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To: Chief Fiscal Officers

From: Division of Local Government and School Accountability

Subject: Installment Purchase Contracts

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

Purpose of Bulletin

This bulletin provides updated information on the accounting for installment purchase contracts, superseding an earlier bulletin issued by the Office of the State Comptroller for local governments in New York State. All previous guidance has been incorporated into this bulletin.

Background

Section 109-b of the General Municipal Law authorizes political subdivisions (defined to include towns, villages, cities, counties, school districts, BOCES and district corporations) to enter into installment purchase contracts for the purpose of financing equipment, machinery and apparatus. From an accounting standpoint, these purchases are similar in some respects to purchases made with the proceeds of bonds or notes as they are typically funded over a period of more than one year and subject to certain terms and conditions.

The legal requirements contained in section 109-b include that:

1. Installment purchase contracts constitute “purchase contracts” for public bidding purposes and are subject to competitive bidding requirements;
2. The installment purchase contract must be authorized by resolution of the governing board;¹ and
3. The authorization to enter into the contract is, under certain circumstances, subject to permissive or mandatory referendum.

The contract must also contain the “executory clause” set forth in section 109-b(2)(f), which provides, among other things, that the contract may be canceled if no appropriation is made and available for the purposes of the contract. In this situation, we recommend that legal counsel be consulted. In addition, each installment

¹ In addition to the statutory requirements of General Municipal Law §109-b, OSC, as required by section 109-b(3)(d), has promulgated regulations governing the procedures to be adhered to when entering into installment purchase contracts (2 NYCRR Part 39). These procedures include the preparation of an evaluation of financing alternatives prior to the adoption of a resolution authorizing an installment purchase contract.

payment in total, which includes both principal and interest components under the contract, must be substantially equal or falling (see illustration of this methodology on last page of this bulletin). For purposes of constitutional debt limits, these contracts do not constitute or create indebtedness of the political subdivision.²

Although for constitutional purposes the installment purchase contract does not constitute indebtedness, for accounting purposes the amount of the contract is required under Generally Accepted Accounting Principles (GAAP) to be recorded and reported as a long-term obligation. Since generally title and ownership pass to the political subdivision, the fixed asset acquired shall be added to the General Fixed Assets Account Group. The accounting is not affected by the fact that each contract must have the executory clause mentioned above.

Accounting Treatment

According to GAAP, installment purchase contracts would be accounted for as financed purchases. Specifically, governmental funds would treat these arrangements in the same manner as if the assets were acquired from the issuance of debt. That is, they should be reflected as an expenditure and other financing source, with the amount to be recorded being the lesser of the present value of the minimum lease payments or the fair value of the leased property. These contracts would generally be accounted for in a capital projects fund. The journal entries below are intended to illustrate the proper treatment for installment purchase contracts, assuming a 10 year contract for equipment. The entries are based on the following assumptions:

- Total cost of \$10,500
- Total cash price of \$9,500 (total cost of \$10,500 less trade-in of \$1,000)
- Principal balance of \$8,100 to be paid in installments (total cash price of \$9,500 less down payment of \$1,400)
- Total remaining principal and interest due of \$11,000 (assuming interest on the balance of \$8,100 of 6 percent totaling \$2,900)

² Although installment purchase contracts do not constitute indebtedness for constitutional purposes, General Municipal Law, §109-b(6)(c) contains three limitations pertaining to installment purchase contracts of political subdivisions that relate to the statutory limitations on local indebtedness in Local Finance Law §104.00. General Municipal Law, §109-b(6)(c) provides that: (1) the aggregate amount of unpaid periodic payments, excluding interest, to be made under any outstanding installment purchase contract is deemed to be existing indebtedness for purposes of determining the political subdivision's power to contract indebtedness under Local Finance Law, §104.00; (2) no political subdivision may enter into an installment purchase contract if the amount of unpaid periodic payments, excluding interest, proposed to be made under the installment purchase contract plus those outstanding, would exceed 40% of the political subdivision's debt limitation prescribed in Local Finance Law, §104.00; and (3) no political subdivision may enter into an installment purchase contract if the total amount of the unpaid periodic payments, excluding interest, proposed to be made under the installment purchase contract plus those outstanding, together with the amount of "outstanding indebtedness, would exceed one hundred fifteen percent of the limit prescribed by [Local Finance Law, §104.00]".

To record the transfer of funds from the operating fund to the capital projects fund:

Account	Sub Account	Debit	Credit
Operating Fund			
522 Expenditures (down payment)		\$1,400	
9950.9 Transfers, Capital Projects Fund	\$1,400		
200 Cash			\$1,400
H200 Cash		\$1,400	
H980 Revenues			\$1,400
H5031 Interfund Transfers	\$1,400		

To record the acquisition of the asset:

Account	Sub Account	Debit	Credit
H522 Expenditures		\$9,500	
H1997.2 General Govt, Equip & Cap Outlay	\$9,500		
H200 Cash			\$1,400
H980 Revenues			\$8,100
H5785 Installment Purchase Debt	\$8,100		

To record the asset sold, or traded in, and the asset acquired in the schedule of fixed assets:

Account	Sub Account	Debit	Credit
K104 Machinery & Equipment		\$10,500	
K159 Total Non-Current Govt Assets*			\$10,500
K159 Total Non-Current Govt Assets		\$5,000	
K104 Machinery & Equipment (Book Value of Trade In)			\$5,000
*Includes \$2,400 made up of current appropriations from the down payments (\$1,400) and trade-in (\$1,000); the remaining \$8,100 is the installment purchase debt.			

To record the installment purchase debt in the schedule of long term debt:

Account	Sub Account	Debit	Credit
W129 Total Non-Current Govt Liabilities		\$8,100	
W685 Installment Purchase Debt			\$8,100

To record the lease payment (the installment purchase debt should also be reduced – debit W685 and credit W129 for the principal amount):

Account	Sub Account	Debit	Credit
Operating Fund			
522 Expenditures*		\$1,100	
9785.6 Installment Purchase Debt – Principal	\$615		
9785.7 Installment Purchase Debt – Interest	\$485		
200 Cash			\$1,100
*Assume a 10 year contract with 1 payment of \$1,100 per year at an annual interest rate of 6%. The principal and interest amounts will change annually.			

To record the acquisition and installment purchase contract transactions in a proprietary fund, using the straight line depreciation method (Note: Schools and BOCES cannot have Proprietary Funds):

Account	Sub Account	Debit	Credit
E104 Equipment		\$10,500	
E200 Cash (down payment)			\$1,400
E980 Revenues (trade-in)			\$1,000
E2675 Gain on Disposition of Assets	\$1,000		
E685 Installment Purchase Debt			\$8,100
E114 Accum Depr, Machinery & Equip		\$5,000	
E104 Equipment			\$5,000

Additional Information

If you have questions pertaining to installment purchase contracts as described in this bulletin, please contact the State Comptroller’s regional office that serves your local government.