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To: Chief Fiscal Officers

From: Division of Local Government and School Accountability

Subject: Accounting for Retained Percentages

Please provide copies of this bulletin to others who may need this information.

Purpose of Bulletin

This bulletin provides updated guidance related to the accounting for retained percentages (retainage), including updates to previous accounting entries based on the current standards for recognition and measurement of certain liabilities.

Background

In construction contracts, retainage generally is a sum of money withheld by the local government from progress payments made to the contractor until satisfactory completion of the work. Retainage is a form of security for proper completion of the work under the construction contract. It is typically calculated as a percentage of the progress payment. New York State General Municipal Law (GML) provides that local governments may retain up to 5 percent of each progress payment to the contractor if the contractor is required to provide a performance bond and a labor and material bond both in the full amount of the contract.¹ In all other cases, the local government may retain up to 10 percent of each progress payment.²

Previously, our guidance for recording payments to contractors based on claims for construction progress payments included a debit to the expenditures in the full amount of the claim, a credit to cash for the payment made and a credit to H605 Retained Percentages, Contracts Payable for the

¹ GML Section 106-b(1).

² Similar provisions of GML apply with respect to payments from the contractor to subcontractors (GML Section 106-b[2]).

amount withheld. Upon the completion of the work,³ or when contractors deposited securities in lieu of retainage,⁴ an entry would be recorded to release the retainage. This accounting treatment was updated in October 2014 to no longer require the use of account code H605; as such, this code was deactivated in the Annual Update Document for fiscal year ended December 31, 2014 and in the ST-3 for fiscal year ended June 30, 2015. To be current with accounting standards, we have further updated this treatment to require the recording of retainage as an encumbrance, allowing for these funds to be segregated from funds available for appropriation on the financial statements.

Accounting Treatment

Under GASB Interpretation No. 6, retainage does not meet the definition of a liability until it becomes due and payable (e.g., satisfactory completion of the work). As such, the only time this liability would be shown on the financial statements would be if the contractor is owed the retainage at year end and the payment has not yet been made.⁵ The following are updated journal entries for the proper treatment of the withholding of retainage when it is not yet owed to a contractor:

- a) To record payments to contractors for process payments for construction-in-progress (billing of \$100 with 10 percent retainage to be withheld):

Account	Debit	Credit
H522 Expenditures – Construction	\$90	
H200 Cash		\$90
H521 Encumbrances ⁶	\$10	
H821 Reserve for Encumbrances		\$10

The encumbrance entries are for bookkeeping purposes only. In actuality, the retained amount (\$10) should be classified as assigned unappropriated, restricted, or committed fund balance,

³ Under GML Section 106-b(1), when work or major portions of the work as contemplated by the terms of the contract are substantially completed, the local government, upon receipt and approval of a proper requisition, would “promptly pay” the remaining amount of the contract balance less two times the value of any remaining items to be completed (and an amount necessary to satisfy any claims, liens or judgments against the contractor). As the remaining items of work are satisfactorily completed or corrected, the local government, upon receipt of a proper requisition, would pay for these items (less an amount necessary to satisfy any claims, liens or judgments against the contractor).

⁴ Under GML, contractors, from time to time, may withdraw, at their option, the whole or any portion of the amount retained from payments to the contractor pursuant to the terms of the contract, upon depositing with the fiscal officers of the municipality (or if so directed by the fiscal officer, with a designated bank or trust company having an agreement with the fiscal officer), certain securities having a market value equal to the amounts withdrawn (GML Sections 106, 106-a).

⁵ If at year end, retainage is due and payable (e.g. satisfactorily completion of the work), the liability is recorded as H600 Accounts Payable.

⁶ In this case, encumbrances represent the retained amount. Using encumbrances restricts the use of the available appropriation until the retained amount becomes payable.

depending on the source of the encumbered amounts. Unlike operating fund encumbrances, capital project encumbrances do not increase appropriations in the next year.

If the contractors replace retained cash with eligible securities:

b) To reclassify retainage:

Account	Debit	Credit
H455 Securities and Mortgages* H200 Cash	\$10	\$10
*Will be offset by H899 Other Restricted Fund Balance on the balance sheet when preparing financial statements.		

c) To release retainage to contractors after completion of the construction work:

Account	Debit	Credit
H522 Expenditures – Construction H455 Securities and Mortgages	\$10	\$10
H821 Reserve for Encumbrances H521 Encumbrances	\$10	\$10

If the contractors DID NOT convert cash to securities:

d) To release retainage to contractors after completion of the construction work:

Account	Debit	Credit
H522 Expenditures – Construction H200 Cash	\$10	\$10
H821 Reserve for Encumbrances H521 Encumbrances	\$10	\$10

This guidance may require local governments and school districts to restate their beginning fund equity in the affected funds using a prior period adjustment in the first year this change is reported.

Additional Information

If you have questions pertaining to the accounting of retainages as described in this bulletin, please contact the State Comptroller’s [regional office that serves your local government](#).