
Year-End Expense Accruals

Bonneville Power Administration
Office of the Chief Financial Officer



Outline of Presentation

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What is a year-end accrual?

- Year-end accruals are required to estimate the amount of goods received and services rendered in the final months of the fiscal year.
- In order to comply with accrual accounting principles, BPA uses year-end accrual estimates to match revenue and expenses to the period in which they occur.
- For proper “cut off” (i.e. recording the transactions in the proper period), organizations are being asked to estimate the expenses incurred for which BPA will not receive an invoice by the end of the fiscal year (9/30/2003).

How the year-end accrual works

- o Estimates of the products delivered or services rendered but for which an invoice has not been received are entered as current year expenses.
- o Accruals entered at year-end are reversed in the subsequent period.
- o Goods and services billed in the subsequent period are recorded as actuals.
- o The accrual reversal offsets the actual billed amounts, resulting in an intended net zero impact in the subsequent period for the prior period activity.



Why year-end accruals are important

- Improves financial management and fiscal responsibility, which can translate into more efficient use of funds.
- Prevents budget shortfalls (budget pressures) in subsequent periods that would otherwise adversely impact contract work and completion.
- Essential for a clean audit opinion on BPA financial statements
- Underestimating accruals in a prior period can impact current year funds availability.
- Overestimating accruals in a prior period ties up program funds in that period which could have been used by other projects.

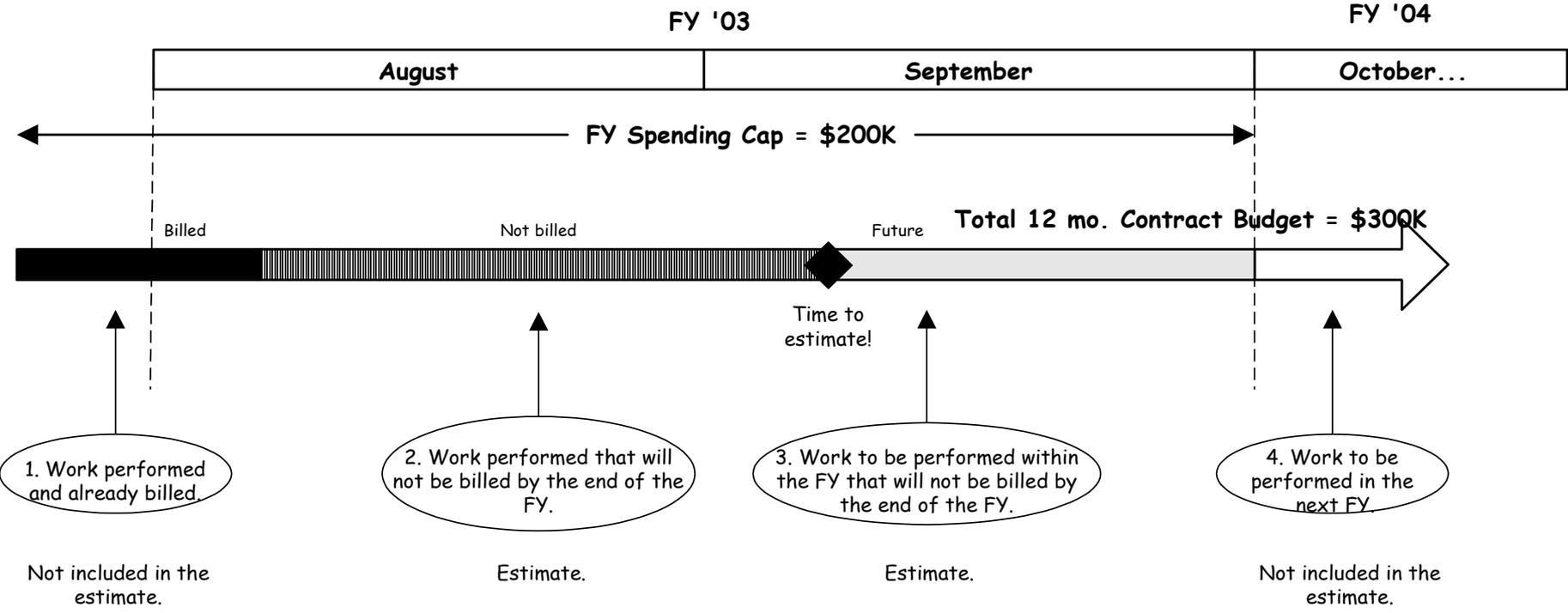


Letter requesting year-end accrual estimates

- In August, a letter will be sent to each contractor requesting their year-end accrual estimates.
- The letter will contain a form that will identify each contract that the contractor has with BPA.
- If the form does not contain a contract, we ask that you add it to the form.
- You will be requested to have your estimates submitted to BPA by September 16th.

What to include in your FY 03 year-end accrual estimate

- Costs for work performed in FY 03, or earlier years, for which an invoice will not be received by BPA until FY 04 (After 9/30/03).
- Costs for work performed by sub-contractors for which you may not have received an invoice or have not included the costs in an invoice to BPA.





Subcontracts and how to treat them

- Just as many contracts with BPA cross fiscal years, many contractors also have subcontracts that cross fiscal years.
- Outstanding contract balances on subcontracts need to be accounted for in two ways:
 - First, as mentioned on the previous page, the portion of the work that has been performed that will not be included in an invoice to BPA before the end of the fiscal year must be included in the FY03 year-end accrual estimate.
 - Second, the portion of work remaining must be included in your FY 04 budget estimate.



Subcontracts and how to treat them

Example:

- You have a subcontract for \$60,000 of which you have received invoices for \$15,000 and have included this amount in invoices to BPA.
- You are informed by the subcontractor that they will have completed another \$10,000 worth of work that will not be invoiced to you until after 9/30/03. The \$10,000 should be included in your FY03 year-end accrual estimate to BPA.
- The remaining subcontract balance of \$35,000 should be included in your FY 04 budget request.



How the accruals are reviewed and approved

- BPA Project Managers will review the year-end accrual estimates to determine if they appear reasonable and then will certify that they have made this review.
- The accrual estimates will be verified against the contract balance as a secondary verification that the estimates are reasonable (e.g. estimates do not exceed the contract balance).
- The final review will be a random review of accrual estimates by financial management staff. Questions about any accrual estimates will be addressed to the Project Manager and the contractor.

Impact of Understated Accrual

At the end of the current fiscal year – an estimate is made that \$500 of work will be performed on the contract, which will not be billed until the next fiscal year. However, the actual work performed when billed in the following year is \$900.

Impacts:

- The expenditures for the current fiscal year are understated by \$400.
- The net revenue for the current fiscal year is overstated by \$400.
- The extra \$400 of expenditures are shifted to the next fiscal year and are charged against that year's budget.
- There is \$400 less money remaining in the budget for work that needs to be performed in the next year.

Impact of Overstated Accrual

At the end of the current fiscal year – an estimate is made that \$800 of work will be performed on the contract, which will not be billed until the next fiscal year. However, the actual work performed when billed in the following year is \$300.

Impacts:

- The expenditures for the current fiscal year are overstated by \$500.
- The net revenues for the current fiscal year are understated by \$500.
- Essentially \$500 of expenditures are shifted from the next fiscal year to the current fiscal year.
- The \$500 less expenditures in the next fiscal year will not be used to increase the budget during the next fiscal year.