



LSL

# *“Back to Basics”* **WEBINAR**

**Accounts Receivable**

1 CPE CREDIT

**Thur, July 31**  
**10:00AM PST**

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# Your LSL Presenter



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# Objectives

1. Hear about the common challenges and pitfalls and learn how to avoid them.
2. Understand what a reconciliation is, and learn a step-by-step approach for performing AR reconciliations each year efficiently and accurately.
3. Discuss best practices for documentation and preparation for audit.
4. Encourage collaboration between departments within the government agency to ensure a cohesive approach to managing AR and DFOG Activities.

# Recap of YE Close Status

- Completed GASB 87/96 calculations/entries... or at least initiated the process.
- Completed OPEB/Pension.
- Long Term Debt, A/P and Accrued Liabilities on August 12<sup>th</sup>.

# POLLING QUESTION #1

**How many years of experience do you have with AR reconciliations?**

- A. 0-2 years
- B. 3-5 years
- C. 5-10 years
- D. 10+ years

# Technical Guidance

# What is a reconciliation?

- A reconciliation is a line-item detail of what an account balance is made up of. For AR, this comes often in the form of a detailed AR subsidiary ledger's total that is compared to the AR balance in the general ledger.

Per AR subsidiary ledger

ACCOUNT			BEG. BALANCE	DEBITS	CREDITS	NET CHANGE	END BALANCE
912-00-0000-000-00000-0000-0000-11701-			789.46				
*12	6/30/2024	517143 STATE OF C ADPP PYMNT		37,711.95	-	36,922.49	
*12	6/30/2024	520505 AMERICAN F JAN 2024		49.92	-	36,972.41	
*12	6/30/2024	533739 RMBRST 4/21/23-5/31-24		80,883.38	-	117,855.79	
912-11701			789.46	118,645.25	789.46	117,855.79	118,645.25

Per GL/TB

00-0000-000-00000-0000-0000-11701 912 AR Cash Receipt Accruals 118,645.00



# Are your reconciliations really reconciliations?

## • NO – it's not a reconciliation

- Subsidiary ledgers that don't tie back to the GL.
- GL detail that consists of the entire years' activity.

## • YES – it's a reconciliation

- Subsidiary ledger that ties back to the GL.
- Verified account balance is correct; all AR is accurate and current.

# Are your reconciliations really reconciliations?

## Example A

- Has a “balance forward” that has no detail.
- Doesn’t allow for a review of those items to ensure they are still outstanding; Like a general ledger.

## Example B

- Shows a year end accrual entry that is summarized;
- However, this entry can be pulled with ease and should tie 100% to the balance listed.

# Types of AR

- **Utility Billing**
  - Water, Sewer, Stormwater, Refuse
    - Charges for Services
- **General**
  - Taxes Receivables
  - Special Assessments
    - Charges to Property Owners for Improvements
  - Miscellaneous
- **Due From Other Governments / Grants Receivable**
  - Federal or State Agencies for Grant Programs
    - Grant Awards

# AR Best Practices

- Timely reconciliations— don't wait for year-end. If not monthly, perform quarterly.
- Reconciling – not just identifying a discrepancy but tying the balances between the subsidiary ledger and general ledger.
- Segregation of duties - different team members responsible for billing, collections and reconciliations.
- Utilize technology for efficiency.
- Documentation of reconciliation and resolution of discrepancies.

# Common Challenges and *How to Avoid Them*

- Collections Policy - *create a collections policy for staff to follow*
- Long outstanding AR - not writing off - *write off old/long outstanding AR or establish an allowance.*
- Not reconciling AR - *reconcile AR on a monthly basis, or quarterly for minimal activity.*
- Lack of follow up to receive payment - *send follow up invoices to customers monthly*
- Resolving payment disputes with vendors - *follow up with customers on discrepancies on a timely basis*
- Mixing "regular" AR with Other Receivables - making it harder to reconcile - *create separate GL accounts to track regular versus DFOG, Special Assessments or Miscellaneous*

# POLLING QUESTION #2

**What is the most common challenge you've experienced with reconciling AR?**

- A.** Using the GL as a Reconciliation
- B.** Combining AR into one GL Account
- C.** Not writing off long outstanding AR
- D.** All of the above

# How Does This Info Get Audited

# What are the auditors looking for?

- A reconciliation that ties to the GL.
  - If it doesn't tie, an explanation of why with clear documentation.
- Reviewal of A/R aging and significant outstanding items (90+ days).
- Supporting Documentation:
  - Cash receipts, Invoices, Billing statements, Contracts, Grant awards.
- Review of adjustments.
- Segregation of duties for strong internal controls.



# LSL's Approach to Year-End Close

# Process Considerations

TYPE OF AR

POLICY

SOFTWARE  
CAPABILITIES

REPORT  
FORMAT

THIRD PARTY  
COLLECTION  
AGENCY

# Step 1: Review the AR Aging Report

- Identify any overdue or doubtful accounts.
- Collaborate with collecting departments.
- Follow-up with 3<sup>rd</sup> Party Collection Agency (if applicable) to collect payments or confirm balances.
- Investigate and resolve discrepancies in balances:
  - Duplicate or missing invoices
  - Payments
  - Adjustments
  - Write-offs

# Example of A/R Aging

Account Receivable Past Dues Aging Report									
Account No.	Cust No.	Balance	Fund	Under 30 days	30 - 60 days	60 - 90 days	90 - 120 days	Over 120 days	
Last Name									
0000323 California Volunteers	017649	245,902.18	299-1320	245,902.18	0.00	0.00	0.00	0.00	
000034 CalTrans (CA Dept. of Transportation)	015951	101,386.38	110-1320	101,386.38	0.00	0.00	0.00	0.00	
000040 CalTrans (CA Dept. of Transportation)	015951	4,225.00	110-1320	4,225.00	0.00	0.00	0.00	0.00	
0000301 Citation Processing Center	017429	28,425.45		0.00	0.00	0.00	0.00	14,200.00	
		17,589.29	110						
		3,846.15	296						
		6,990.01	781						
0000331 The Pines Restaurant	017658	8,269.26	255	0.00	8,269.26	0.00	0.00	0.00	
		\$ 17,589.29	110-1030						
		\$ 3,777.50	250-1030						
		\$ 8,269.26	255-1030						
		\$ 3,846.15	296-1030						
		\$ 5,582.00	550-1030						
		\$ 6,990.01	781-1030						
		\$ 46,054.21							
		\$ 111,392.16	110-1320						
		\$ 245,902.18	299-1320						

# A/R Reconciliation Example

Per AR Module Aging Report	Receivables Not in AR Module (See Attached Detail)	Total Per AR and Receivables	Comments
17,589.29	1,133,649.92	1,151,239.21	Note 1,3
3,777.50	-	3,777.50	Note 2
8,269.26	-	8,269.26	
-	9,550.46	9,550.46	
-	11,109.04	11,109.04	
3,846.15	166,663.73	170,509.88	Note 3
-	20,700.00	20,700.00	
-	-	-	
5,582.00	-	5,582.00	
-	-	-	
6,990.01	247,085.44	254,075.45	Note 3
-	-	-	
<b>46,054.21</b>	<b>1,588,758.59</b>	<b>1,634,812.80</b>	

Date	Description	Amount
<b>110-00000-1030</b>		
06/30/2024	Accrue Disposal Franchise Fees - May 2024	\$ 14,028.79
06/30/2024	Accrue Golden State Water Annual Refund 850349-05-2	\$ 3,469.13
06/30/2024	Accrue Recovery of Code Costs - May 2024	\$ 3,871.93
06/30/2024	Accrue AT&T Cell Phone Tower Lease June 2024	\$ 2,322.48
06/30/2024	Accrue American Tower Cell Phone Tower Lease June 2024	\$ 2,344.49
06/30/2024	Accrue Chargepoint Electric Veh Charging Fee - June 2024	\$ 3,738.03
06/30/2024	Accrue Disposal Franchise Fees - June 2024	\$ 7,267.74
06/30/2024	Record Receivables FY24 - Citations 100%	\$ 428,196.00
06/30/2024	Accrue FY24 TOT-TBID Revenue Rcvd in July	\$ 520,388.46
06/30/2024	Recovery of Code Costs - June 2024	\$ 9,617.84
06/30/2024	Accrue Charter Franchise Fees 2024Q4	\$ 19,073.31
06/30/2024	Accrue Charter Franchise Fees 2024Q4	\$ 18,369.56
06/30/2024	Accrue Charter Franchise Fees 2024Q4	\$ 18,102.37
06/30/2024	Accrue FY24 TOT-TBID Revenue Rcvd in August	\$ 62,135.94
06/30/2024	Record Rcvbl Rev not Rcvd by Cutoff - US Bank Rebate Apr-Jun 2024	\$ 723.85
06/30/2024	Accrue FY24 TOT P&I Revenue Rcvd in August	\$ 20,000.00
	<b>110 Receivables not in AR</b>	<b>\$1,133,649.92</b>

## Step 2: Review AR for Write-offs

- Consider your agency's policy on AR aging and write-offs.
  - If you don't have one, now's the time to develop one.
- Review the aging of the AR.
- Identify any overdue or uncollectible accounts that need to be provisioned for or written off.
- Consult 3<sup>rd</sup> party collection agency.

## Step 3: Reconcile AR Ledger and GL

- Reconcile the AR ledger with the GL, which shows the total balance of AR for the agency.
- Review compliance of AR transactions and balances with accounting standards – GASB and GAAP.

# Example

General Ledger AR Balance Reconciliation					
As Of Date: 4/30/2024					
GL Account Number	Account Description	Balance	Account Description	Balance	Variance
100-0000-10211	Accounts Receivable	11610.56	3/4" METER - 3/4" Meter Install	0	
			1" METER - 1" Meter Install	0	
			METER LABOR - Meter Labor	0	
			METER OVERHEAD - Meter Overhead	0	
			CONST METER WATER - Construction	823.57	
			WATER USAGE - Water Usage Constr	149.79	
			UAC - Unapplied Credit	2273.56	
			EE REIMB 5400 - Salaries overpayme	0	
			IRR INSTALL - Irrigation Installation	0	
			NSF - NSF Fee	0	
			INSTALLATION FEE - Installation Fee	0	
			WTR LINE LABOR - WATER LINE REPA	5287.21	
			WTR LINE M&S - WATER LINE REPAIR	2622.8	
			WTR LINE EQUIP - WATER LINE REPAI	2372.99	
			WTR LAB FEES - WATER LAB FEES DUE	0	
			PENALTY - NON UB - INSTALL LATE FEI	1355.76	
			CONST METER DEPOSIT - Constructio	0	
			CONST METER FEES - Construction M	1272	
			Account Total:	11610.56	0
101-0000-10211	Accounts Receivable	11848.91	RETIREE - Monthly Healthcare Retire	10517.35	
			ALLOTMENT - Monthly Healthcare Al	0	
			SPOUSE - Monthly Healthcare Spous	1291.2	
			PENALTY - RETIREE - RETIREE LATE PY	40.36	
			Account Total:	11848.91	0
103-0000-10211	Accounts Receivable	2205.39	BUCKEYE HYDRO - Buckeye Hydro Mc	0	
			TUNNEL HILL HYDRO - Tunnel Hill Hy	0	
			SCREEN MAINT - Screen Maintenanc	1800.27	
			AT&T SERVICE - AT&T Service Charge	405.12	
			Account Total:	2205.39	0
400-0000-10211	Accounts Receivable	0	CFD Charge - Capital Facility Distric	0	
			PIPELINE FUND - PIPELINE FUND - MA	0	
			Account Total:	0	0
	Receivable Account Totals:	25664.86		25664.86	0



# Step 4: Reconciliation Statement

## What is a reconciliation statement?

- A workpaper or comparative statement showing the reconciliation of the accounts receivable ledger with the general ledger AND explains any differences or discrepancies.
- Reconciling items not only identify the “why” but note the resolution.

# Step 4: Reconciliation Statement

Cust No.	Customer	Balance Per Aging	1100 GENERAL	1120 COMM DEV	1215 CDBG	2105 DOM WW CAP
<b>AGING REPORT</b>						
112365	AAA Truck Wash	50,688.67		50,688.67		
111699	Arredondo	46.35		46.35		
100869	Broughton	552.10		552.10		
107482	Cadiente	1,079.43				1,079.43
111972	CDBG - Self-Help Enterprises	4,181.46			4,181.46	
AR AGING REPORT TOTAL		56,548.01	-	51,287.12	4,181.46	1,079.43
<b>UB AGING REPORT</b>						
		405.00	405.00	-	-	
LICENSES & PERMITS SUBSIDIARY 1100-000-0125		46,551.23	46,551.23	-	-	
<b>RECONCILING ITEMS:</b>						
JE 0005-13-2023 Accrual entry not on aging report CLEARED FY24		36,251.33	35,994.99		256.34	
JE 0003-13-2023 Accrual entry not on aging report CLEARED FY24		4,624.00	4,624.00			
JE 0010-13-2023 Accrual entry not on aging report CLEARED FY24		31,788.99	31,788.99			
JE 0008-13-2023 Accrual entry not on aging report CLEARED FY24		13,186.72	13,186.72			
DID NOT HONOR PAYMENT AGREEMENT-REMOVE FROM AGING		(1,079.43)				(1,079.43)
100869 Insurance Police NOT IN AR 0135 UNTIL FY24		(552.10)		(552.10)		
FY21-22 ACCRUAL ENTRY - NEED TO REVERSE		2,146.14			2,146.14	
		86,365.65	132,550.93	(552.10)	2,402.48	(1,079.43)
<b>GL ACCOUNTS RECEIVABLE</b>						
	AR 0125	46,551.23	46,551.23	-		
	AR 0130	6,732.60	405.00		6,327.60	
	AR 0135	136,586.06	85,594.70	50,735.02	256.34	-
		-	-	-	-	-

# Step 5: Resolve Discrepancies

- Ensure that the ledger accounts tie.
- Post any adjustments or corrections to both ledgers:
  - Journal entries may be necessary depending on what the discrepancies noted.
  - Note timing issues; sometimes it is accruals, and something will be cleared out in the next FY.
    - Accrual entries may not be on aging report so note that as items clear.
- Collaborate with departments, if applicable.

# Step 6: Most Common Missed Step

## Verify Items in Account Balance are Accurate and Current

- Review the details to determine IF the items should STILL be there.
- Review the dates of the items and the types of transactions.

# POLLING QUESTION #3

**What is an Accounts Receivable Reconciliation?**

- A. A glorified general ledger
- B. A glorified subsidiary ledger
- C. Account receivable account totals
- D. The process for ensuring the subsidiary ledger agrees with the general ledger

# Step 7: Availability Period

- Special Rule for Governmental Funds/Modified Accrual:
  - Note whether AR was received within your availability period, which is generally within 60-90 days after year-end.
- It is an audit requirement for testing to have a documented “second evaluation” to confirm that the AR is received within your availability period.
- Unavailable revenues common in grant programs.

# Step 7: Availability Period

- Federal SEFA
- Non-federal SEFA
- Properly reconcile and track balance sheet grant activity.
  - Grants Receivable
  - Unearned Revenues
  - Unavailable Revenues

# Step 7: SEFA Example

Grant Name	Expenditures FY 23/24	Revenues FY 23/24	Account Number for Expenditures	Account Number for Revenues	Difference	Grant Receivable	Unavailable Revenue	Unearned Revenue
Alcohol Policing Partnership (AAP) Program	18,960.46	14,486.99	124-2117	124-2117-4591	4,473.47		4,473.47	
California Library Literacy Services (family)	28,324.49	9,300.00	001-4058	001-4058-4591	19,024.49	19,024.49		
S.Carlsbad Blvd Climate Adaptation	70,932.43	70,932.43	001-5130	001-5130-4591	-			
STATE GRANT MC/P&R-CAP PROJCTS	411,504.58	452,678.68	389-7008	389-7008-4592	(41,174.10)			(41,174.10)
Encampment Resolution Funding Round 3	1,240,345.08	1,242,571.50	189-4006	189-4006-4591	(2,226.42)			(2,226.42)
SB1383 FY25	-	10,081.76	520-6366	520-6366-4591	(10,081.76)			(10,081.76)
Beverage Container 23-24	-	958.35	520-6311	520-6311-4591	(958.35)			(958.35)
Local Housing Allocation	366,480.96	378,477.33	136-2610	136-0000-4541	(11,996.37)			(11,996.37)



# Step 8: Supporting Documentation

- Attach supporting documentation and evidence for the reconciliation:
  - Aging report
  - Ledger accounts
  - Significant cash receipts
  - Invoices
  - Utility billing statements
  - Grant Awards

## Step 9: Review and Approve

- Review and approve the reconciliation statement.
- Document the reconciliation process and any issues or findings.
- If there are issues/findings, note and report them as appropriate.

# POLLING QUESTION #4

**How often does your agency review your A/R Aging?**

- A. Never ever 😞
- B. Annually
- C. Quarterly
- D. Monthly
- E. Daily

# Recap

# AR Best Practices

- As a recap:
  - Timely and regular reconciliations
  - Actual reconciliations (no GL details)
  - Segregation of duties
  - Utilize technology and current softwares
  - Collaborate with Departments
  - Clear Documentation
  - Create an updated collections policy
  - Write off old or long outstanding AR

# Additional LSL Resources

- – LSL Blogs on Account Receivable Reconciliations
  - <https://lsicpas.com/accounts-receivable-reconciliations-a-helpful-checklist-for-a-smooth-year-end-close/>
  - <https://lsicpas.com/mastering-ar-reconciliations-for-year-end-close-a-blueprint-for-local-governments/>
  - <https://lsicpas.com/through-the-auditor-lens-mastering-ar-reconciliations-for-year-end-close/>
  - <https://lsicpas.com/local-government-finance-departments-are-your-account-reconciliations-really-reconciliations/>
- LSL Government Webinars – Scroll down to ‘Previous Webinars’
  - <https://lsicpas.com/webinars-government/>

# Next Back to Basics Webinar

Tuesday, August 12 at 10:00 am PST

## **Back to Basics | Accounts Payable, Accrued Liabilities, and Long-Term Debt Reconciliations**

Jayne Lambert, CPA – Senior Manager, Assurance & Advisory

You can sign up to register in the follow up email you will receive after this webinar. Please give up to 24 hours.

# Questions



# Contact Us



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