



Statewide Accounting Policy & Procedure

Accounting Manual Reference:

Section: GSFIC Reimbursements for Bond Funded Construction
Projects
Sub-section: N/A

Effective Date: 07/01/2009

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Index:

[Policy Summary](#)

[Policy Requirements](#)

[Authority](#)

[Applicability](#)

Policy Summary:

This policy provides clarification about the types of expenditures/expenses that are eligible to be reimbursed with the proceeds from the sale of general obligation bonds issued by the Georgia State Financing and Investment Commission (GSFIC). The Official Code of Georgia Annotated (OCGA) provides GSFIC with the responsibility for the issuance of all public debt of the State, including debt resulting from the sale of general obligation bonds and guaranteed revenue bonds. GSFIC is further responsible for the proper application of the proceeds of such debt to the purposes for which it is incurred. Proceeds from the sale of bonds are used to finance capital projects throughout the State. This policy focuses primarily on the administrative process applied by GSFIC when approving reimbursement from general obligation bond proceeds. It is important to understand that the accounting decision about what expenditures/expenses to capitalize is different from the administrative decision about what expenditures/expenses to reimburse from general obligation bond proceeds. In general, an outlay must be capitalizable to be reimbursed from general obligation bond proceeds, but not every capitalizable outlay will be approved for reimbursement from general obligation bond proceeds. Refer to the capital asset policies for guidance about which outlays to capitalize. Refer to this policy for guidance about which capital outlays will be reimbursed from general obligation bond proceeds.

The following two options are available to state organizations with capital projects which utilize general obligation bond proceeds.

Option 1 – GSFIC Managed

Organizations that receive approval for construction projects to be funded through GSFIC may rely on assistance from GSFIC in administration of the project. In this situation, GSFIC accepts responsibility for managing the project from the planning stages through completion of the construction. GSFIC makes payments to contractors and vendors directly. Since the beneficiary organization does not actually receive funds nor make payments, none of the activity during the construction period should be recorded on the organization's accounting records. All activity during this period is recorded by GSFIC. Upon completion of the project, the appropriate assets should be recorded by the beneficiary organization in accordance with the capital assets policies. The cost of the asset recorded on the organization's accounting records should be obtained from GSFIC.

Option 2 – Agency Managed – GSFIC Reimbursements

Certain organizations receiving approval for general obligation bond funded construction projects retain complete responsibility for project administration. The organization hires all contractors and vendors to be used during the project and manages the project through its completion. The organization pays vendors directly and is reimbursed for payments from GSFIC. General obligation bond funds received from GSFIC should be recorded as operating transfers in. All revenue and expenditure/expense for each project should be recorded by the organization in its accounting records in the Capital Projects Fund. Organizations may be involved in numerous construction projects funded through GSFIC in a particular fiscal year. In addition to recording all activity in the Capital Projects Fund, identifiers should also be used to track the activity separately for each project. GSFIC also records the reimbursement in its accounting records as an expenditure with a credit to cash for its standalone financial reporting purposes. For statewide reporting, SAO considers the activity an operating transfer out.

Utilization of the Capital Projects Fund ensures that activity is recorded in the appropriate manner outlined by generally accepted accounting principles (GAAP) and also facilitates elimination entries at the government-wide financial statement level as a result of duplicate reporting at the beneficiary organization and GSFIC. This provides for consistent accountability and reporting standards throughout the State.

Policy Requirements:

GSFIC is responsible for determining if payments made for construction projects are deemed to be reimbursable from general obligation bond proceeds for projects managed by GSFIC as well as for projects managed by the organization. The ultimate decision as to which payments are deemed reimbursable will be made by GSFIC on a case by case basis. See below for guidance on expenditures/expenses that are reimbursable.

Only capital expenditures/expenses can be reimbursed from general obligation bond proceeds. Operational expenditures/expenses may not be paid for from bond proceeds. In all cases, the legislative intent of the scope of the capital project should be considered when determining if the expenditures/expenses are reimbursable from general obligation bond proceeds.

A memo from the Attorney General to the States Auditor, dated November 20, 2000, stated that “expenses that are chargeable to general obligation bond proceeds are capital expenditures that are not customarily funded through annual budget appropriations in a general appropriations act. Personal services of agency or authority employees and supplies and materials ordinarily needed to operate an agency or authority irrespective of any construction or capital improvement activity should not be charged directly or indirectly through intergovernmental agreements, against general obligation bond proceeds.”

Capital expenditures/expenses funded by general obligation bond proceeds

Capital expenditures/expenses are funds spent for the acquisition of a long-term asset which will be used beyond the fiscal year in which it was acquired and are permanent or of a non-depletable/disposable nature. In addition, expenditures/expenses that add to the value or useful life of a capital asset can be considered a capital expenditure/expense. Expenditures/expenses made to design, construct, or equip a capital project are considered to be capital expenditures/expenses. Refer to the capital assets policies for more comprehensive guidance.

Examples of permanent/capital expenditures/expenses –

- Acquisition of land

- Construction of new buildings, or renovation of existing buildings
- Major equipment that is a tangible resource of a long-term nature used in an operation or activity. Almost all major equipment needs are requested and funded through the general appropriations budget, often using the Equipment, Motor Vehicle purchases or Computer Charges/IT Expenses object classes. Fixed or loose equipment requests directly associated with new construction or renovation capital projects should be included as part of the total scope and cost of those projects. Some examples of major equipment are aircraft, new statewide information systems and specialized off-road heavy equipment.
- Permanently attached fixtures or machinery that cannot be removed without impairing the building
- Payments for professional services such as contracts for engineering and architectural services
- Initial landscaping
- Construction of parking lots

Operational expenditures/expenses

Operational expenditures/expenses are items used in an organization's continuing, day-to-day business, such as personal services of organization employees and supplies and materials ordinarily needed to operate an organization. As stated above, operational expenditures/expenses should not be reimbursed from general obligation bond proceeds. All of the examples listed below are considered to be operational expenditures/expenses.

Examples of operational expenditures/expenses –

- Depletable/disposable items: replacement light bulbs, projector bulbs, paper for copiers, file folders, sports drinks, water, masks, gloves, cleaning agents, etc.
- Moving costs (including moving boxes and tape)
- Decorating items: wall art, floor lamps, office plants, items for bookcases, etc.
- Repair and maintenance items: hammers, drills and drill bits, wrenches, step ladders, etc.
- Office supplies (including adding machines, staplers, desk organizers, etc.)
- Pallets
- GEMA supply kits
- Fuel or oil
- Annual fire inspections
- Maintenance agreements for copiers and computers
- Termite inspections
- Drug tests for employees
- Lease Payments
- Personal Expenses

If an organization is uncertain as to whether an expenditure/expense would qualify for funding from general obligation bond proceeds, its representative should confer with personnel at GSFIC prior to purchase.

Useful Life

According to the GASB Codification, Section 1400.138, useful life refers to how long an asset is expected to meet service demands. The asset's present condition is also considered in determining useful life. It may be appropriate to request that the vendor provide the useful life of the asset purchased.

The expected useful life of the asset being financed should match or exceed the term of the associated debt. Outlays for items that qualify as capital assets under the capital asset policies may be reimbursable

from bond proceeds. Organizations should look to statutory authorization for intent of the scope of the project as a guide to qualification for reimbursement.

Change Resulting from GASB Statement No. 54

Prior to the issuance of Statement No. 54, GASB Codification, Section 1300.106, stated that the capital projects fund type may be used “to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organization or other governments). Capital outlays financed from general obligation bond proceeds should be accounted for through a capital project fund.”

Effective with the implementation of Statement No. 54 (in fiscal year 2011 for the State of Georgia), Section 1300.106 of the Codification changes slightly to:

“Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments. Capital outlays financed from general obligation bond proceeds should be accounted for through a capital projects fund.”

Capital projects funds use the same flow of current financial resources measurement focus and modified accrual basis of accounting used by other governmental fund types.

Authority:

The guidance in this procedure is based on Georgia law and GAAP as provided by the Governmental Accounting Standards Board (GASB) and the National Council on Governmental Accounting (NCGA).

- OCGA 50-17-22, *State Financing and Investment Commission*
- Memorandum to Russell Hinton from Attorney General dated November 20, 2000, *Use of General Obligation Bond Proceeds to Pay Certain Construction Costs*
- GASB *Codification of Governmental Accounting and Financial Reporting Standards* (Codification), Section 1300.106 (Fund Accounting).
- GASB *Codification*, Section 1400.138 (Reporting Capital Assets),
- NCGA Statement No. 1, *Governmental Accounting and Financial Reporting Principles*
- GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*
- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (effective for periods beginning after June 15, 2010)

Applicability:

All State organizations that finance, budget, and manage construction projects through the sale of general obligation bonds should be knowledgeable of this policy. In addition, the GSFIC, the State Accounting Office (SAO), and the Department of Audits and Accounts (DOAA) should be knowledgeable of this policy.