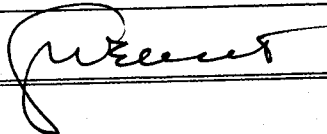




POLICY AND PROCEDURE

Subject: Accounting Policy - Legal Requirements	Index: Finance Number: 201-1-3
Effective Date: September 1, 2005	Prepared By: Finance & Administrative Services
Supersedes: July 1, 2003	Approved By: 

1.0 **PURPOSE:**

To provide policy on the legal requirements for the City of San Clemente as it relates to the reporting activities of the Finance Division.

2.0 **ORGANIZATIONS AFFECTED:**

All departments/divisions.

3.0 **REFERENCES:**

Not applicable.

4.0 **POLICY:**

4.1 Requirements for the City's accounting and financial reporting are governed by a combination of federal, state and local laws, and legal mandates.

4.2 In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, neither GAAP nor legal compliance take precedence. Both are essential. When legal provisions conflict with GAAP, the City will prepare the basic financial statements in conformity with GAAP. Any difference will be disclosed in the notes to the financial statements. The City will also present such supporting schedules, in addition to the GAAP - based financial statements, as may be necessary to clearly report its legal compliance requirements.

5.0 **DEFINITIONS:**

Not applicable.

6.0 **PROCEDURE:**

6.1 Description of regulators:

6.1.1 The federal regulations stem primarily from the requirements of each individual federal financial assistance program (such as block grants). The regulations require the City demonstrate its compliance with those requirements.

6.1.2 The state laws are prescribed by state statute and the requirements of any state assistance program. State statute requires the City to report its financial position to the State Controller on an annual basis.

6.1.3 The local laws are mandated by the City resolutions and ordinances.

6.2 Each department which utilizes federal and state financial assistance will be responsible for monitoring compliance with the legal requirements.

6.3 The Accounting Division will be notified of any instances of noncompliance for disclosure in the annual financial statements.

6.4 If required, all federal grants will be subject to an audit by outside auditors on an annual basis.