

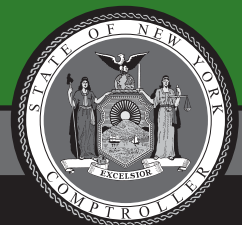
Accounting for Stimulus-Related Capital Projects

This brochure
is a quick
reference guide
containing
information on
how to account
for federal
stimulus funds
that are used
to finance or
partially finance
a project.

The federal government's American Recovery and Reinvestment Act of 2009 (ARRA) is expected to deliver substantial support for 'shovel-ready' infrastructure projects throughout New York State. As a local government or school district official in New York, you might be wondering how to account for the capital projects you undertake with the federal stimulus funds your government receives.

New York State Office of the State Comptroller

Thomas P. DiNapoli State Comptroller



Nature of Capital Projects

What is a capital project?

A capital project is a plan for the acquisition and/or construction of capital facilities, capital improvements and major equipment purchases.

How are the projects funded?

You will likely find that federal stimulus-funded road and related infrastructure projects will be coordinated and approved by the New York State Department of Transportation. It is expected that other New York State agencies will have similar coordinated efforts and approval processes for local projects under their jurisdictions that qualify for federal stimulus funds.

If it is expected that federal stimulus money will not cover the entire cost of your capital project, other potential financing sources include: debt proceeds, State aid, other types of federal aid, grants, gifts, budgetary appropriations, and capital reserve funds.

Where are these projects recorded and reported?

Capital projects are recorded and reported in the Capital Projects (H) Fund, except for those financed by proprietary or fiduciary funds. There may be instances in which the General Fund or a Special Revenue Fund can be utilized to record capital project-type financial activity, so long as the resources to fund the project are derived exclusively from direct revenues, such as the federal stimulus money, and do not include borrowing. However, even if all of your funding is from the federal stimulus money, it may make sense to use a capital projects fund to record and report financial activities so as not to distort amounts typically reported in your operating funds, and to provide a means to identify federal stimulus-related financial activity readily. Given the likely reporting requirements that will accompany ARRA funding, having these dollars segregated is preferable. In addition, if the capital project will extend beyond a year, it would make sense for the project to be accounted for and reported in the capital projects fund.

Budgeting and Project Monitoring

Each capital project should have its own individualized budget that sets forth the overall financial plan for the project, including the project's authorization amount, its funding sources, and expected costs to be incurred. Each capital project budget remains in effect for the life of the project. Amendments to the project budget should be made only if the budget amount changes during the life of the project. Any change orders that require the expenditure of significant additional funds or the reallocation of other budgeted line items should be closely monitored and presented to the governing board for approval or, in the case of school districts, to the voters if additional funding becomes necessary.

The project's budgetary estimates should be routinely compared and monitored against actual project-to-date revenues and/or expenditures. Periodic reports that compare budgeted and actual revenues and expenditures for each capital project are essential to ensure that expenditures are kept within the project's total authorization. Without timely, accurate and regular reporting, you may not become aware of emerging problems that could affect the successful completion and funding of the project.

ARRA projects will likely have both financial and non-financial reporting requirements that will have to be gathered and transmitted on a regular basis during the project's life. Local governments should make sure they understand the data requirements for each ARRA project and build these data collection requirements into their project plans.

Accounting Requirements

Because capital projects are budgeted on an individual project basis, and legal and contractual requirements will vary from one project or class of projects to another, an individual capital project fund should be established for each authorized project and individual accounting records should be maintained for each project.

All assets, liabilities, revenues and expenditures should be recorded in sufficient detail and be reported annually. The liability for long-term debt for a capital project and the fixed assets acquired or constructed are recorded in the *Schedule of Non-Current Governmental Liabilities* and the *Schedule of Non-Current Governmental Assets*.

The applicable account codes and typical journal entries for capital projects can be found in our Accounting and Reporting Manuals, which are available on our website:

For Counties, Cities, Towns and Villages:
www.osc.state.ny.us/localgov/pubs/arm.pdf

For School Districts:
www.osc.state.ny.us/localgov/pubs/arm_schools.pdf

For Fire Districts:
www.osc.state.ny.us/localgov/pubs/arm_fds.pdf

Retained Percentages

Generally, construction contracts provide for delaying a portion of the amounts due contractors until inspection and performance indicates the work is free of defects. This stipulated percentage withheld is known as a “retained percentage.”¹

Cash withheld from payments due contractors is recorded as a liability in account H605, “Retained Percentages Payable,” pending approval of the project. Contractors are allowed to withdraw the cash being retained pursuant to the terms of the contract if the contractor replaces the cash with certain eligible securities having a market value equal to the amount of cash withdrawn. The securities replacing the cash would be accounted for in the Agency Fund as illustrated below:

TA455 Securities and Mortgages \$xxx

TA30 Guaranty and Bid Deposits \$xxx

Interest earned on the obligations being retained is due the contractor unless there is an agreement stating otherwise. The local government is permitted to charge the contractor a service charge for handling the securities. The charge should be consistent with a bank charge for a similar service.

¹ See General Municipal Law Section 106 for more information on retained percentages.

If You Have to Borrow to Finance (or Partially Finance) Your Project

Few local governments have the capability to finance major capital acquisitions, improvements or projects strictly from nonborrowed financing sources, such as the federal stimulus money. Funds may need to be borrowed on a short-term basis as seed money to begin some projects, or permanent financing may be required if the federal funds do not cover 100 percent of the project costs. If you determine that you need to issue short-term or long-term debt to finance or partially finance your capital acquisition, improvement or new construction project, here are some options for consideration:

Short-Term Financing

If your local government or school district determines that it won't have enough available cash to pay for the upfront expenditures of its capital projects, it may be able to issue debt in "anticipation" of receiving the expected, approved federal stimulus money.

- Revenue anticipation notes (RANs) may be issued in anticipation of receiving certain types of revenues, such as the federal stimulus money. The purpose of the RAN is to improve cash flow in the short-term based upon the future receipt of defined and quantifiable revenues. RANs can only be issued in the fiscal year in which the specific aid revenue is expected to be collected or received. If a RAN is issued in anticipation of State or federal aid on a capital construction project, then the proceeds of the RAN may only be used to fund expenditures of that capital project.
- Bond anticipation notes (BANs) are frequently issued as temporary financing for large construction projects. They can be issued once a serial bond resolution has been adopted by the governing board. A BAN is a one-year note that generally can be reissued for up to five years.

Long-Term Financing

Long-term borrowing is a popular method of financing large capital projects and acquisitions. Serial bonds offer a longer payback period and can provide a fixed rate of interest with a stable schedule of repayments over the term of the issue.

The accounting treatment for these different financing options are described in the journal entries in our Accounting and Reporting Manuals on our website as referenced above.

Earnings on Investment of Debt Proceeds

Interest earned on the investment of proceeds of bonds or notes may be applied to either the payment of principal and interest on such debt or for any purpose for which the debt was authorized, so long as it was budgeted as a financing source in the project's budget.

Unexpended Balances

If your project was funded solely by federal stimulus money, you should consult with the applicable State agency responsible for coordinating and approving your stimulus-related project regarding the proper disposition of the unexpended balance. It should be noted, however, that if bond anticipation notes or bonds were issued to help finance the capital project, the disposition of the unexpended balance is determined as follows:

Source of Balance	Disposition
Bonds	Transfer to Debt Service Fund to apply to debt on project bonds.
Multiple Sources (bonds, State/federal aid, interfund transfer)	Transfer to Debt Service Fund to apply to debt service on project bonds. It is assumed that the residual of a project financed by bonds and other sources is bond money.
Bond Anticipation Notes (BANs)	Reserve for Debt (884) in operating fund.

The actual transfer of the balance is accounted for as an interfund transfer. The disbursement from the capital projects fund and the receipt in the operating fund is recorded as an expenditure (9901.0) and revenue (5031), respectively.

Conclusion

Undertaking a capital construction or acquisition project is a challenging and time-intensive process. You should always ensure that each of your capital projects is properly authorized, managed and completed.

The Office of the State Comptroller would be pleased to assist you with any questions you have regarding the information contained in this guide or any special circumstances with which you may need assistance. The addresses and telephone numbers for each of our regional offices are located at the end of this brochure. Please contact the regional office for your locality with any questions you may have.

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**Mailing Address
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**Office of the State Comptroller,
110 State St., Albany, New York 12236**
email: localgov@osc.state.ny.us



New York State Office of the State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor • Albany, New York 12236