



85.74 Special Liabilities

85.74.10

July 1, 2003

Vendor payment advance

85.74.10.a

General

85.74.10.a.(1)

As prescribed in RCW 28B.50.090 and in RCW 28B.50.143, the State Board for Community and Technical Colleges (SBCTC) and each community and technical college district may request and receive an advance from the Office of the State Treasurer (OST) for local vendor payments. Vendor payment advances are considered liabilities of the agencies receiving the monies.

85.74.10.a.(2)

The SBCTC and each individual college are responsible for establishing proper accounting procedures and controls to ensure accountability and obtain maximum benefit from the authorized advance.

85.74.10.b

Initial Advance

85.74.10.b.(1)

The SBCTC is to submit to the Office of Financial Management (OFM) a request for approval of the amount calculated as the initial advance for the SBCTC and each individual college. In arriving at the amounts, the following criteria is to be used:

- The base to be used in the calculation of the advance is to equal total budgeted expenditures of the General Fund for the biennium.
- The amount of the advance to each individual college is to be limited to 17 percent of its average monthly allotment for General Fund expenditures, and the amount advanced to the SBCTC is to be limited to 24 percent of its average monthly allotment for General Fund expenditures.
- Approval is not to be granted if the allotment for the community and technical college system has not been received by OFM.

85.74.10.b.(2)

Upon approval by OFM, the SBCTC is to notify each individual college of its approved amount. Thereafter, the SBCTC and each individual college are to prepare a Journal Voucher (A7-A) for the amount of the advance and request an ACH.

Accounting Procedures

In all cases, the payee is to be the institution and is not to include the name of an individual. The entry required in the general ledger for Account 001 "General Fund" is a debit to GL Code 1350 "Due From Other Funds - Advances" and a credit to GL Code 7120 "Warrants/ACH Payments In-Process." Refer to Subsection 85.85.55.a.(1) for an illustrative entry.

85.74.10.b.(3) Upon receipt of the ACH, the SBCTC and each individual college are to record the amount received in Account 840 "Institutions of Higher Education - Agency Account." The entry required in the general ledger for Account 840 is a debit to GL Code 1110 "Cash in Bank" and a credit to GL Code 5150 "Due To Other Funds - Advances." Refer to Subsection 85.85.55.a.(2) for an illustrative entry.

85.74.10.c **Payments for Goods and Services**

85.74.10.c.(1) The SBCTC and each individual college are to process vendor payments for those items chargeable to the General Fund in the same manner as local account expenditures with the following exceptions:

- Checks are to be drawn on the local bank account against the cash advance deposited in Account 840, but no expenditure data is to be recorded against this account. Instead, the entry required in the general ledger for Account 840 is a debit to GL Code 1350 "Due from Other Funds - Advances" and a credit to GL Code 1110 "Cash in Bank." Refer to Subsection 85.85.55.b.(1) for an illustrative entry.
- To support the debit entry to the clearing account, the SBCTC and each individual college are to maintain a file detailing the expenditure/expense coding which is to be charged when reimbursement is requested.

85.74.10.c.(2) The SBCTC and each individual college are to record expenditure data to Account 001 "General Fund." This entry is to be made simultaneously with the general ledger entry to Account 840. The general ledger entry required in Account 001 is a debit to GL Code 6505 "Accrued Expenditures/Expenses" and a credit to GL Code 5150 "Due To Other Funds - Advances." Refer to Subsection 85.85.55.b.(2) for an illustrative entry.

85.74.10.d **Reimbursements**

85.74.10.d.(1) At the end of each month, the SBCTC and each individual college are to process a Journal Voucher (A7-A) requesting reimbursement for the amount of money actually disbursed from the advance.

Accounting Procedures

The amount requested should be supported by the detailed listing as noted in 85.74.10.c.(1) above. When reimbursement is requested, cash expenditures are to be recorded in Account 001 "General Fund." The entry is a debit to GL Code 5150 "Due To Other Funds - Advances" and a credit to GL Code 6505 "Accrued Expenditures/Expenses" and a debit to GL Code 6510 "Cash Expenditures/Expenses" and a credit to GL Code 7120 "Warrants/ACH Payments In-Process." Upon receipt of the ACH, the SBCTC and each individual college are to record the deposit in Account 840. The entry is a debit to GL Code 1110 "Cash in Bank" and a credit to GL Code 1350 "Due From Other Funds - Advances." Refer to Subsection 85.85.55.c for illustrative entries.

85.74.10.d.(2) The SBCTC and each individual college are limited to one reimbursement per month. At no time is the SBCTC or any individual college to request an amount of reimbursement in excess of actual cash outlays.

85.74.10.d.(3) Accruals, together with encumbrances, are to be posted to the General Fund at the end of each month.

85.74.10.e **Biennial Close out of Vendor Payment Advance** - Early in each new biennium the advance for the preceding biennium is to be closed out. To close out the vendor payment advance, the SBCTC and each individual college are to follow these procedures:

85.74.10.e.(1) **Institutions of Higher Education - Agency Account 840**

The amount reimbursed for expenditures incurred in June will be reduced by the amount initially advanced. This amount should equal the difference between the amount of the original advance as recorded in GL Code 5150 "Due To Other Funds - Advances" and the amount of June expenditures in GL Code 1350 "Due From Other Funds - Advances." If June expenditures are greater than the amount initially advanced, the difference is to be requested as reimbursement. If June expenditures are less than the amount initially advanced, the difference must be remitted to the General Fund 001. To record the amount to be reimbursed or remitted, the following entries are required: The first entry required is a debit to GL Code 5150 and a credit to GL Code 1350 for the amount of the initial advance. After this entry has been made, the balance in GL Code 1350 will indicate whether funds are to be requested or remitted to the General Fund 001.

If the balance in GL Code 1350 is a debit, request reimbursement of this amount by processing a Journal Voucher (A7-A) requesting an ACH. Upon receipt of the ACH, the entry required is a debit to GL Code 1110 and a credit to GL Code 1350.

Accounting Procedures

If the balance in GL Code 1350 is a credit, ACH the balance to the General Fund 001 and process a Cash Receipts Journal Summary (A8-A). The entry required is a debit to GL Code 1350 and a credit to GL Code 1110. Refer to Subsection 85.85.55.d for an illustrative entry.

The SBCTC and each individual college are to use the listing from the payment file detailing the expenditure/expense GL coding to be charged for advance payments.

85.74.10.e.(2)

General Fund – Account 001

The SBCTC and each individual college are to record the reimbursement or remittance in the General Fund. If the final amount is a reimbursement from Account 001, the entry is a debit to GL Code 5150 “Due To Other Funds - Advances” and a credit to GL Code 7120 “Warrants/ACH Payments In-Process” for the amount reimbursed. If the final amount is a remittance to Account 001, the entry is a debit to GL Code 7110 “Receipts In-Process” and a credit to GL Code 1350 “Due From Other Funds - Advances.” Refer to Subsection 85.85.55.d.(2) for an illustrative entry.

At this point the balances in GL Code 1350 “Due From Other Funds - Advances” and GL Code 5150 “Due To Other Funds - Advances” should be zero.

85.74.20

July 1, 2012

Public works contracts - retention of payments

85.74.20.a

General

85.74.20.a.(1)

RCW 60.28.011 requires, in part, that all contracts for public improvements or work, other than for professional services, by a public body must provide for retention from the amounts earned by the contractor those amounts provided by law. Such monies are to be retained in accordance with the provision of the law for the protection and payment of the claims of any person arising under the contract and the state for taxes due from the contractor.

Highway, street or road public improvement contracts funded in whole or in part by federal transportation funds are to rely upon the contract bond as referred to in Chapter 39.08 RCW for protection of payment and taxes, as described in the preceding paragraph.

85.74.20.a.(2) The monies withheld from amounts due a contractor under the provisions of a public works contract, at the option of the contractor, shall be:

- Retained in an account by the agency, or
- Deposited by the agency in an interest bearing account in a qualified public depository, or
- Placed in escrow with a bank or trust company by the agency.

Alternatively, a contractor may submit a bond for all or any portion of the contract retainage in a form acceptable to the agency and from a bonding company meeting standards established by the agency.

85.74.20.a.(3) Following the award of a contract for public improvements or work for which retained percentages are required to be withheld under the provisions of RCW 60.28.011, agencies are to require the contractor to exercise an option in writing as to whether monies withheld from amounts due to the contractor are to be retained by the agency, deposited in an interest bearing account, placed in escrow, and/or whether the contractor will submit a bond for all or a portion of the contract retainage. Agencies are to develop procedures for informing the contractor of the options and method for exercising the option selected.

An option must be exercised prior to or at the time of submission of the invoices for the first progress payment to be made under the contract. No progress payment is to be made until the contractor has exercised an option in writing.

85.74.20.a.(4) Payments on contracts for public improvements or work should be made in accordance with Chapter 60.28 RCW.

85.74.20.a.(5) Refer to Subsection 85.85.60 of this manual for illustrative entries related to retained percentages.

85.74.20.b **Retainage Held by the Agency**

When an election is made for the agency to hold the retainage in a state account, the agency records the amount retained in GL Code 5116 "Retained Percentages Payable." The agency should maintain a subsidiary record of the retainage held by contract number and contractor name.

Accounting Procedures

85.74.20.c **Retainage Deposited in Interest Bearing Accounts**

- 85.74.20.c.(1) When an election is made to deposit amounts withheld in an interest bearing account in a public depository, the contractor and agency are to select an institution agreeable to both. The financial institution selected must be a qualified public depository under Chapter 39.58 RCW.
- 85.74.20.c.(2) Deposits in an interest bearing account are to be in the name of the agency and are not allowed to be withdrawn without the agency's written authorization.
- 85.74.20.c.(3) Interest earned on deposits is to be paid to the contractor as said interest becomes payable under the terms of the deposit. The agency is to notify the institutions to withhold all further payments of interest in the event claims are filed against the contractor. After such notice, all unpaid interest is to be subject to the conditions of Chapter 60.28 RCW. The account is to be appropriately noted by the public depository to enable that institution to report interest payments made to the contractor to the Internal Revenue Service in the proper format.

85.74.20.d **Retainage Placed in Escrow**

- 85.74.20.d.(1) When the contractor elects to place amounts withheld in escrow, the contractor selects a bank or trust company as the escrow agent. The agency, contractor, and escrow agent are to then jointly execute an Escrow Agreement approved as to form by the Attorney General. The Escrow Agreement, in addition to other requirements, is to provide for payment of all escrow services and brokerage fees by the contractor and is to stipulate that the contractor agrees to assume all risks in connection with the investment of the retained percentages. A copy of the completed Escrow Agreement is to be provided to the escrow agent, contractor, and agency prior to the time the first progress payment is made.
- 85.74.20.d.(2) When the moneys withheld are placed in escrow, the warrant or check representing the sum of the monies withheld is to be made payable to the bank or trust company and the contractor jointly. Such monies are to be converted into bonds and securities and held in escrow. The bonds and securities are to be chosen by the contractor and approved by the agency. Interest on the bonds and securities shall be paid to the contractor as said interest becomes payable under the terms of the Escrow Agreement.

Accounting Procedures

In approving securities, the agency is to consider the probable safety of the securities and their liquidity in relation to completion of the project and the timing of retention payments per statute. The agency may approve investments in bonds or securities eligible for investment by public entities, pursuant to RCW 43.84.080 and Chapters 39.58, 39.59 and 43.250 RCW.

- 85.74.20.d.(3) The agency is to retain in its files all documents, supporting data, and records which reflect all actions taken relating to the escrow account and the investment of escrow monies.

85.74.30

July 1, 2008

Unclaimed property

In accordance with state law, unclaimed personal property reverts to the state in the absence of legal claimants or heirs. The state accounts for abandoned property in Account 196 “Unclaimed Personal Property Account.” Amounts in excess of a statutory limit are transferred to the General Fund. The state establishes a liability in Account 196 to reflect an estimate of the amount that will eventually be claimed using short-term GL Code 5193 “Liability for Unclaimed Property Refunds” and long-term GL Code 5293 “Liability for Unclaimed Property Refunds.”

The state uses Account 527 “Administrator for Intestate Estates Account” for escheat property. Property escheats to the state from the estates of persons who die intestate without any known or discoverable heirs. Account 527 is used to account for the escheat property pending identification of rightful heirs. Refer to RCW 63.29.130 for unclaimed property held by courts and public agencies, and RCW 63.29.150 for unclaimed wages.

85.74.40

October 1, 2011

Claims and judgments

- 85.74.40.a Agencies are to record a liability for claims and judgments when all four of the following criteria are met:

- The event giving rise to the claim occurred prior to the end of the fiscal year,
- It is probable that a claim will be asserted,
- It is probable that the claim will prevail, and
- The amount of the loss is measurable or estimable.

Accounting Procedures

- 85.74.40.b In governmental fund type accounts, a claim or judgment is recognized as an expenditure and a liability as of the date that payment became due pursuant to the terms of a settlement agreement or court judgment (assuming there is no appeal) regardless of whether or not there are sufficient available spendable resources to liquidate them. The remaining portion of the liability is recorded in Account 999 “General Long-Term Obligation Subsidiary Account.”
- 85.74.40.c In proprietary and trust fund type accounts, claims and judgments are always fund liabilities. They are separated into short-term GL Code 5113 “Claims and Judgments Payable” and long-term GL Code 5213 “Claims and Judgments Payable.”
- 85.74.40.d An example of a claims liability involves disallowed costs on federal programs. At the point that the agency determines that it is probable that a repayment will be made to the federal government and the amount is measurable, a claims liability is to be recorded. Additionally, an adjustment for the amount of the repayment is to be recorded to reduce both the federal revenue and expenditure/expense initially charged. Refer to Subsection 85.85.65 for an illustrative entry.
- 85.74.40.e In instances where it is reasonably possible that a loss has occurred or an asset has been impaired, or a loss is probable but not measurable, a liability should not be recorded. These contingent obligations are reported by means of the year-end disclosure form process and disclosed in the notes to the state’s financial statements.

85.74.50

July 1, 2009

Pollution remediation obligations

- 85.74.50.a Pollution remediation obligations are liabilities related to the State’s responsibility to clean up pollution or contamination. They do not include obligations for pollution prevention or control activities.
- 85.74.50.b When *one* of the following five events or circumstances occurs, agencies must attempt to estimate the expected pollution remediation outlays:
- Pollution poses an imminent danger to the public or environment and the agency has little choice but to take action.
 - The agency violates a pollution prevention-related permit or license.

Accounting Procedures

- A regulator identifies the agency as responsible or potentially responsible for cleaning up pollution.
- The agency is named (or evidence indicates that it will be named) in a lawsuit to compel it to address pollution.
- The agency begins or legally obligates itself to begin cleanup or post-cleanup activities.

85.74.50.c Pollution remediation efforts should be broken down into components, such as legal services, site investigation, and post remediation monitoring. On an on-going basis, the efforts should be analyzed by component to determine if costs are reasonably estimable. A liability should be recognized as the ranges within a component become reasonably estimable.

85.74.50.d The liability for the pollution remediation should be measured at current value (not present value) using the expected cash flow technique. The expected cash flow technique is the sum of probability-weighted amounts in a range of possible estimated amounts.

85.74.50.e In governmental fund type accounts, goods and services that are used for pollution remediation activities should be recognized as liabilities of the operating accounts only to the extent that the goods and services have been received and the liabilities are expected to be liquidated with current available spendable resources. An entry is required to reserve a portion of fund balance to indicate that the liability is not available for appropriation.

This is accomplished by debiting the appropriate Fund Equity GL Code and crediting GL Code 9260 "Restricted for Pollution Remediation Liabilities." The remaining portion of the liability is recorded in Account 999 "General Long-Term Obligation Subsidiary Account."

85.74.50.f In proprietary and trust fund type accounts, pollution remediation obligations are always fund liabilities. They are separated into short-term liabilities using appropriate general ledger codes (for example, accounts payable, claims and judgments payable, or accrued salaries) and long-term liabilities using GL Code 5287 "Pollution Remediation Obligation."

85.74.50.g Agencies that have or believe they may have pollution remediation obligations should contact their OFM Accounting Consultant for assistance. Refer to Subsection 90.40.75 for fiscal year-end disclosure requirements related to pollution remediation obligations.

85.74.55

July 1, 2008

Other post employment benefit (OPEB) obligations

- 85.74.55.a Obligations for other post employment benefits (OPEB), such as retiree medical and dental insurance subsidies, are recognized as the benefits are being earned. Even though Washington's OPEB are not formalized in a contract or plan document, GAAP require that the actuarially determined value of the annual required contribution be recognized on an annual basis. To the extent that the annual required contribution is not funded, an OPEB obligation accrues.
- 85.74.55.b In governmental fund type accounts, the OPEB obligation is recorded in Account 999 "General Long-Term Obligation Subsidiary Account."
- 85.74.55.c In proprietary and trust fund type accounts, the OPEB obligation is recorded as a fund liability.