produces a system-generated journal entry at the sub-ledger level and the Auditor-Controller’s Office posts the depreciation expense to the proprietary fund actual ledger, no year-end schedule is required to post the depreciation expense. However, once the expense is posted to the fund level, organizational units will be responsible for determining



the accuracy of the posting. The following transaction will be posted to reflect the depreciation expense:

DEPRECIATION JOURNAL ENTRY (OLD YEAR POSTING)

| Account Description | Dr | Cr |
|---|-----|-----|
| Depreciation-Building (53554X) | XXX | |
| Depreciation-Equipment (53556X) | XXX | |
| Depreciation-Infrastructure (53558X) | XXX | |
| Accumulated Depr. - Buildings (19820X) | | XXX |
| Accumulated Depr. - Equipment (19820X) | | XXX |
| Accumulated Depr. - Infrastructure (19830X) | | XXX |

No reversing journal entry should be prepared.

The depreciation expense is posted to the actual ledger of the fund on a quarterly basis. This is done to insure that there is adequate budget for depreciation expense at year end.

Construction In Progress and Schedule Q-9

Construction In Progress (CIP) is a major class of capital assets, which is used to track costs incurred to construct or develop a tangible or intangible capital asset before it is substantially ready to be placed into service. No depreciation benefit is received until the asset is complete and placed into service. Therefore, depreciation expense or amortization expense would not be recognized either for projects in the construction or development stage. Once the capital asset is completed, the asset would be reclassified into the appropriate major class and depreciation commence. Schedule-Q is a report used by the Auditor-Controller’s Office to request detailed CIP information from the departments by asset level. Schedule-Q is broken into 3 major categories: 1) Active 2) New and 3) Closed CIP projects for the defined fiscal year. Active projects are all ongoing projects, which might reflect needed cost adjustments to be processed in the Asset Management Module, as additional costs for a project are incurred during the fiscal year. New projects are those that commenced during the current fiscal year and closed projects are those that have been completed during the fiscal year, for which a Notice of Completion (NOC) has been approved by the Board of Supervisors.

Chapter 11 Bank Accounts Controlled by Departments or Agencies

General

A Schedule P is required for the following

1. All bank accounts that were established in accordance with the Auditor-Controller's Standard Practice Manual Policy #807.
2. Accounts that are used by departments for monies that are being held in a fiduciary capacity and treasurer issued revolving fund.

Instructions for Schedule P

Submit a Schedule P for each bank account controlled by your department.

1. If your department didn't have a bank account during the fiscal year, select the box "No" bank account on the space provided.
2. List the number of bank accounts that is controlled by your department and submit a separate schedule for each account.
3. Complete all fields on schedule P, answer the questionnaire in detail, and attach a copy of the following documents:
 - Approved Request to Establish a Checking Account (SPM Form AP-5)
 - Approved Checking Account Information Change Request (SPM Form AP-6). This form needs to be filled out if there is a change of Bank, Checking Account No. or authorized signature card.
 - June 30 bank statement
 - June 30 bank reconciliation
 - Authorized signature card
 - Listing of the top 10 collection sites for cash and checks.





Chapter 12 Leases

Capital Leases

A lease is classified as a capital lease when substantially all of the risks and benefits of ownership are assumed by the lessee. A capital lease is, for the most part, viewed as an installment purchase of property rather than the rental of property.

Criteria

The accounting principle presented in Financial Accounting Standards Board (FASB) Statement No. 13 (FASB 13) requires that a lease be capitalized if any one of the following four criteria is characteristic of the lease transaction:

1. The lease transfers ownership (title) of the property to the lessee by the end of the lease term.
2. The lease contains a bargain purchase option.
3. The lease term is equal to 75% or more of the estimated economic life of the leased property.
4. The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90% of the fair value of the leased property.

If a lease does not meet any of the above criteria it shall be classified as an operating lease.

Required by the ACO

For all new capital leases acquired on/after July 1, 2009, the present value of future lease payments must be entered into the Capital Lease Module. All County departments must ensure that AM5s (Capital Asset Forms) have been completed and submitted to the Auditor-Controller's Office along with copies of the following items:

- Lease Agreements
- Amortization Schedules
- Purchase orders
- Capital Lease Tests
- Invoices
- Simpler or PeopleSoft Queries showing **all** payments made during the fiscal year (required at year-end)



Operating Leases

When a lease does not satisfy any one of the four capitalization criteria for a capital lease, it is classified as an operating lease. An operating lease does not require the capitalization of the minimum lease payments. An operating lease is primarily a rental agreement for the use of an asset. Therefore, neither an asset nor a liability is recorded at the inception of the lease. Instead, rental expenditures are recognized as they become payable. Accordingly, County departments are expected to recognize rental expenditures as they become payable.

Required by the ACO

Departments must provide the ACO with a spreadsheet containing data for rental payments primarily for **facilities leases**.

Chapter 13 Contingent Liabilities

Definitions and Accounting Treatment

An existing condition or set of circumstances that **may** result in a liability (loss) depending on one or more future events that may occur or fail to occur is referred to as a **contingent liability**. Contingent liabilities include items such as guarantees, pending lawsuits, judgments under appeal, unsettled purchase orders, ability to collect receivables and uncompleted contracts.

Factors contributing to whether the event is accrued, disclosed, or not disclosed are based on the likelihood of the outcome and the ability to estimate the amount involved. Guidelines are established in the Statement of Financial Accounting Standards No. 5 for the appropriate action:

1. If it is probable that an asset has been impaired or a liability has been incurred at fiscal year end and the amount of loss is reasonably estimable, then a loss contingency should be accrued at fiscal year end.
2. If the likelihood of the loss is probable, but not estimable or the loss is reasonably possible, then the event should be disclosed in the footnotes to the financial statements.
3. If the likelihood of loss is remote, then recognizing a loss contingency through accrual or disclosing such an event in the financial statement footnotes, is not required.

County Counsel should be consulted in determining the degree of likelihood that a loss will occur in the future.

For contingent liabilities falling under categories 1 or 2 above, Schedule R should be completed and submitted with the year-end closing schedules. County Counsel will be requested to assess the probability of loss in writing during the Countywide financial statement audit.



Instructions for Schedule R: Contingent Liabilities

List the following on the Schedule R:

1. Source of Claim
2. Reason for Claim
3. Estimated Amount of the claim (if estimable)
4. Projected date of resolution
5. Department Contact
6. Schedule R must be submitted with Schedule N, even if the department did not have any contingent liabilities.

Chapter 14 Revolving Funds

Definition

A Revolving Fund is an authorized amount of cash in the form of currency, a bank checking account or both. Revolving Funds are established for specific operational needs to facilitate certain expenditure and cash transaction throughout the County departments.

Schedule W (Requirement)

California Government Code §29321.1 requires the Auditor-Controller to submit a written report to the Board of Supervisors at the end of each fiscal year identifying the revolving funds in existence during the fiscal year, the amount of such fund, and the officer using the fund.

Instructions for Schedule W

Submit a separate Schedule W for each Revolving Fund account.

1. Please fill in Agency Name, Fund Id, Dept. ID, Contact Name and Contact Phone Number.
2. Indicate Revolving Fund Treasurer's number—This is the number that was issued by the Treasurer's office. The Treasurer's number should not exceed 3 digits.
3. This Revolving Fund—
 - a. If the Revolving Fund does not have a checking account outside the County Treasury, select "Had No Bank account during the Fiscal Year". Include Lockbox Log.
 - b. If the Revolving Fund has a checking account outside the County Treasury, select "Had a bank account during the Fiscal Year" and indicate the number of Revolving Funds outside the Treasury in the space provided. Please prepare and submit a Schedule P for each bank account.
4. Amount of Revolving Fund—Enter the total amount approved by the Treasurer's office.
5. Location of Money—Select the location of where the money resides and provide us with the required information.
 - a. Lockbox—List amount and address of where the lockbox resides. If more than one lockbox list them all.
 - b. Bank Institution—List amount, bank name, account number, and address. If more than one bank list them all.



- c. Other—Explain any different from above.
 - d. Total lockbox and bank institution should equal to the amount of revolving fund (refer to line 4)
6. Custodian name—Enter the authorized custodian of the fund.
 7. Department Head name and Department Head Title - Indicate department head name and title.
 8. Prepared By and Phone Number—Enter the name of the person who prepared the schedule.
 9. Department Approved By and Date—Schedule must be signed and dated by the Department Head.

Chapter 15 Pollution Remediation Obligations

Definitions and Accounting Treatment

A pollution remediation obligation refers to a government's responsibility to address the current or potential detrimental effects of existing pollution through activities such as environmental assessments or cleanups.

In November 2006 the Governmental Accounting Standards Board (GASB) issued its Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance to governments regarding how and when to measure and report the costs and obligations associated with pollution cleanup efforts. For example, obligations to clean up spills of hazardous wastes or substances including removal of contamination such as asbestos are pollution remediation obligations. Pollution remediation activities include the following:

1. Pre-cleanup activities, such as performance of a site assessment, site investigation, corrective measures feasibility study, and the design of a remediation plan.
2. Cleanup activities, such as neutralization, containment, or removal and disposal of pollutants, and site restoration.
3. External government oversight and enforcement-related activities, such as work performed by an environmental regulatory authority dealing with the site and chargeable to the government.
4. Operation and maintenance of the remedy, including required monitoring of the remediation effort.

Effective fiscal year 2009, our County must estimate the expected liability for pollution remediation if it knows a site is polluted and any of the following **obligating events** occur:

1. Pollution poses an imminent danger to the public or environment and the County has little or no discretion to avoid fixing the problem.
2. The County has violated a pollution prevention-related permit or license, such as a Resource Conservation and Recovery Act (RCRA) permit or similar permit under state law.



3. A regulator has identified (or evidence indicates it will identify) the County as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the clean up.
4. The County is named (or evidence indicates that it will be named) in a lawsuit to compel it to address the pollution.
5. The County begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the County is legally required to complete).

Exclusions

GASB 49 excludes the following:

1. Landfill closure and postclosure care obligations within the scope of GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*.
2. Other future pollution remediation activities that are required upon retirement of an asset (such as nuclear power plant decommissioning).
3. Recognition of asset impairments or liability recognition of unpaid claims by insurance activities.
4. Pollution prevention or control obligations with respect to current operations, such as obligations to install smokestack scrubbers, treat effluent, or use environmentally-friendly products (i.e., low sodium road salts).
5. Accounting for nonexchange transactions, such as brownfield redevelopment grants.

Recognition and Measurement of Pollution Remediation Liabilities

1. Estimating the Liability—Components and Benchmarks

If the County knows a site is polluted and one or more of the obligating events has occurred, then we must estimate the liability for remediation of the pollution. The total liability for pollution remediation will include several separable components. These components range from pre-cleanup stage through the operation and remedy itself, e.g., legal fees, testing the polluted site, feasibility study, plan operation, and monitoring after the cleanup. In some cases, the County may have sufficient information to arrive at a meaningful estimate of most or all of the components of the liability when an obligating event first occurs, or soon thereafter. In other cases, more time may be needed to arrive at a meaningful estimate of many or most of the components of the liability. The statement identifies benchmarks, or milestones, that are considered turning points for evaluating when a component of the liability becomes reasonably estimable.

Benchmarks include the receipt of an administrative order, participation in site assessment or investigation, completion of a corrective action feasibility study, issuance of an authorization to proceed, and design and implementation of the remedy through post-remediation monitoring.

2. Measurement Based on Expected Outlays

Pollution remediation liabilities should be measured based on the pollution remediation outlays expected to be incurred to settle those liabilities at each benchmark established. Pollution remediation outlays include all direct outlays attributed to the pollution remediation activities (payroll and benefits, equipment and facilities, material, and legal and professional services), and may include estimated indirect outlays (including overhead). The following outlays are not part of performing pollution remediation: fines, penalties, toxic torts, product and process (workplace) safety outlays, litigation support involved with potential recoveries, and outlays borne by society at large rather than by the County.

3. Measurement at Current Value

Liabilities should be measured at their current value, based on reasonable and supportable assumptions about future events that may effect the eventual settlement of the liability.

4. Measurement of the Expected Cash Flow

Liabilities should be measured using the expected cash flow technique, which measure the liability as the sum of probability based on the weighted average.

5. Re-measurement

Pollution remediation liabilities should be adjusted when benchmarks are met or when new information indicates changes in estimated outlays.

6. Accounting for Recoveries

Liability should include all work expected to be performed, including work expected to be performed for other responsible parties. Expected recoveries from other parties as well as insurance recoveries should also be used in the measurement by reducing the expense and liability.

Reporting

1. Report in Government-wide and Proprietary Fund Financial Statements

Pollution remediation costs should be reported in the statement of activities and statement of revenues, expenses, and changes in fund net assets (proprietary funds) as program or operating expenses in the fiscal year an obligating event occurred measured at the applicable benchmark.

2. Capitalization of Pollution Remediation Outlays (if applicable)

Pollution remediation outlays should be capitalized in the government-wide and proprietary fund statements when goods and services are acquired for any of the following circumstances:

- a. To prepare a property in anticipation of a sale.

- b. To prepare a property for use when the property was acquired with known or suspected pollution that was expected to be remediated.
- c. To restore pollution remediation that restores a pollution-caused decline in service utility that was recognized as asset impairment.
- d. To acquire property, plant and equipment that has a future alternative use.

Disclosures

The government should disclose the following in the notes to the financial statements:

- 1. The nature and source of pollution remediation obligations (i.e., federal, state).
- 2. The amount of the estimated liability, the methods and assumptions used for the estimate, and the potential for changes (i.e., price increases, regulations).
- 3. Estimated recoveries reducing the liability, if any.

Illustration

Remediation Project

Facts: In 2004, the County purchased a vacant property for \$80,000 after completing a site assessment which concluded the property could be cleaned for \$100,000-\$130,000. The County entered in to an agreement with a buyer to sell the property for \$175,000 after it has been cleaned up. In 2005, the County received bids to clean the property for \$125,000.

Obligating Event: The County voluntarily obligated itself to commence remediation by purchasing a property with known pollution.

Measurement of Expected Outlays: The weighted average of the estimate for 2004 is \$115,000 $(100,000+130,000)/2$.

Reporting FY 2004: The estimated liability is \$20,000 as of FY 2004 and is calculated as follows:

| Facts | Amount | Accounting Treatment |
|-----------------------------|-------------------------|---|
| Purchase price of property | \$ 80,000 | Record as an asset |
| Expected outlays | <u>115,000</u> | Do not capitalize until incurred. |
| Total cost of property | 195,000 | |
| Fair value | (175,000) | Sale price in 2005 |
| Estimated liability FY 2004 | <u><u>\$ 20,000</u></u> | Record as an expense and liability at year-end. |

Schedule Y Questionnaire Required

Based on the information provided, Schedule Y Questionnaire should be completed by all departments and signed by the Department Head and/or Fiscal Manager. Only one Questionnaire is required from each department. Please provide detail information to any “yes” answers. If applicable, provide estimated cost for each potential liability. After review of any “yes” answers, the ACO will contact the department to set up an accrual if necessary. No journal entry is required to be submitted with the Questionnaire.

APPENDIX A: YEAR-END ACCRUAL SCHEDULES

| Use Schedule: | To Journalize..... |
|-------------------|---|
| A | Due From Other Funds/Due To Other Funds |
| B | Due from Other Governments |
| C | Operating Accounts Receivable |
| E | Inventory Materials and Supplies |
| G | Due to Other Governments |
| I | Accounts Payable Other |
| K & K-1 | Request For Reserve For Encumbrances |
| L-1 (Advance) | Deferred Revenue: Revenue Received in Advance Of Earning/ Entitlement Process |
| L-2 (Unavailable) | Deferred Revenue Governmental Funds Only Revenue Unavailable to Expend Against Current Liabilities |
| M | Prepaid Expense |
| N | Transmittal Letter |
| P | Bank Accounts Controlled by Agency or Department |
| Q | Construction in Progress (CIP) |
| R | Contingent Liabilities |
| S-12 | Deferred Revenue Account Analysis |
| T-12 | Due From Other Governments Analysis |
| V-12 | Due To Other Governments Analysis |
| W | Revolving Fund |
| Y | Pollution Remediation Questionnaire |

APPENDIX B: ACCOUNTS PAYABLE INVOICE DATE DETERMINATION WORKSHEET

