



## 85.85 Liabilities and Equity - Illustrative Entries

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### 85.85.10 General

July 1, 2003

The entries in this section illustrate the recording of liabilities and equity in the accounting records. The entries are for illustrative purposes **only** and should **not** be considered all-inclusive. Entries posted to GL Code Series 71XX “In-Process” in treasury and treasury trust accounts also require an entry from the Office of the State Treasurer (OST) as illustrated below to clear the In-Process GL Codes.



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In-Process (71XX)	Dr.	Cr.
Current Treasury Cash Activity (OST Only) (4310)	xxx	xxx

## 85.85.15 Establishment of short-term liabilities

May 1, 1999

To record the accrual of expenditures/expenses for goods and services from a vendor invoice. Refer to [Subsection 85.70.20.c](#).

Accrued Expenditures/Expenses (6505)	Dr.	Cr.
Appropriate Short-Term Payable GL Code (51XX)	xxx	xxx

## 85.85.20 Payment of short-term liabilities

May 1, 1999

To record payment of a short-term liability.

Appropriate Short-Term Payable GL Code (51XX)	Dr.	Cr.
Cash in Bank (1110) or In-Process (71XX)	xxx	xxx
Cash Expenditures/Expenses (6510)	xxx	
Accrued Expenditures/Expenses (6505)		xxx

## 85.85.22 Long-term to short-term reclassification

June 1, 2004

To record unavailable revenue. For example, taxes due are accrued but will not be collected within the next 12 months. Refer to [Subsection 85.70.50](#). May be used only in governmental fund type accounts.

Long-Term Liability (52XX)	Dr.	Cr.
Short-Term Payable (51XX)	xxx	xxx

## 85.85.24 Unavailable revenues

June 1, 2013



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## 85.85.24.a

To record unavailable revenue. For example, under a sales tax deferral program, taxes are accrued but will not be collected within the next 12 months. Refer to [Subsection 85.70.40](#). May be used only in governmental fund type accounts.

	Dr.	Cr.
Taxes Receivable (1611)	xxx	
Unavailable Revenue (5292)		xxx

## 85.85.24.b

To record recognition of revenue once applicable recognition criteria have been met, i.e., taxes are collectible within the current period or soon enough after the end of the period to pay current liabilities.

	Dr.	Cr.
Unavailable Revenue (5292)	xxx	
Accrued revenue (3205) Revenue Source Code (01XX) appropriate tax revenue code		xxx

## 85.85.25 Unearned revenues

June 1, 2015

### 85.85.25.a

To record unearned revenue. For example, cash received from students for tuition and fees paid in advance of providing services. Refer to [Subsection 85.70.45](#).

	Dr.	Cr.
Cash in Bank (1110) or In-Process (71XX)	xxx	
Unearned Revenue (5190)		xxx

### 85.85.25.b

To record recognition of revenue once earning process is complete.

	Dr.	Cr.
Unearned Revenue (5190)	xxx	
Cash Revenue (3210) Revenue Source Code (0424) Tuition and Fees		xxx

## 85.85.30 Fund bond debt issuance and servicing

June 1, 2013



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The following example is used to illustrate entries for recording the issuance and servicing of fund bond debt in a non-appropriated proprietary account. Generally, these bonds are revenue bonds. Refer to [Subsection 85.72.20.c](#).

An agency issues revenue bonds with:

- Par amount of \$5,000,
- Original issue discount (OID) of \$200,
- Underwriter’s discount (UD) of \$60, and
- Costs of issuance (COI) of \$20.

Details of the bond debt service are:

- 1st year \$500 principal, \$300 interest, and
- 2nd year \$600 principal.

**Note:** Original issue discount (OID) results when the par of the bond exceeds its purchase price. Original issue premium (OIP) results when the par of the bond is less than the purchase price. If deemed material, OID and OIP are deferred (using GL Codes 1910 “Unamortized Discount on Bonds Sold,” and 5910 “Unamortized Premiums on Bonds Sold” respectively) and amortized over the life of the bonds using GL Code 6512 “Amortization Expense” Subobject WB “Amortization.” Issuance costs, including underwriters’ discounts, are recorded as expenses using GL Code 6510 “Cash Expenditures/Expenses” and appropriate object codes such as C or E or Subobject PC “Other Debt Costs.” If the OIP or OID is deemed immaterial, it should be recorded in the same manner as the other issuance costs. Refer to [Subsection 85.72.20.c](#).

### 85.85.30.a

To record the issuance of the revenue bonds and payment of the costs of issuance.

	Dr.	Cr.
Cash in Bank (1110)	4,740	
Cash Expenditures/Expenses (6510) Subobject PC (UD)	60	
Unamortized Discount on Bonds Sold (1910) (OID)*	200	
Revenue Bonds Payable (5262) (Par)		5,000
Cash Expenditures/Expenses (6510) Subobject PC (COI)	20	
Cash in Bank (1110)		20

\*If the bond had an OIP instead of an OID GL Code 5910 “Unamortized Premiums on Bonds Sold” would be credited and amortized over the life of the bond.

### 85.85.30.b

To record as short term that portion of principal due within the next fiscal year.



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	Dr.	Cr.
Revenue Bonds Payable (5262)	500	
Revenue Bonds Payable (5162)		500

### 85.85.30.c

To record the payment of the first year's debt service.

	Dr.	Cr.
Revenue Bonds Payable (5162)	500	
Cash Expenditures/Expenses (6510) (Subobject PB Interest)	300	
Cash in Bank (1110)		800

### 85.85.30.d

To record annual amortization of original issue **discount** (OID) on a straight-line basis.

	Dr.	Cr.
Amortization Expense (6512) (Subobject WB)	20	
Unamortized Discount on Bonds Sold (1910)		20

### 85.85.30.e

At fiscal year-end for reporting purposes, to reclassify as short-term that portion of principal due within the next fiscal year. At fiscal year-end, the amount in GL Code 5162 should agree with the next year's principal payment on the bond amortization schedule.

	Dr.	Cr.
Revenue Bonds Payable (5262)	600	
Revenue Bonds Payable (5162)		600

**Note:** If this were a **budgeted proprietary account**, bond proceeds would be recorded as revenue by a credit to GL Code 3210 "Cash Revenues," Revenue Source Code 0860 "Bonds Issued," and then adjusted for GAAP reporting purposes through GL Code 3225 "Revenue Adjustments/Eliminations (GAAP)," Revenue Source Code 0860 to GL Code 5162 "Revenue Bonds Payable ." Likewise, payments on bond principal would be initially recorded as expenditure by a debit to GL Code 6510 Subobject PA "Principal," and then adjusted for financial reporting purposes through GL Code 6525 "Expense Adjustments/Eliminations (GAAP)," Subobject PA to GL Code 5162.

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## 85.85.35 General obligation bond debt issuance and servicing

Jan. 1, 2011

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The following example is used to illustrate entries for recording the issuance and servicing of general bond debt:



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- Par amount of \$5,000,
- Original issue premium (OIP) of \$200,
- Underwriter’s discount (UD) of \$60, and
- Costs of issuance (COI) of \$20.

Details of the bond debt service are:

- 1st year \$500 principal, \$300 interest, and
- 2nd year \$600 principal.

**Note:** Discounts that are related to underwriters’ fees are handled consistent with other issue costs. Original issue discount (OID) results when the par of the bond exceeds its purchase price. Original issue premium (OIP) results when the par of the bond is less than the purchase price. Costs of issuance (COI) are generally included in the proceeds and paid separately. Refer to [Subsection 85.72.20.c](#).

For purposes of this example, proceeds of the debt issue will be used to build a facility to house a general governmental agency. The COI for general obligation bond debt sold by the Office of the State Treasurer (OST) are always included in the proceeds and paid separately by OST.

## 85.85.35.a

To record the issuance of the bonds and payment of the costs of issuance.

### Office of the State Treasurer:

#### State Building Construction Account (Account 057):

	Dr.	Cr.
Receipts In-Process (7110)	5,140	
Cash Expenditures/Expenses (6510)		
Subobject ER - Other Purchased Services (UD)	60	
Cash Revenues (3210) Revenue Source Code (0863)		
Original Issue Premium - Bonds (OIP)		200
Cash Revenues (3210) Revenue Source Code (0860) Bonds Issued or (0864) Taxable Bonds Issued (Par)		5,000
Cash Expenditures/Expenses (6510) with appropriate subobject for COI In-Process (71XX)	20	20

#### General Long-Term Obligations Subsidiary Account (Account 999):

	Dr.	Cr.
Amount to be Provided for Retirement of Long-Term Obligations (1820) (Par)	5,000	
General Obligation Bonds Payable (5161)		500
General Obligation Bonds Payable (5261)		4,500



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**Note:** If bond proceeds are being distributed to accounts other than Account 057, the costs of issuance (COI) will be prorated to those accounts based on the portion of the par amount that they receive.

## 85.85.35.b

To record a debt service transfer from an operating (reimbursing) account, through the General Fund, and then to a debt service fund type account for a reimbursable bond.

### Office of the State Treasurer (Agency 010):

#### Operating (Reimbursing) Account:

	Dr.	Cr.
Cash Revenues (3210) Revenue Source Code (0694)		
Operating Transfers - Debt Service Reimbursements	800	
Journal Vouchers In-Process (7140)		800

#### General Fund (Account 001):

	Dr.	Cr.
Journal Vouchers In-Process (7140)	800	
Cash Revenues (3210) Revenue Source Code (0694)		
Operating Transfers - Debt Service Reimbursements		800

Cash Revenues (3210) Revenue Source Code (0694)		
Operating Transfers - Debt Service Reimbursements	800	
Journal Vouchers In-Process (7140)		800

#### Debt Service Account (Account 381 or Account 383):

	Dr.	Cr.
Journal Vouchers In-Process (7140)	800	
Cash Revenues (3210) Revenue Source Code (0694)		
Operating Transfers - Debt Service Reimbursements		800

## 85.85.35.c

If the bond payment does not relate to a reimbursable bond, then the debt service transfer is made directly from the General Fund to a debt service fund type account as follows:

### Office of the State Treasurer (Agency 010):

#### General Fund (Account 001):

	Dr.	Cr.
Cash Expenditures/Expenses (6510) Subobject MP		
Interfund Transfers Out – Principal	500	
Cash Expenditures/Expenses (6510) Subobject MI		



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Interfund Transfers Out- Interest	300	
Journal Vouchers In-Process (7140)		800

**Debt Service Account (Account 3XX):**

	Dr.	Cr.
Journal Vouchers In-Process (7140)	800	
Cash Expenditures/Expenses (6510) Subobject MC		
Interfund Transfers In – Principal		500
Cash Expenditures/Expenses (6510) Subobject MD		
Interfund Transfers In – Interest		300

**General Long-Term Obligations Subsidiary Account (Account 999):**

	Dr.	Cr.
Amount Available in Debt Service Funds (1810)	800	
Amount to be Provided for Retirement of Long-Term Obligations (1820)		800

**General Long-Term Obligations Subsidiary Account (Account 999):**

	Dr.	Cr.
Amount Available in Debt Service Funds (1810)	800	
Amount to be Provided for Retirement of Long-Term Obligations (1820)		800

**85.85.35.d**

To record the first debt service payment.

**Debt Service Account (Account 3XX):**

	Dr.	Cr.
Cash Expenditures/Expenses (6510) Subobject PA Principal	500	
Cash Expenditures/Expenses (6510) Subobject PB Interest	300	
Journal Vouchers In-Process (7140)		800

**General Long-Term Obligations Subsidiary Account (Account 999):**

	Dr.	Cr.
General Obligations Bonds Payable (5161)	500	
Amount to be Provided for Retirement of Long-Term Obligations (1820)		500
Amount to be Provided for Retirement of Obligations (1820)	800	
Amount Available in Debt Service Funds (1810)		800





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## 85.85.35.e

At fiscal year-end for reporting purposes, to reclassify as short-term that portion of principal due within the next fiscal year. At fiscal year-end, the amount in GL Code 5161 should agree with the next year's principal payment on the general obligation bonds amortization schedule.

### General Long-Term Obligations Subsidiary Account (Account 999):

	Dr.	Cr.
General Obligations Bonds Payable (5261)	600	
General Obligations Bonds Payable (5161)		600

## 85.85.37 Right-to-use lease agreements and subscription-based IT arrangements

July 1, 2022

### 85.85.37.a Governmental Fund Type Accounts

The following example is used to illustrate the entries for leased assets and subscription-based information technology arrangements (SBITAs) that meet the capitalization threshold in a governmental fund type account. Refer to [Subsections 85.60.65](#) and [85.72.25](#).

An agency operating from a governmental fund type account entered into an agreement to lease equipment for 60 months at the rate of \$10,000 per month. The current interest rate is 3 percent and the present value of the minimum lease payments is \$557,915 (annuity due). Since this lease meets the state's capitalization threshold, a lease liability and an intangible right-to-use asset must be recorded (refer to [Subsection 30.20.30](#) for further information on capitalization criteria for leases). Therefore, the entries to be recorded are as follows:

#### 85.85.37.a.(1)

To record the acquisition of an intangible right-to-use lease asset in the Operating Account equal to the value of the lease liability, and the lease asset and liability in the capital asset and long-term obligations subsidiary accounts.

#### Operating Account:

	Dr.	Cr.
Capital Asset Acquisitions by Other Financing Sources (6514) Subobject JS		
– Intangible Lease and Subscription Asset Capital Outlay	557,915	
Other Financing Sources (3221) Revenue Source Code (0810)		
Right-to-Use Lease and Subscription Asset Acquisition		557,915

#### General Capital Assets Subsidiary Account (Account 997):

	Dr.	Cr.
Lease Asset - Equipment (2650)	557,915	



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Investment in General Capital Assets (9850) 557,915

## General Long-Term Obligations Subsidiary Account (Account 999):

	Dr.	Cr.
Amount to be Provided for Retirement of Long-Term Obligations (1820)	557,915	
Right-to-Use Lease Liability (5174)		106,128
Right-to-Use Lease Liability (5274)		451,787

### 85.85.37.a.(2)

To record the first month's payment of lease liability. Note: No interest is accrued because the first lease payment is made at the beginning of the first month of the lease.

#### Operating Account:

	Dr.	Cr.
Cash Expenditures/Expenses (6510) Sub-subobject EH/H200 – Rentals and Leases – Furnishings and Equipment/Lease Principal	10,000	
Cash in Bank (1110) or In-Process (71XX)		10,000

To reduce the lease liability by the amount of periodic payment on the principal due. The entire payment is recorded to the current right-to-use lease liability.

## General Long-Term Obligations Subsidiary Account (Account 999):

	Dr.	Cr.
Right-to-Use Lease Liability (5174)	10,000	
Amount to be Provided for Retirement of Long-Term Obligations (1820)		10,000

### 85.85.37.a.(3)

To record the second month's payment of lease liability. A portion of the payment is allocated to principal and a portion to interest based on the lease liability amortization schedule.

#### Operating Account:

	Dr.	Cr.
Cash Expenditures/Expenses (6510) Sub-subobject EH/H200 – Rentals and Leases – Furnishings and Equipment/Lease Principal	8,630	
Cash Expenditures/Expenses (6510) Sub-subobject EH/H201 – Rentals and Leases – Furnishings and Equipment/Lease Interest	1,370	
Cash in Bank (1110) or In-Process (71XX)		10,000

To reduce the lease liability by the amount of periodic payment on the principal due. The amount to be recorded is the portion of the payment applicable to the principal.

## General Long-Term Obligations Subsidiary Account (Account 999):



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	Dr.	Cr.
Right-to-Use Lease Liability (5174)	8,630	
Amount to be Provided for Retirement of Long-Term Obligations (1820)		8,630

### 85.85.37.a.(4)

To record the amortization of the asset for the first month. Amortization should be calculated using the straight-line method over the shorter of the lease term or the useful life of the asset. *Note: amortization expense must be recorded at least annually.*

#### General Capital Assets Subsidiary Account (Account 997):

	Dr.	Cr.
Depreciation/Amortization Expense (6591) (Subobject WA)	9,299	
Allowance for Amortization – Equipment Lease Asset (2660)		9,299

### 85.85.37.a.(5)

To reclassify as short term that portion of the liability due within the next fiscal year. At fiscal year-end, the amount in GL Code 5174, should agree with the next year's principal payment on the agency's lease agreement amortization schedule.

#### General Long-Term Obligations Subsidiary Account (Account 999):

	Dr.	Cr.
Right-to-Use Lease Liability (5274)	107,922	
Right-to-Use Lease Liability (5174)		107,922

### 85.85.37.a.(6)

To record a variable lease payment.

#### Operating Account:

	Dr.	Cr.
Cash Expenditures/Expenses (6510) Sub-subobject EH/H202 – Rentals and Leases – Furnishings and Equipment/Variable Lease Payment	xxx	
Cash in Bank (1110) or In-Process (71XX)		xxx

### 85.85.37.a.(7)

To remove a capital asset when the asset is returned to the lessor. If the lease is cancelled early and the asset was not fully amortized (i.e. the cost is greater than the accumulated amortization), debit GL Code 6597 "Capital Asset Adjustment (General Capital Assets Subsidiary Account Only)" for the difference between the initial cost of the asset and the accumulated amortization.

#### General Capital Assets Subsidiary Account (Account 997):



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	Dr.	Cr.
Allowance for Amortization – Equipment Lease Asset (2660)	455,630	
Capital Asset Adjustment (General Capital Assets Subsidiary Account Only) (6597) Subobject WF	102,285	
Lease Asset - Equipment (2650)		557,915

## 85.85.37.b Proprietary and Trust Fund Type Accounts

The following example is used to illustrate the entries for leased assets and subscription-based information technology arrangements (SBITAs) in proprietary and trust fund type accounts. Refer to [Subsections 85.60.65](#) and [85.72.25](#).

An agency operating from a proprietary fund type account entered into an agreement to lease equipment for 60 months at the rate of \$10,000 per month. The current interest rate is 3 percent and the present value of the minimum lease payments is \$557,915 (annuity due). Since this lease meets the state's capitalization threshold, a lease liability and an intangible right-to-use asset must be recorded (refer to [Subsection 30.20.30](#) for further information on capitalization criteria for leases). Therefore, the entries to be recorded are as follows:

### 85.85.37.b.(1)

To record the acquisition of an intangible right-to-use lease asset and the lease liability. The current lease liability represents that portion of the lease obligation due within one year and the long-term portion represents lease obligations maturing thereafter.

	Dr.	Cr.
Lease Asset - Equipment (2650)	557,915	
Right-to-Use Lease Liability (5174)		106,128
Right-to-Use Lease Liability (5274)		451,787

### 85.85.37.b.(2)

To record the first month's payment of lease liability. The entire payment is recorded to the current right-to-use lease liability. Note: No interest is accrued because the first lease payment is made at the beginning of the first month of the lease.

	Dr.	Cr.
Right-to-Use Lease Liability (5174)	10,000	
Cash in Bank (1110) or In-Process (71XX)		10,000

Budgeted proprietary and trust fund type accounts require an additional entry to record the appropriated disbursement (GL Code 6510 entry) and an offsetting entry to eliminate the appropriated disbursement for financial reporting purposes (GL Code 6525 entry).

	Dr.	Cr.
Cash Expenditures/Expenses (6510) Sub-subobject EH/H200 – Rentals and Leases – Furnishings and Equipment/Lease Principal	10,000	
Expense Adjustments/Eliminations (GAAP) (6525) Sub-subobject EH/H200 – Rentals and Leases – Furnishings and Equipment/Lease		



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Principal

10,000

### 85.85.37.b.(3)

To record the second month's payment of lease liability. A portion of the payment is allocated to principal and a portion to interest based on the lease liability amortization schedule. The principal portion of the payment is recorded to the current right-to-use lease liability.

	Dr.	Cr.
Right-to-Use Lease Liability (5174)	8,630	
Cash Expenditures/Expenses (6510) Sub-subobject EH/H201 – Rentals and Leases – Furnishings and Equipment/Lease Interest	1,370	
Cash in Bank (1110) or In-Process (71XX)		10,000

Budgeted proprietary and trust fund type accounts require an additional entry to record the appropriated disbursement (GL Code 6510 entry) and an offsetting entry to eliminate the appropriated disbursement for financial reporting purposes (GL Code 6525 entry). The amount to be recorded is the portion of the payment applicable to the principal.

	Dr.	Cr.
Cash Expenditures/Expenses (6510) Sub-subobject EH/H200 – Rentals and Leases – Furnishings and Equipment/Lease Principal	8,630	
Expense Adjustments/Eliminations (GAAP) (6525) Sub-subobject EH/H200 – Rentals and Leases – Furnishings and Equipment/Lease Principal		8,630

### 85.85.37.b.(4)

To record the amortization of the asset for the first month. Amortization should be calculated using the straight-line method over the shorter of the lease term or the useful life of the asset. *Note: amortization expense must be recorded at least annually.*

	Dr.	Cr.
Depreciation/Amortization Expense (6511) (Subobject WA)	9,299	
Allowance for Amortization – Equipment Lease Asset (2660)		9,299

### 85.85.37.b.(5)

To reclassify as short term that portion of the liability due within the next fiscal year. At fiscal year-end, the amount in GL Code 5174, should agree with the next year's principal payment on the agency's lease agreement amortization schedule.

	Dr.	Cr.
Right-to-Use Lease Liability (5274)	107,922	
Right-to-Use Lease Liability (5174)		107,922

### 85.85.37.b.(6)

To record a variable lease payment.



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	Dr.	Cr.
Cash Expenditures/Expenses (6510) Sub-subobject EH/H202 – Rentals and Leases – Furnishings and Equipment/Variable Lease Payment	xxx	
Cash in Bank (1110) or In-Process (71XX)		xxx

## 85.85.37.b.(7)

To remove a capital asset when the asset is returned to the lessor. If the lease is cancelled early and the asset was not fully amortized (i.e. the cost is greater than the accumulated amortization), debit GL Code 3213 "Gains and Losses on Sales of Capital Assets" for the difference between the initial cost of the asset and the accumulated amortization.

	Dr.	Cr.
Allowance for Amortization – Equipment Lease Asset (2660)	455,630	
Gains and Losses on Sales of Capital Assets (3213) Revenue Source Code (0418) Gain or Loss on Sale of Capital Assets	102,284	
Lease Asset – Equipment (2650)		557,915

## 85.85.37.c

### Leases and SBITAs that do not meet capitalization requirements

To record payments for leases and SBITAs that do not meet the capitalization requirements in [Subsection 30.20.30](#).

	Dr.	Cr.
Cash Expenditures/Expenses (6510) Subobject ED or other subobject as appropriate	xxx	
Cash in Bank (1110) or In-Process (71XX)		xxx

## 85.85.37.d

### Acquisition of leased asset that originally did not meet the capitalization requirements

To record the fair value of the subsequent acquisition of non-capitalized leased assets upon transfer of title.

## 85.85.37.d.(1)

### Governmental Fund Type Accounts

An agency operating in a governmental fund type account records the fair value in Account 997 "General Capital Assets Subsidiary Account."

### General Capital Assets Subsidiary Account (Account 997):

	Dr.	Cr.
Furnishings and Equipment (2410)	xxx	
Investment in General Capital Assets (9850)		xxx



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## 85.85.37.d.(2)

### Proprietary and Trust Fund Type Accounts

An agency operating in a proprietary or trust fund type account records the fair value in the operating account. Any lease payments made in the current biennium should be recorded as a recovery of expenditure (GL Code 6510 entry) and any lease payments made in prior biennia should be recorded as a recovery of prior expenditure authority (GL Code 3210, Revenue Source Code 0486 entry).

	Dr.	Cr.
Furnishings and Equipment (2410)	xxx	
Cash Expenditures/Expenses (6510) Subobject ED or other subobject as appropriate		xxx
Cash Revenues (3210) Revenue Source Code (0486) Recoveries of Prior Expenditure Authority Expenditures		xxx

## 85.85.40 Lease-to-own agreements

July 1, 2021

### 85.85.40.a

#### Governmental Fund Type Accounts

The following example is used to illustrate the entries to record a lease-to-own agreement in a governmental fund type account. Refer to [Subsection 85.72.30](#).

An agency operating from the General Fund (governmental fund type account) entered into an agreement to lease a copy machine with a fair value of \$17,000 for 60 months at the rate of \$300 per month. The current interest rate is 4 percent and the present value of the minimum lease payments is \$16,344 (annuity due). Since the value of the asset meets the state's capitalization threshold, this lease-to-own agreement must be capitalized (refer to [Subsection 30.20.30](#) for further information on capitalization criteria). The amount to be capitalized is \$16,344, which is the lesser of the fair value and the net present value. Therefore, the entries to be recorded are as follows:

#### 85.85.40.a.(1)

To record the acquisition of a capital asset through a lease-to-own agreement in the Operating Account, and the asset and lease liability in the capital asset and long-term obligations subsidiary accounts.

#### Operating Account:

	Dr.	Cr.
Capital Assets Acquisition by Other Financing Sources (6514) Subobject JC		
– Furnishings and Equipment or other appropriate subobject	16,344	
Other Financing Sources (3221) Revenue Source Code (0809)		
Lease-to-Own Acquisition		16,344

#### General Capital Assets Subsidiary Account (Account 997):



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	Dr.	Cr.
Furnishings and Equipment (2410)	16,344	
Investment in General Capital Assets (9850)		16,344

## General Long-Term Obligations Account Group (Account 999):

	Dr.	Cr.
Amount to be Provided for Retirement of Long-Term Obligations (1820)	16,344	
Lease-to-Own Agreements Payable (5172)		1,541
Lease-to-Own Agreements Payable (5272)		14,803

**Note:** Contact the Office of the State Treasurer for the current rate of interest for computing present value. Lease-to-own agreements are computed as annuities due because the payments are made at the first of the month; other capital purchases may be computed as ordinary annuities.

### 85.85.40.a.(2)

To record the first periodic payment of the lease-to-own agreement.

**Note:** No interest is accrued because the first lease payment is made at the beginning of the first month of the lease.

#### Operating Account:

	Dr.	Cr.
Cash Expenditures/Expenses (6510) Subobject PA - Principal	300	
Cash in Bank (1110) or In-Process (71XX)		300

To reduce the liability by the amount of periodic payment on the principal due. The entire payment is charged to the current lease-to-own agreements payable.

## General Long-Term Obligations Subsidiary Account (Account 999):

	Dr.	Cr.
Lease-to-Own Agreements Payable (5172)	300	
Amount to be Provided for Retirement of Long-Term Obligations (1820)		300

### 85.85.40.a.(3)

To record the second periodic payment of the lease-to-own agreement. A portion of the payment is allocated to principal and a portion to interest based on the lease amortization schedule.

#### Operating Account:

	Dr.	Cr.
Cash Expenditures/Expenses (6510) Subobject PA - Principal	247	
Cash Expenditures/Expenses (6510) Subobject PB - Interest	53	
Cash in Bank (1110) or In-Process (71XX)		300





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To reduce the liability by the amount of periodic payment on the principal due. The amount to be recorded is the portion of the payment applicable to the principal.

## General Long-Term Obligations Subsidiary Account (Account 999):

	Dr.	Cr.
Lease-to-Own Agreements Payable (5172)	247	
Amount to be Provided for Retirement of Long-Term Obligations (1820)		247

### 85.85.40.a.(4)

To reclassify as short term that portion of the liability due within the next fiscal year. At fiscal year-end, the amount in GL Code 5172, should agree with the next year’s principal payment on the agency’s lease agreement amortization schedule.

## General Long-Term Obligations Subsidiary Account (Account 999):

	Dr.	Cr.
Lease-to-Own Agreements Payable (5272)	3,064	
Lease-to-Own Agreements Payable (5172)		3,064

### 85.85.40.b Proprietary and Trust Fund Type Accounts

The following example is used to illustrate the entries to record a lease-to-own agreement in proprietary and trust fund type accounts. Refer to [Subsection 85.72.30](#).

An agency operating from a proprietary fund type account entered into an agreement to lease a copy machine with a fair value of \$17,000 for 60 months at the rate of \$300 per month. The current interest rate is 4 percent and the present value of the minimum lease payments is \$16,344 (annuity due). Since the value of the asset meets the state’s capitalization threshold, this lease-to-own agreement must be capitalized (refer to [Subsection 30.20.30](#) for further information on capitalization criteria). The amount to be capitalized is \$16,344, which is the lesser of the fair value and the net present value. Therefore, the entries to be recorded are as follows:

### 85.85.40.b.(1)

To record the acquisition of a capital asset through a lease-to-own agreement and the lease liability. The current lease liability represents that portion of the lease obligation due within one year and the long-term portion represents lease obligations maturing thereafter.

	Dr.	Cr.
Furnishings and Equipment (2410)	16,344	
Lease-to-Own Agreements Payable (5172)		1,541
Lease-to-Own Agreements Payable (5272)		14,803

**Note:** Contact the Office of the State Treasurer for the current rate of interest for computing present value. Lease-to-own agreements are computed as annuities due because the payments are made at the first of the month; other capital purchases may be computed as ordinary annuities.



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## 85.85.40.b.(2)

To record the first periodic payment of the lease-to-own agreement. The entire payment is charged to the current lease-to-own agreements payable. Note: No interest is accrued because the first lease payment is made at the beginning of the first month of the lease.

	Dr.	Cr.
Lease-to-Own Agreements Payable (5172)	300	
Cash in Bank (1110) or In-Process (71XX)		300

Budgeted proprietary and trust fund type accounts require an additional entry to record the appropriated disbursement (GL Code 6510 entry) and an offsetting entry to eliminate the appropriated disbursement for financial reporting purposes (GL Code 6525 entry).

	Dr.	Cr.
Cash Expenditures/Expenses (6510) Subobject PA - Principal	300	
Expense Adjustments/Eliminations (GAAP) (6525)		
Subobject PA - Principal		300

## 85.85.40.b.(3)

To record the second periodic payment of the lease-to-own agreement. A portion of the payment is allocated to principal and a portion to interest based on the lease amortization schedule. The principal portion of the payment is recorded to the current lease-to-own agreements payable.

	Dr.	Cr.
Cash Expenditures/Expenses (6510) Subobject PB - Interest	53	
Lease-to-Own Agreements Payable (5172)	247	
Cash in Bank (1110) or In-Process (71XX)		300

Budgeted proprietary and trust fund type accounts require an additional entry to record the appropriated disbursement (GL Code 6510 entry) and an offsetting entry to eliminate the appropriated disbursement for financial reporting purposes (GL Code 6525 entry). The amount to be recorded is the portion of the payment applicable to the principal.

	Dr.	Cr.
Cash Expenditures/Expenses (6510) Subobject PA - Principal	247	
Expense Adjustments/Eliminations (GAAP) (6525)		
Subobject PA - Principal		247

## 85.85.40.b.(4)

To reclassify as short term that portion of the liability due within the next fiscal year. At fiscal year-end, the amount in GL Code 5172 should agree with the next year's principal payment on the agency's lease agreement amortization schedule.

	Dr.	Cr.
Lease-to-Own Agreements Payable (5272)	3,064	
Lease-to-Own Agreements Payable (5172)		3,064



## 85.85.40.c Computation of Present Value Annuities

Any annuity is a series of equal payments made at regular intervals of time. The time intervals between payments are called payment periods. An annuity is a compound interest situation with periodic payments. When the payments are made at the end of the payment periods, the annuity is called an ordinary annuity. When the payments are made at the beginning of the payment periods, the annuity is called an annuity due.

Computation of present value may be achieved by use of the following formulas:

**Where:**

**Pv = present value factor**

**I = interest rate**

**n = number of periods**

**Ordinary Annuity/Present Value Formula** - A loan is a prime example of this annuity situation in which a sum of money is to be repaid with interest by certain payments for a fixed number of periods. The present value of the loan can be computed by multiplying the periodic loan payments by the present value factor. The present value factor is calculated by using the following formula:

$$Pv = \frac{1}{i} - \frac{(1+i)^n}{i}$$

**Annuity Due/Present Value Formula** - Rent or lease situations are common examples of this type of annuity. The present value of the rent or lease can be computed by multiplying the periodic rent/lease payments by the present value factor. The present value factor is calculated by using the following formula:

(However, the formula need not be used, since tables showing present values computed with the formula at various interest rates are readily available.)

$$Pv = \frac{1}{i} - \frac{(1+i)^n}{i} \quad \text{and adding 1 to the computed amount}$$

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## 85.85.45 Equipment Certificates of Participation (COP)

June 1, 2013

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### 85.85.45.a Governmental Fund Type Accounts (Agency Entries)

The following example is used to illustrate entries for **equipment certificates of participation (COP)** in a **governmental** fund type account. Refer to [Subsection 85.72.40.c](#).

An agency operating in a governmental fund type account purchases a piece of equipment for \$10,000, and finances it with a COP.



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Details of the COP issue are:

- Par amount of \$10,115,
- Original issue premium (OIP) of \$10,
- Underwriter’s discount (UD) of \$50, and
- Costs of issuance (COI) of \$75.

Details of the COP debt service are:

- 1st year \$2,000 principal, \$600 interest, and
- 2nd year \$2,200 principal.

**Note:** The actual par value of the COP is slightly higher than the proceeds required by the agency to cover issue costs, such as costs of issuance (COI) and the original issue discount (OID) and underwriter’s discount (UD). The OID, results when the par of the COP is more than the purchase price. Original issue premium (OIP) results when the par of the COP is less than the purchase price. Discounts that are related to underwriters’ fees are handled consistent with other issue costs. COI are generally included in the proceeds and paid separately by OST. OST provides agencies with a statement detailing this information. The agency is to include the financing costs as part of the cost of the asset that is capitalized and depreciated.

### 85.85.45.a.(1)

To record the COP liability, original issue discount, underwriter’s discount, and the expense of the costs of issuance (paid by OST). When the COP is sold by OST, it becomes an obligation of the agency even if the cash proceeds have not yet been received by the agency. The time period between the COP sale date and closing date is generally two weeks or less.

#### Operating Account:

	Dr.	Cr.
Due from Other Agency – OST (1354)	10,000	
Capital Asset Acquisitions by Other Financing Sources (6514) Subobject PC		
- Other Debt Costs (UD + COI)	125	
Other Financing Sources (3221) Revenue Source Code (0869)		
Original Issue Premium - COPs (OIP)*		10
Other Financing Sources (3221) Revenue Source Code (0807)		
Certificates of Participation (Par)		10,115

\*If the COP had an OID instead of an OIP Revenue Source Code 0868 “Original Issue Discount - COPs” would be debited.

#### General Long-Term Obligations Subsidiary Account (Account 999):

	Dr.	Cr.
Amount to be provided for retirement of Long-Term Obligations (1820)	10,115	



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Certificates of Participation Payable (5173)	2,000
Certificates of Participation Payable (5273)	8,115

### 85.85.45.a.(2)

To record the agency’s purchase of equipment, the subsequent reimbursement with COP proceeds from OST, and the capitalization of the equipment in Account 997. The purchase of the equipment and the reimbursement from OST may be several months apart.

#### Operating Account:

	Dr.	Cr.
Cash Expenditures/Expenses (6510) Object J - Capital Outlays*	10,000	
Cash in Bank (1110) or In Process (71XX)*		10,000
Capital Asset Acquisitions by Other Financing Sources (6514) Subobject JC - Furnishing and Equipment*	10,000	
Cash Expenditures/Expenses (6510) Object J - Capital Outlays*		10,000
Cash in Bank (1110) or In Process (71XX)*	10,000	
Due from Other Agency – OST (1354)		10,000

#### General Capital Assets Subsidiary Account (Account 997):

	Dr.	Cr.
Furnishings and Equipment (2410)	10,115	
Investment in General Capital Assets (9850)		10,115

\*If OST pays the vendor directly for the equipment, then the agency would not record the cash receipt or the cash disbursement entries (since there is no reimbursement to the agency). However, the agency would still record the capital acquisition in GL Code 6514 Subobject JC with the credit offset in GL Code 1354 "Due from Other Agency - OST."

**Note:** If a COP has been authorized and equipment costs are incurred in one fiscal year but the COP is not issued until the subsequent year, agencies should debit a receivable, such as GL Code 1352 “Due from Other Governments,” and credit expenditures to GL Code 6510 in the year the equipment costs are initially incurred. When the COP is issued in the subsequent year, the agency should credit the GL Code 1352 and debit cash when the COP proceeds are received, along with a debit to GL Code 6514 Subobject JC with the offsetting credit to GL Code 3221 Revenue Source Code 0807.

### 85.85.45.a.(3)

To record the first year COP debt service payment (principal and interest).

#### Operating Account:



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	Dr.	Cr.
Cash Expenditures/Expenses (6510) Subobject PD - Principal COP Lease/Purchase Agreements	2,000	
Cash Expenditures/Expenses (6510) Subobject PE - Interest COP Lease/Purchase Agreements	600	
Cash in Bank (1110) or In-Process (71XX)		2,600

## General Long-Term Obligations Subsidiary Account (Account 999):

	Dr.	Cr.
Certificates of Participation Payable (5173)	2,000	
Amount to be Provided for Retirement of Long-Term Obligations (1820)		2,000

### 85.85.45.a.(4)

At fiscal year-end for reporting purposes, to reclassify as short-term that portion of principal due within the next fiscal year. At fiscal year-end, the amount in GL Code 5173 should agree with the next year's principal payment on the agency's COP amortization schedule.

## General Long-Term Obligations Subsidiary Account (Account 999):

	Dr.	Cr.
Certificates of Participation Payable (5273)	2,200	
Certificates of Participation Payable (5173)		2,200

### 85.85.45.b Proprietary and Trust Fund Type Accounts (Agency Entries)

The following example is used to illustrate entries for equipment certificates of participation (COP) in a budgeted proprietary fund type account. Refer to [Subsection 85.72.40.c](#).

An agency operating in a proprietary fund type account purchases a piece of equipment for \$10,000, and finances it with a COP.

- Par amount of \$10,115,
- Original issue premium (OIP) of \$10,
- Underwriter's discount (UD) of \$50, and
- Costs of issuance (COI) of \$75.

Details of the COP debt service are:

- 1st year \$2,000 principal, \$600 interest, and
- 2nd year \$2,200 principal.



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**Note:** The actual par value of the COP is slightly higher than the proceeds required by the agency to cover issue costs, such as costs of issuance (COI) and original issue discount (OID). OID results when the par of the COP is more than the purchase price. Original issue premium (OIP) results when the par of the COP is less than the purchase price. Discounts that are related to underwriters' fees are handled consistent with other issue costs. COI are generally included in the proceeds and paid separately by OST. OST provides agencies with a statement detailing this information. The agency is to include the financing costs as part of the cost of the asset that is capitalized and depreciated.

In proprietary fund type accounts COP issue costs, such as COI and UD are expensed using GL Code 6510 "Cash Expenditures/Expenses" Subobject PC "Other Debt Costs."

If the OID or OIP is deemed material, it should be deferred using GL Code 1911 "Unamortized Discounts on Certificates of Participation" or GL Code 5920 "Unamortized Premiums on Certificates of Participation" respectively. The amount deferred should be amortized over the life of the COP using GL Code 6512 "Amortization Expense" Subobject WB "Amortization." If the OIP or OID is deemed immaterial, it should be recorded in the same manner as the other issuance costs.

All of these entries are made in the agency's **Operating Account**:

### 85.85.45.b.(1)

To record the agency's purchase of equipment; the COP liability; the subsequent receipt of COP proceeds from OST; the elimination of the budgeted disbursement; and the capitalization of the equipment. When the COP is sold by OST, it becomes an obligation (liability) of the agency, even if the cash proceeds have not yet been received by the agency. The time period between the COP sale date and closing date is generally two weeks or less.

	Dr.	Cr.
Cash Expenditures/Expenses (6510) Subobject JC Furnishings and Equipment	10,000	
Cash in Bank (1110) or In-Process (71XX)		10,000
Due from Other Agency – OST (1354)	10,000	
Cash Expenditures/Expenses (6510) Subobject PC - Other Debt Costs (UD + COI – OIP)*	115	
Certificates of Participation Payable (5173)		2,000
Certificates of Participation Payable (5273)		8,115

\*If the COP had an OID instead of an OIP, the OID amount would be added to the UD and COI.

Cash in Bank (1110) or In-Process (71XX)	10,000	
Due from Other Agency – OST (1354)		10,000
Furnishings and Equipment (2410)	10,115	
Expense Adjustment/Eliminations (GAAP) (6525) Subobject JC - Furnishings and Equipment		10,000
Expense Adjustment/Elimination (6525) Subobject PC – Other Debt Costs		



### 85.85.45.b.(2)

To record the first year COP debt service payment (principal and interest) and the elimination of the budgeted principal expenditure.

	Dr.	Cr.
Cash Expenditures/Expenses (6510) Subobject PE – Interest COP Lease/Purchase Agreements	600	
Cash Expenditures/Expenses (6510) Subobject PD – Principal COP Lease/Purchase Agreements	2,000	
Cash in Bank (1110) or In-Process (71XX)		2,600
Certificates of Participation Payable (5173)	2,000	
Expense Adjustment/Eliminations (GAAP) (6525) Subobject PD – Principal COP Lease/Purchase Agreements		2,000

### 85.85.45.b.(3)

At fiscal year-end for reporting purposes, to reclassify as short-term that portion of principal due within the next fiscal year. At fiscal year-end, the amount in GL Code 5173 should agree with the next year’s principal payment on the agency’s COP amortization schedule.

	Dr.	Cr.
Certificates of Participation Payable (5273)	2,200	
Certificates of Participation Payable (5173)		2,200

### 85.85.45.c Office of the State Treasurer (Agency 010 Entries)

Using the same example as in [Subsection 85.85.45](#) above, an agency purchases a piece of equipment for \$10,000, and finances it with a COP.

- Par amount of \$10,115,
- Original issue premium (OIP) of \$10,
- Underwriter’s discount (UD) of \$50, and
- Costs of issuance (COI) of \$75.

Details of the COP issue are:

- 1st year \$2,000 principal, \$600 interest, and
- 2nd year \$2,200 principal.





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**Note:** The actual par value of the COP is slightly higher than the proceeds required by the agency to cover issue costs, such as the original issue discount (OID), the underwriter's discount (UD), and costs of issuance (COI). The COI is included in the proceeds but not the OID or the UD.

While agency entries differ if the equipment is acquired by a governmental or proprietary fund type account, the OST entries are the same.

### 85.85.45.c.(1)

To record the closing of the COP sale with the underwriter.

#### **Certificate of Participation and Other Financing – State (Account 739):**

	Dr.	Cr.
Receipts-In-Process (7110) (Par +OIP - UD)	10,075	
Cash Revenues (3210) Revenue Source Code (0499) Other Revenues (COI)		75
Due to Other Agency (5154)		10,000

### 85.85.45.c.(2)

To distribute the COP proceeds to the state agency and pay the costs of issuance.

#### **Certificate of Participation and Other Financing – State (Account 739):**

	Dr.	Cr.
Due to Other Agency (5154)	10,000	
In-Process (71XX)		10,000
Accrued Expenditures/Expenses (6505) with appropriate subobject (COI)	75	
Accounts Payable (5111) (COI)		75
Cash Expenditures/Expenses (6510) (appropriate subobject) (COI)	75	
Accrued Expenditures/Expenses (6505) with appropriate subobject (COI)		75
Accounts Payable (5111) (COI)	75	
In-Process (71XX) (COI)		75

### 85.85.45.c.(3)

To record the receipt of the first debt service payment from an agency.

#### **Certificate of Participation and Other Financing – State (Account 739):**

	Dr.	Cr.
In-Process (71XX)	2,600	
Due to Fiscal Agents (5130) (principal and interest)		2,600



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**Note:** OST temporarily invests the payments received from agencies for 30 days until the debt service payment is due to the fiscal agent. This activity is recorded by transferring In-Process (71XX) in and out of the Local Government Investment Pool (1206).

## 85.85.45.c.(4)

To record payment to the fiscal agent.

### Certificate of Participation and Other Financing – State (Account 739):

	Dr.	Cr.
Due to Fiscal Agents (5130)	2,600	
In-Process (71XX)		2,600

## 85.85.50 Real Estate Certificates of Participation (COP)

June 1, 2013

### 85.85.50.a

#### Governmental Fund Type Accounts (Agency Entries)

The following example is used to illustrate entries for real estate certificates of participation (COP) in a governmental fund type account. Refer to [Subsection 85.72.40.d](#).

An agency operating in a governmental fund type account obtains proper legislative approval for construction of a new state office building and applies to the Office of the State Treasurer (OST) for COP financing. OST sells a COP. Proceeds of the COP are used to pay for construction costs and interest incurred during the construction period.

Details of the COP issue are:

- Par amount of \$73.6 million,
- Original issue premium (OIP) of \$.7 million,
- Underwriter’s discount (UD) of \$.2 million,
- Costs of issuance (COI) of \$.1 million,
- COP proceeds for construction \$60 million,
- COP proceeds for interest costs \$14 million, and
- Net COP proceeds held by OST for the agency \$74 million (\$60 million for construction costs and \$14 million for construction period interest).

**Note:** Original issue discount (OID) results when the par of the COP is more than the purchase price. An OIP results when the par of the COP is less than the purchase price. Discounts that are related to underwriters’ fees are handled consistent with other issue costs. COI are generally included in the proceeds and paid separately. OST receives cash proceeds for the COI, but not for the UD and the OID.

Details of the first year:



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- \$10 million is expended on construction,
- Debt service is \$4 million, interest only, and
- Unspent construction funds earn \$.8 million in interest revenue.

Unspent proceeds are held by OST and invested in the Local Government Investment Pool (LGIP) or with a trustee.

**Note:** Construction period interest is recognized as an expense in the period incurred.

### 85.85.50.a.(1)

To record the liability for the real estate COP, and the original issue premium, underwriter’s discount, and the expense of the costs of issuance (paid by OST). When the COP is sold by OST, it becomes an obligation (liability) of the agency, even if the cash proceeds have not yet been received by the agency. The time period between the COP sale date and the closing date is generally two weeks or less.

#### Construction Account:

	Dr.	Cr.
Due from Other Agency-OST (1354)	74 mil	
Capital Asset Acquisitions by Other Financing Sources (6514 ) Subobject PC – Other Debt Costs (UD + COI)	.3 mil	
Other Financing Sources (3221) Revenue Source Code (0807) Certificates of Participation (Par)		73.6 mil
Other Financing Sources (3221) Revenue Source Code (0869) Original Issue Premium - COPs		.7 mil

#### General Long-Term Obligations Subsidiary Account (Account 999):

	Dr.	Cr.
Amount to be Provided for Retirement of Long-Term Obligations (1820) Certificates of Participation Payable (5273)	73.6 mil	73.6 mil

**Note:** Because interest only is due during the construction period, the entire obligation is initially coded long-term.

### 85.85.50.a.(2)

To record construction expenditures and reimbursement from OST.

#### Construction Account:

	Dr.	Cr.
Cash Expenditures/Expenses (6510) Object J –Capital Outlays Cash in Bank (1110) or In-Process (71XX)	10 mil	10 mil



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## Capital Asset Acquisitions by Other Financing Sources (6514) Subobject JF

- Buildings	10 mil	
Cash Expenditures/Expenses (6510) Object J – Capital Outlays		10 mil
Cash in Bank (1110) or In-Process (71XX)	10 mil	
Due from Other Agency – OST (1354)		10 mil

**Note:** If a COP has been authorized and construction project costs are incurred in one fiscal year but the COP is not issued until the subsequent year, agencies should debit a receivable, such as GL Code 1352 Due from Other Governments, and credit expenditures to GL Code 6510 in the year the project costs are initially incurred. When the COP is issued in the subsequent year, the agency should credit the GL Code 1352 and establish the GL Code 1354 from the OST.

### 85.85.50.a.(3)

To record first year interest-only debt service payment. This payment is made by OST from the COP proceeds held by OST to cover interest expense during the construction period.

#### Construction Account:

	Dr.	Cr.
Cash Expenditures/Expenses (6510) Subobject PE –Interest COP		
Lease-Purchase Agreements	4 mil	
Due from Other Agency-OST (1354)		4 mil

### 85.85.50.a.(4)

To recognize interest earned on unspent COP proceeds held by OST and reported to the agency monthly.

#### Construction Account:

	Dr.	Cr.
Due from Other Agency-OST (1354)	.8 mil	
Cash Revenues (3210) Revenue Source Code (0401) Investment Income		.8 mil

### 85.85.50.a.(5)

To record an adjusting entry for construction in progress. At a minimum, this entry should be made at fiscal year-end. Construction in progress is equal to the sum of construction expenditures (\$10 million) and COI and UD(\$.3 million) less OIP (\$.7 million).

#### General Capital Assets Subsidiary Account (Account 997):

	Dr.	Cr.
Construction in Progress (2510)	9.6 mil	
Investment in General Capital Assets (9850)		9.6 mil



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## 85.85.50.a.(6)

At fiscal year-end for reporting purposes, to reclassify as short-term that portion of principal due within the next fiscal year. At fiscal year-end (based on the assumptions in 85.85.50.a.(7)), the amount in GL Code 5173 Certificates of Participation Payable should agree with the next year's principal payment on the agency's COP amortization schedule.

### General Long-Term Obligations Subsidiary Account (Account 999):

	Dr.	Cr.
Certificates of Participation Payable (5273)	2 mil	
Certificates of Participation Payable (5173)		2 mil

## 85.85.50.a.(7)

In a subsequent period, assume that a debt service payment is scheduled:

- Principal \$2 million,
- Interest expense \$3.5 million, and
- Total COP debt service payment \$5.5 million.
- Payment components:
  - \$2 million is paid by OST from the remaining COP proceeds held by OST to cover interest incurred during the construction period,
  - \$1.1 million is paid by OST from interest earned on COP proceeds held by OST during the construction period,
  - \$2.4 million is paid in cash by the agency to OST, and
  - OST makes the full COP debt service payment of \$5.5 million to the fiscal agent.
- Refer to [Subsection 85.85.50.c.\(6\)](#).

### Construction Account:

	Dr.	Cr.
Cash Expenditures/Expenses (6510) Subobject PD - Principal COP Lease-Purchase Agreements	2.0 mil	
Cash Expenditures/Expenses (6510) Subobject PE - Interest COP Lease-Purchase Agreements	3.5 mil	
Cash in Bank (1110) or In-Process (71XX)		2.4 mil
Due from Other Agency-OST (1354)		3.1 mil

### General Long-Term Obligations Subsidiary Account (Account 999):

	Dr.	Cr.
Certificates of Participation Payable (5173)	2 mil	
Amount to be Provided for Retirement of Long-Term Obligations (1820)		2 mil



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### 85.85.50.b Proprietary and Trust Fund Type Accounts (Agency Entries)

The following example is used to illustrate entries for **real estate** certificates of participation (COP) in a **budgeted proprietary** fund type account. Refer to [Subsection 85.72.40.c](#).

An agency operating in a budgeted proprietary fund type account obtains proper legislative approval for construction of a new state office building and applies to the Office of the State Treasurer (OST) for COP financing. OST sells a COP. Proceeds of the COP are used for to pay for construction costs and interest incurred during the construction period.

Details of the issue are:

- Par amount of \$73.6 million,
- Original issue premium (OIP) of \$.7 million,
- Underwriter's discount (UD) of \$.2 million,
- Costs of issuance (COI) of \$.1 million,
- COP proceeds for construction \$60 million,
- COP proceeds for interest costs \$14 million, and
- Net COP proceeds held by OST for the agency \$74 million (\$60 million for construction costs and \$14 million for construction period interest.

**Note:** Original issue discount (OID) results when the par of the COP is more than the purchase price. An OIP results when the par of the COP is less than the purchase price. Discounts that are related to underwriters' fees are handled consistent with other issue costs. COI are generally included in the proceeds and paid separately. OST receives cash proceeds for the COI, but not for the UD and the OID.

Details of the first year:

- \$10 million is expended on construction,
- Debt service is \$4 million, interest only, and
- Unspent COP proceeds earn \$.8 million in interest revenue.

This example assumes that net construction period interest is material and is therefore capitalized, and that the OIP is immaterial, and therefore expensed. UD and COI are always expensed as issuance costs. (If the OIP had been deemed material, it would be deferred in GL Code 5920 "Unamortized Premiums on Certificates of Participation" and amortized over the life of the COP using GL Code 6512 "Amortization Expense" Subsubject WB "Amortization").

Unspent proceeds are held by OST and invested in the Local Government Investment Pool (LGIP) or with a trustee.

**Note:** Construction period interest is recognized as an expense in the period incurred.

#### 85.85.50.b.(1)

To record the liability for the real estate COP, and the original issue premium, underwriter's discount, and the expense of the costs of issuance (paid by OST). When the COP is sold by OST, it becomes an



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obligation (liability) of the agency, even if the cash proceeds have not yet been received by the agency. The time period between the COP sale date and the closing date is generally two weeks or less.

### Agency Operating/Construction Account:

	Dr.	Cr.
Due from Other Agency-OST (1354)	74 mil	
Cash Expenditures/Expenses (6510) Subobject PC – Other Debt Costs ( <i>UD + COI - OIP</i> )*		.4 mil
Certificates of Participation Payable (5273) ( <i>Par</i> )		73.6 mil

\*If the COP had an OID instead of an OIP, the OID amount would be added to the UD and COI.

**Note:** Because interest only is due during the construction period, the entire obligation is initially coded long-term.

### 85.85.50.b.(2)

To record construction expenditures, reimbursement by OST, and elimination of budgeted expenditures.

### Agency Operating/Construction Account:

	Dr.	Cr.
Cash Expenditures/Expenses (6510) Object J - Capital Outlays	10 mil	
Cash in Bank (1110) or In-Process (71XX)		10 mil
Cash in Bank (1110) or In-Process (71XX)	10 mil	
Due from Other Agency-OST (1354)		10 mil
Construction in Progress (2510)	9.6 mil	
Expense Adjustment/Elimination (6525) Subobject PC – Other Debt Costs ( <i>UD + COI - OIP</i> )	.4 mil	
Expense Adjustment/Elimination (6525) Object J – Capital Outlays		10 mil

### 85.85.50.b.(3)

To record interest earned on unspent COP proceeds held by OST and reported to the agency monthly.

### Agency Operating/Construction Account:

	Dr.	Cr.
Due from Other Agency-OST (1354)	.8 mil	
Construction in Progress (2510)		.8 mil

### 85.85.50.b.(4)

To record first year interest expense only debt service payment – this payment is made by OST from the proceeds held by OST to cover interest expense during the construction period.

### Agency Operating/Construction Account:



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	Dr.	Cr.
Cash Expenditures/Expenses (6510) Subobject PE – Interest COP		
Lease/Purchase Agreements	4 mil	
Due from Other Agency-OST (1354)		4 mil

Once the COP proceeds held by OST to cover interest expense during the construction period are expended, the interest payments will be paid by the agency to OST.

### 85.85.50.b.(5)

At fiscal year-end for reporting purposes, to reclassify as short-term that portion of principal due within the next fiscal year. At fiscal year-end (based on the assumptions in 85.85.50.b.(6)), the amount in GL Code 5173 should agree with the next year’s principal payment on the agency’s COP amortization schedule.

#### Agency Operating/Construction Account:

	Dr.	Cr.
Certificates of Participation Payable (5273)	2 mil	
Certificates of Participation Payable (5173)		2 mil

### 85.85.50.b.(6)

In a subsequent period, assume that a debt service payment is scheduled:

- Principal \$2 million,
- Interest expense \$3.5 million, and
- Total COP debt service payment \$5.5 million.

Payment components:

- \$2 million is paid by OST from the remaining COP proceeds held by OST to cover interest incurred during the construction period,
- \$1.1 million is paid by OST from interest earned on the COP proceeds held by OST during the construction period,
- \$2.4 million is paid in cash by the agency to OST,
- OST makes the full COP debt service payment of \$5.5 million to the fiscal agent.

Refer to Subsection 85.85.50.c.(6).

#### Agency Operating/Construction Account:

	Dr.	Cr.
Cash Expenditures/Expenses (6510) Subobject PD – Principal COP		
Lease-Purchase Agreements	2 mil	
Cash Expenditures/Expenses (6510) Subobject PE -Interest COP		
Lease-Purchase Agreements		3.5 mil
Cash in Bank (1110) or In-Process (71XX)		2.4 mil





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Due from Other Agency – OST (1354)

3.1 mil

Certificates of Participation Payable (5173) Principal

2 mil

Expense Adjustments/Elimination (6525) Subobject PD - Principal

COP Lease-Purchase

2 mil

## 85.85.50.c

### Office of the State Treasurer (Agency 010 Entries)

Using the same example as in Subsection 85.85.50 a and b above, an agency obtains proper legislative approval for the construction of a new state office building and applies to the Office of the State Treasurer (OST) for COP financing. OST sells a COP. Proceeds of the COP are used to pay for construction costs and interest incurred during the construction period.

Details of the issue are:

- Par amount of \$73.6 million,
- Original issue premium (OIP) of \$.7 million,
- Underwriter’s discount (UD) of \$.2 million,
- Costs of issuance (COI) of \$.1 million,
- COP proceeds for construction \$60 million, and
- COP proceeds for interest costs \$14 million.

**Note:** Original issue discount (OID) results when the par of the COP is more than the purchase price. OIP results when the par of the COP is less than the purchase price. Discounts that are related to underwriters’ fees are handled consistent with other issue costs. COI are generally included in the proceeds and paid separately. OST receives cash proceeds for the COI, but not for the UD and the OID.

Details of the first year:

- \$10 million is expended on construction,
- Debt service is \$4 million, interest expense only, and
- Unspent COP proceeds earn \$.8 million in interest revenue.

The entries for OST are as follows:

All entries are made to Account 739 (Certificates of Participation and Other Financing Account - State):

### 85.85.50.c.(1)

To record the closing of the COP sale with the underwriter, and investment of the proceeds in the LGIP. OST receives cash for the construction proceeds, the interest expense due during construction, and the costs of issuance.



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Receipts-In-Process (7110) ( <i>Par + OIP – UD</i> )	Dr.	Cr.
Due to Other Agency (5154)	74.1 mil	74 mil
Cash Revenue (3210) Revenue Source Code (0499) Other Revenues ( <i>COI</i> )		.1 mil

Investments with Local Government Investment Pool (1206) or Cash and Investments with Escrow Agents and Trustees (1140)	74 mil	
In-Process (71XX)		74 mil

### 85.85.50.c.(2)

To record payment of costs of issuance.

Cash Expenditures/Expenses (6510) with the appropriate Subobject	Dr.	Cr.
In-Process (71XX)	.1 mil	.1 mil

### 85.85.50.c.(3)

To record withdrawal from the LGIP (or trustee), and payment to the agency for construction costs incurred.

Receipts-In-Process (7110)	Dr.	Cr.
Investments with Local Government Investment Pool (1206) or Cash and Investments with Escrow Agents and Trustees (1140)	10 mil	10 mil
Due to Other Agency (5154)	10 mil	
In-Process (71XX)		10 mil

### 85.85.50.c.(4)

To record interest earnings of \$.8 million on unspent COP proceeds.

Investments with LGIP (1206)	Dr.	Cr.
Due to Other Agency (5154)	.8 mil	.8 mil

### 85.85.50.c.(5)

To record the first debt service payment made to the fiscal agent by the OST on behalf of the agency. This first payment is made from the amount held by OST to cover interest expense during the construction period.

In-Process (71XX)	Dr.	Cr.
Investments with Local Government Investment Pool (1206) or Cash and Investments with Escrow Agents and Trustees (1140)	4 mil	4 mil
Due to Other Agency (5154)	4 mil	



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Due to Fiscal Agent (5130)		4 mil
Due to Fiscal Agent (5130)	4 mil	
In-Process (71XX)		4 mil

## 85.85.50.c.(6)

To record debt service in a subsequent period. OST receives a cash payment from an agency of \$2.4 million and uses the remaining COP proceeds held to cover interest expense during the construction period of \$2 million and the accumulated interest earned on the COP proceeds held on deposit of \$1.1 to pay the total debt service of \$5.5 million.

	Dr.	Cr.
In-Process (71XX)	2.4 mil	
Due to Fiscal Agent (5130)		2.4 mil
In-Process (71XX)	3.1 mil	
Investments with LGIP (1206)		3.1 mil
Due to Other Agency (5154)	3.1 mil	
Due to Fiscal Agent (5130)		3.1 mil
Due to Fiscal Agent (5130)	5.5 mil	
In-Process (71XX)		5.5 mil

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## 85.85.52 Real Estate Certificates of Participation (COP) refunding

June 1, 2013

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### 85.85.52.a

#### Governmental Fund Type Accounts (Agency Entries)

The following example is used to illustrate entries for an **advance refunding** of a real estate certificate of participation (COP) in a governmental fund type account. Refer to [Section 85.72.40.f](#).

Details of the old (refunded) COP are:

- Principal balance \$250,000, and
- Interest due \$1,400

Details of the new (refunding) COP are:

- Principal balance \$239,000,
- Original issue premium (OIP) \$15,000,
- Underwriter's discount (UD) \$1,600,
- Costs of issuance (COI) \$1,000, and



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- Total reacquisition price \$251,400 (\$239,000 + 15,000 – 1,600 – 1,000).

## 85.85.52.a.(1)

To record the liability for the new (refunding) COP, the original issue premium, underwriter’s discount, and the expense of the costs of issuance (paid by OST), and the payment to the escrow agent bank. When the new COP is sold by OST, it becomes an obligation of the agency. An amount equal to the principal balance of the old (refunded) COP plus any interest due is sent to the escrow agent bank to refund the old COPs. When the old COP is refunded, it is no longer an obligation of the agency and it is removed from Account 999.

### Operating Account:

	Dr.	Cr.
Cash Revenue (3210) Revenue Source Code (0850) Payments to Refunded COP Escrow Agents (par of old COPs + interest due on the old COPs)**	251,400	
Cash Revenue (3210) Revenue Source Code (0852) Underwriter’s Discount/Costs of Issuance – Refunding COPs	2,600	
Cash Revenue (3210) Revenue Source Code (0854) Proceeds of Refunding COPs		239,000
Cash Revenue (3210) Revenue Source Code (0853) Original Issue Premium – Refunding COPs*		15,000

\*If the COP had an Original Issue Discount (OID) instead of an OIP, Revenue Source Code 0851 “Original Issue Discount – Refunding COPs” would be debited.

\*\*If this was a **current refunding** of a COP (instead of an advance refunding), the amount to be paid to the escrow agent would be recorded as an expenditure to subobject PA “Principal” and/or PB “Interest.”

### General Long-Term Obligations Subsidiary Account (Account 999):

	Dr.	Cr.
Certificates of Participation (5173/5273)	250,000	
Amount to be Provided for Retirement of Long-Term Obligations (1820)		250,000
Amount to be Provided for Retirement of Long-Term Obligations (1820)	239,000	
Certificates of Participation (5173/5273)		239,000

## 85.85.52.b

### Proprietary and Trust Fund Type Accounts (Agency Entries)

The following example is used to illustrate entries for an **advance refunding** of a real estate certificate of participation (COP) in a proprietary fund type account. Refer to [Section 85.72.40.f](#).

Details of the old (refunded) COP issue are:



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- Principal balance \$251,000 (5 years remaining),
- Details of the new (refunding) COP are:
- Principal balance \$250,000 (10 years),
- Original issue premium (OIP) \$10,000 (assume material),
- Underwriter’s discount (UD) \$2,600,
- Costs of issuance (COI) \$2,400, and
- Total reacquisition price \$255,000 (\$250,000 +10,000 -2,600 – 2,400)

### 85.85.52.b.(1)

To record the new (refunding) COP, the removal of the old (refunded) COP, and the deferred amount on the COP refunding.

#### Operating/Construction Account:

	Dr.	Cr.
COP (old) Payable (5173/5273)	251,000	
Cash Expenditures/Expenses (6510) Subobject PC - Other Debt Costs (UD + COI)	5,000	
Deferred Outflow on COP Refunding (1971)*	4,000	
COP (new) payable (5173/5273)		250,000
Unamortized Premiums on COPs sold (5920)		10,000

\*If the deferred amount was a credit, it would be recorded to GL Code 5266 “Deferred Inflow on COP Refunding.”

### 85.85.52.b.(2)

To record the annual amortization of the Deferred Outflow on the COP Refunding on a straight-line basis over 5 years (the remaining life of the old COP).

	Dr.	Cr.
Amortization Expense (6512) Subobject WB	800	
Deferred Outflow on COP Refunding (1971)		800

### 85.85.52.b.(3)

To record the annual amortization of the original issue premium (OIP) on a straight-line basis over 10 years (the life of the new COP).

	Dr.	Cr.
Unamortized Premiums on COPs sold (5920)	1,000	
Amortization Expense (6512) Subobject WB		1,000



## 85.85.60 Retention of payments

July 1, 2012

To record entries related to payments on public works contracts including retained percentages. Refer to [Subsection 85.74.20](#).

### 85.85.60.a Payment to Contractor

To record the amount paid to the contractor on a progress billing.

	Dr.	Cr.
Cash Expenditures/Expenses (6510)	xxx	
In-Process (71XX) or		
Cash in Bank (1110)		xxx

### 85.85.60.b Retained in State Account

To record the amount retained by the state, in a treasury/treasury trust or local account, from a progress billing.

	Dr.	Cr.
Cash Expenditures/Expenses (6510)	xxx	
Retained Percentages Payable (5116)		xxx

### 85.85.60.c Payment of Amounts Retained in State Account

To record the payment of amounts retained by the state in a treasury/treasury trust or local account.

	Dr.	Cr.
Retained Percentages Payable (5116)	xxx	
In-Process (71XX) or		
Cash in Bank (1110)		xxx

### 85.85.60.d Retained in Escrow or Interest Bearing Account

To record the amount of retained percentages placed in escrow or in an interest bearing account from a progress billing.

	Dr.	Cr.
Cash Expenditures/Expenses (6510)	xxx	
In-Process (71XX) or		
Cash in Bank (1110)		xxx
Cash and Investments with Escrow Agents and Trustees (1140)	xxx	
Retained Percentages Payable (5116)		xxx



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## 85.85.60.e Payment of Amounts Retained in Escrow or an Interest Bearing Account

To record the payment of amounts retained in escrow or in an interest bearing account.

	Dr.	Cr.
Retained Percentages Payable (5116)	xxx	
Cash and Investments with Escrow Agents and Trustees (1140)		xxx

## 85.85.65 Claims and judgments

July 1, 2001

This illustrative entry of a claims liability displays the accrual of a dispute with the federal government over questioned program costs when it is probable that the state will be required to refund federal revenue. Refer to [Subsection 85.74.40](#).

**Note:** The second entry is made to reverse activity previously coded as federal, which is now supported by state funds.

	Dr.	Cr.
Cash Revenues (3210) Federal Source Code (03XX)	xxx	
Claims and Judgments Payable (5113)		xxx
Cash Expenditures/Expenses (6510) Subobject (XX) (using a state appropriation)	xxx	
Cash Expenditures/Expenses (6510) Subobject (XX) (using a federal appropriation)		xxx



## 85.90 Interfund/Interagency Activities

Section	Title	Effective Date	Page Number
85.90.10	Interfund/interagency activities	July 1, 2008	<a href="#">913</a>
85.90.20	Interfund loans	July 1, 2001	<a href="#">913</a>
85.90.30	Interfund/interagency services provided and used	Jan. 1, 2012	<a href="#">913</a>
85.90.40	Payment procedures for selected central services agency charges	June 1, 2016	<a href="#">914</a>
85.90.50	Transfers	July 1, 2008	<a href="#">917</a>
85.90.60	Reimbursements (Objects S & T)	July 1, 2009	<a href="#">919</a>
85.90.70	Agency vendor payment revolving account charges	July 1, 2001	<a href="#">922</a>

### 85.90.10 Interfund/interagency activities

July 1, 2008

There are two major categories of interfund/interagency activities: reciprocal and nonreciprocal.

**Reciprocal** interfund/interagency activity is the internal counterpart to exchange and exchange-like transactions. It includes interfund loans (refer to [Subsection 85.90.20](#)), and interfund services provided and used (refer to [Subsection 85.90.30](#)).

**Nonreciprocal** interfund/interagency activity is nonexchange in nature. It includes interfund transfers (refer to [Subsection 85.90.50](#)), and reimbursements (refer to [Subsection 85.90.60](#)).

For information on paying interfund/interagency billings, refer to [Subsection 85.36.20](#).

### 85.90.20 Interfund loans

July 1, 2001

Interfund loans are reciprocal in nature. They are amounts provided with a requirement for repayment within a reasonable time. Interfund loans are reported as interfund receivables ("due from") in lending funds and interfund payables ("due to") in borrowing funds. Loans due within one year should be classified as short-term and loans due beyond a year should be classified as long-term. Refer to [Subsection 85.54.30](#).





## 85.90.30 Interfund/interagency services provided and used

Jan. 1, 2012

Interfund/interagency services provided and used are also reciprocal in nature. They were previously termed "quasi-external transactions." Interfund/interagency services provided and used are transactions within the state that are similar to and reported as though they had occurred with organizations external to the state. Interfund/interagency services provided and used are to be accounted for consistently by the accounts involved.

At the end of each fiscal period, any unpaid or unsettled amounts are reported as either interagency or interfund receivables and payables. Refer to [Subsection 85.90.40](#) for illustrative entries.

To record interfund/interagency services provided and used, the paying agency records an expenditure/expense using an appropriate object of expenditure. The receiving agency records revenue using either Revenue Source Code 0420 "Charges for Services," 0450 "Sales of Goods and Supplies - Proprietary Funds," or another appropriate revenue source code. Interfund/interagency services provided and used are budgeted and accounted for in this manner.

The following are examples of interfund/interagency services provided and used:

Internal service fund billings for goods or services, such as mail services from the Department of Enterprise Services and legal services provided by the Office of the Attorney General. Refer to [Subsection 85.90.40](#).

Routine employer contributions from operating accounts to a pension trust fund.

Routine service charges for inspection, engineering, utilities, or similar services provided by one account/agency to another.

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## 85.90.40 Payment procedures for selected central services agency charges

June 1, 2016

### 85.90.40.a

The following are selected central services agencies which require the use of unique object codes by the paying agency. A listing of services provided is as follows:

**Office of the Secretary of State** - Archives, records storage, and microfilm services.

**Office of the State Auditor** - Auditing services.

**Office of the Attorney General** - Legal services.

**Department of Enterprise Services** - Office space, janitorial services, utilities, buildings and grounds maintenance, campus delivery and mail service, parking, motor pool, procurement, mainframe print services, web services, secure file services, risk management, printing, small agency budgeting/



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accounting/human resources/payroll services, and personnel services for general government classified employees.

**Office of Administrative Hearings** - Administrative hearings examiner services.

**Office of Financial Management** - Statewide financial and payroll systems, personnel services for state agency classified employees, higher education classified employees, and Statewide Accounting, Budgeting, and Forecasting.

**Office of Minority and Women's Business Enterprises (OMWBE)** - Certification of minority business enterprises, socially and economically disadvantaged business enterprises, and women's business enterprises statewide.

**Consolidated Technology Services** - Computer and telecommunication services.

## 85.90.40.b

The following object codes and payment schedules are to be used by the paying agency for transactions with selected central services agencies:

<u>Central Service Agency</u>			<u>Paying Agency</u>		
Agency No. and Name	Account	Revenue Source Code	Object Code	Billing/Payment Schedule	
<b>(085) Office of the Secretary of State</b>					
	Archives and Records Management	006	0420	EW	Billed quarterly in advance (July, October, January and April).
	Microfilm Services	006	0428	EW	Monthly actuals billed after month end.
<b>(095) Office of the State Auditor</b>					
		483	0420	ET	Monthly actual time and expenses billed after month end for accountability and whistleblower audits. ACFR and statewide single audits billed quarterly for actual time and expense.
<b>(100) Office of the Attorney General</b>					
		405	0420	EM	Monthly actuals for billable staff time and direct litigation costs are billed by the end of the following month.
<b>(105) Office of Financial Management</b>					
	Personnel Services - State agencies other than higher education	415	0420	EN	July, October, January and April (Quarterly billings in advance based on classified salaries).
	Labor Relations	436	0420	EN	July, October, January and April (Quarterly billings in advance based on .1% of salaries of employees covered by a bargaining unit).
	Enterprise Systems Fee	472	0420	EL	Billed monthly based on budgeted FTEs.
	Core Financials System Replacement	466	0420	EL	Billed quarterly based on budgeted FTEs.
	Personnel Services - Higher Education	455	0420	EN	July, October, January and April (Quarterly billings in advance) based on classified salaries.
	Statewide Accounting, Budgeting, and Forecasting	468	0420	EZ	Billed quarterly based on budgeted FTEs.



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<u>Central Service Agency</u>			<u>Paying Agency</u>	
Agency No. and Name	Account	Revenue Source Code	Object Code	Billing/Payment Schedule
<b>(110) Office of Administrative Hearings</b>	484	0420	EV	Monthly actuals for billable staff time are billed by the end of the following month.
<b>(147) OMWBE</b>	453	n/a	n/a	Covered by vendor-paid contract management fee assessed on all contracts managed within DES Contracts and Legal Division.
<b>(163) Consolidated Technology Services</b>				
Computer Services	458	0420	EL	Monthly actuals billed after month end.
State Data Center Allocation	458	0499	EL	Billed monthly based on budgeted IT expenses.
Telecommunications	458	0420	EB	Monthly actuals billed after month end.
Geospatial Portal	458	0420	EL	Weighted Factor 4-part index (portal downloads, number of GIS staff, agency FTEs, annual ESRI maintenance costs).
OCIO	458	0420	EL	Billed monthly based on budgeted FTEs in IT job classifications.
<b>(179) Dept. of Enterprise Services</b>				
Parking Services	045	0402	EK	Prepaid, and billed monthly, quarterly and annually.
Engineering & Architectural Services	057	n/a	JK	Varies by agency.
Capital Campus Maintenance and Operations	422	0420	EK	Billed monthly following services performed.
Capital Campus Utilities and Fixed Price Contracts	422	0420	EK	Billed monthly following services performed.
Consolidated Mail Services	422	0420	EK	Outgoing mail monthly actuals billed after month end; Incoming/Campus mail billed according to agencies' agreements.
Facilities & Services (Seat of Government)	422	0420	EK	Billed monthly based on budgeted FTEs located in Thurston County.
Facilities Engineering Services	422	0420	EK	Invoiced upon completion of service.
Federal and State Surplus	422	0420	JA/JC	Invoiced upon purchase.
Motor Pool	422	0420	GN	Monthly actuals billed after month end.
Personnel Services - State agencies other than higher education	422	0420	EN	Billed monthly based on budgeted FTEs. Separate training fees continue to apply.
Printing Services	422	0450	EF	Billed following services performed.
Production Services	422	0420	EL	Monthly actuals billed after month end.
Property Management	422	0402	ED	Rent billed monthly at month end.
Purchasing Administration Fee	422	n/a	n/a	Covered by vendor = paid contract
Small Agency Financial Services	422	0420	ER	Billed monthly based on budgeted formula.
Small Agency Human Resource Services	422	0420	ER	Billed monthly based on budgeted FTEs.
Risk Management Administration	546	0420	EP	Administration costs billed monthly based on formula. Commercial insurance costs billed as purchased.



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Central Service Agency			Paying Agency		
Agency No. and Name	Account	Revenue Source Code	Object Code	Billing/Payment Schedule	
	Self-Insurance Liability Premiums	547	0496	EP	Billed annually at the beginning of the fiscal year.

## 85.90.40.c

Unless otherwise provided above, central service agencies are to present invoices for payment to receiving agencies within 15 calendar days after the end of each billing period. However, at fiscal year-end, all bills (actual and estimates) are to be invoiced per the current fiscal year closing calendar in [Subsection 90.20.05](#).

## 85.90.40.d

When problems arise with the collection of interagency receivables, the following steps are to be taken:

1. The interagency receivables/payables personnel are to contact each other to resolve the problems.
2. If (1) fails, the accounting chiefs are to contact each other to find a resolution.
3. If (2) fails, the agencies are to contact their assigned OFM Accounting Consultants.

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## 85.90.50 Transfers

July 1, 2008

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### 85.90.50.a

Transfers are nonreciprocal in nature. Transfers of equity, formerly known as residual equity transfers, are non-recurring, non-routine transfers of equity between accounts. Two examples of equity transfers are contributions to or return of contributions from proprietary fund type accounts and transfer of residual equity balances from discontinued accounts.

Transfers of equity are generally infrequent. The key to identifying equity transfers is their non-recurring or non-routine nature. If transactions are recurring or routine, particularly if they involve a subsidy relationship, they are reported as operating transfers. Refer to [Subsection 85.90.50.b](#)

Equity transfers are recorded in governmental fund type accounts using Revenue Source Codes 0678 "Equity Transfers In" or 0679 "Equity Transfers Out." Equity transfers in proprietary fund type accounts are recorded to Revenue Source Code 0820 "Capital Contributions." Refer to [Subsection 85.95.20](#) for illustrative entries.

All equity transfers are to be in balance at the agency level, except for the following:

- Transfers to/from subsidiary accounts, and
- Transfers between state agencies.



## 85.90.50.b

Operating transfers include the following:

- Transfers from accounts required by statute to collect resources to accounts legally authorized to expend them,
- Transfers of resources designated for debt service from the accounts collecting the receipts to the debt service accounts that will make the debt service payments,
- Transfers of unrestricted revenues collected in the General Fund to finance various programs accounted for in other accounts in accordance with budgetary authorization,
- Operating and equity transfers as required by law, and
- Transfers of profits from certain enterprise activities (Liquor and Lottery) to other accounts as required by law.

Operating transfers are recorded as expenditures using Object M or as revenues using the 06XX revenue source codes. Refer to [Section 75.80](#) for a listing and description of all transfer revenue source codes. Refer to [Subsection 85.95.30](#) for illustrative entries.

Operating transfers net to zero at the agency level.

## 85.90.50.c

Special budgeted allocations generally give agencies additional spending authority, but no additional cash is provided for federal, private/local or dedicated operating accounts. Two examples of these budgeted, noncash allocations are the Salary and Insurance Contribution Increase Allocation and the Special Retirement Contribution Increase Allocation. An expenditure transfer is required for the General Fund - State account allocation. Two transfer transactions - one for the expenditure transfer and one for the revenue transfer - out of the operating account and into the allocation account are required for the federal, private/local and dedicated operating account allocations. Refer to [Subsection 85.95.35](#) for an illustrative entry.

## 85.90.50.d

In governmental fund type accounts, transfers are reported as other financing uses in the funds making the transfers and as other financing sources in the funds receiving the transfers. In proprietary funds, transfers are reported in a separate section below nonoperating revenues and expenses.

In instances where transfers are appropriated as expenditures, GAAP and budgetary accounting treatments will differ. For budgetary reporting, appropriated operating transfers are considered "expenditures," while for GAAP reporting purposes, as noted above, they are considered other financing uses.



## 85.90.60 Reimbursements (Objects S & T)

July 1, 2009

Reimbursements are recorded when one agency and/or account initially charges an expenditure/expense that is subsequently charged to another. Generally, the reimbursement is recorded as an expenditure/expense in the reimbursing account and as a reduction of a corresponding expenditure/expense in the reimbursed account. Accounting for reimbursements in this manner results in the expenditure/expense being reported only once and in the proper account. Reimbursements are to be appropriately documented and approved.

Reimbursement reporting is to be used only in circumstances as described above. It is not to be used for interfund loans, interfund transfers, or other interfund activities. Additionally, payments received by proprietary funds for goods and services are normally recorded as revenue with appropriate revenue source codes rather than as reimbursements.

As described below, reimbursements are coded with Object S or Object T. The subobject coding should reflect the object of expenditure being offset with the reimbursement, except Subobject JA "Noncapitalized Assets" and Subobject JB "Noncapitalized Software" which are coded to Subobjects SE and TE. Although Subobjects SZ and TZ "Unidentified" are available for use, it is preferable that an agency allocates charges to the appropriate subobject of expenditure within Objects S and T on a monthly basis.

Reimbursements are classified into two types:

### 85.90.60.a

**Intra-agency reimbursements (Object T)** - Intra-agency reimbursements are used to charge for services or supplies provided by one account to another and to distribute administrative overhead charges. In accounting for intra-agency reimbursement transactions, the reimbursed account other than a non-budgeted proprietary type account is to credit expenditures using object T. The reimbursing account is to account for intra-agency materials supplied or services rendered as object T and the appropriate sub-object.

Intra-agency reimbursements are to be used to record special budgeted allocations involving accounts 239 "Tort Defense Service Revolving Account," 406 "Salary and Insurance Increase Revolving Account," 426 "Digital Government Revolving Account," and 427 "Special Account Retirement Contribution Increase Revolving Account." Refer to [Subsection 85.90.50.c](#).

Agencies may request a waiver from complying with specific requirements of this section. The request is to be in writing and be approved in writing by OFM before the waiver takes effect. Waivers automatically expire at the end of the fiscal biennium for which they were granted and are to be re-approved in writing to remain in force.



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### 85.90.60.a.(1) Accounts other than non-budgeted proprietary fund type accounts

All accounts other than non-budgeted proprietary fund type accounts are to use Object T transfers to record intra-agency transfers between said accounts. Reimbursements to accounts for expenditures/expenses initially made from it which are properly applicable to another account are to be recorded as a credit to expenditures/expenses using Object T. The reimbursing account other than a non-budgeted proprietary fund type account is to debit expenditures/expenses using Object T.

When transfers of salaries are made with Subobject TA, the FTEs are to remain with the original Object A expenditure.

The total for Object T transfers at the subobject level is to equal zero for all accounts within a fiscal year except as noted below for GL Code 6525 transfers and for non-budgeted proprietary fund type accounts. Refer to [Subsection 85.95.50.a](#) and [b](#) for illustrative entries.

Intra-agency reimbursements received by **budgeted** proprietary fund type accounts are recorded as credits to expense using Object T. Therefore, an additional entry is necessary to adjust to proper GAAP accounting. The GAAP adjustment debits GL Code 6525 "Expense Adjustments/Eliminations (GAAP)," using Object T with the appropriate sub-object and credits GL Code 3225 "Revenue Adjustments/Eliminations (GAAP)" with the appropriate revenue source code. Only in the case of GL Code 6525 transfers is there no corresponding Object T offset. Refer to [Subsection 85.95.50.c](#) for an illustrative entry.

### 85.90.60.a.(2) Non-budgeted proprietary fund type accounts

For non-budgeted proprietary fund type accounts (excluding accounts 443 and 505 which are subject to (1) above), reimbursements are not coded as credits to expenses using object T. They are coded directly to revenue with appropriate revenue source codes. Refer to [Subsection 85.95.50.d](#) for an illustrative entry.

### 85.90.60.b Interagency reimbursements (Object S)

All transactions between state agencies are to be properly accounted for as prescribed in [RCW Chapter 39.34](#).

The following procedures are to be followed in those instances where a **budgeted account or certain account used by higher education agencies** - accounts 143, 145, 147, 148, 149, 443, and 505 which are included with budgeted accounts for purposes of this section - provides goods or services to another agency:

#### 85.90.60.b.(1)

In accounting for interagency reimbursement transactions, the reimbursed agency is to credit expenditures/expenses using Object S - Interagency Reimbursements. The reimbursing agency is to account for expenditures for interagency materials supplied or services rendered as though they were purchased from an outside vendor. Refer to [Subsection 85.95.60.a](#) and [b](#) of this manual for illustrative entries.

**Note:** In budgeted accounts, interagency reimbursements are not to be recorded as revenue or as recovery of current appropriation expenditures using Revenue Source Code 0902 "Recoveries of Current Expenditure Authority Expenditures." Refer to [Subsection 85.95.60.a](#) and [b](#) for illustrative entries.





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### 85.90.60.b.(2)

The amounts billed to other agencies and uncollected at the end of the month and work in process costs not billed at the end of the month are to be recorded as a credit to the appropriate GL code series 65XX "Expenditures/Expenses" with object S and a debit to GL code 1354 "Due from Other Agencies."

### 85.90.60.b.(3)

For GAAP reporting purposes, payments to budgeted proprietary fund type accounts should be recorded as revenues with appropriate revenue source codes. However, as discussed above, interagency reimbursements to budgeted proprietary fund type accounts are recorded as credits to expense (object S). Therefore, an additional entry is necessary to adjust to proper GAAP accounting. The GAAP adjustment debits GL code 6525 "Expense Adjustments/Eliminations (GAAP)," using object S with the appropriate sub-object and credits GL code 3225 "Revenue Adjustments/Eliminations (GAAP)" with the appropriate revenue source code. Refer to [Subsection 85.95.60.c](#) for an illustrative entry.

For nonbudgeted proprietary fund type accounts (excluding accounts 443 and 505 which are subject to (1) above), interagency reimbursements are not coded as credits to expenses (object S). They are coded directly to revenue with appropriate revenue source codes. Refer to Subsection [Subsection 85.95.60.d](#) for an illustrative entry.

### 85.90.60.c

Agencies are to establish procedures to ensure timely, accurate, and cost effective payment of obligations to agencies. Refer to [Subsection 85.36](#) for information on payment methods.

Special attention by all agencies is to be given to the following:

**Due Dates** - Dates for payments are established by the terms of contracts between the state agencies. If the contract is silent concerning terms or there is no written contract, the terms are net 30 days. The 30 days, or other terms, begin upon receipt of the goods or services or a properly completed invoice, **whichever is later**. Agency payments are to be made by the due date.

**Combined Payments** - The number of payments to an agency are to be kept to a minimum by processing the maximum number of invoices with a single payment.

**Partial Payments** - When agencies accept partial delivery of goods or services without reservation, prompt payment is to be made for the goods or services received upon receipt from the agency of a properly completed invoice or in accordance with contract terms covering the partial delivery.

**Disputes** - Prompt and proper notification to an agency of receipt of unsatisfactory goods or services or an incorrect invoice defers the due date. The due date is recalculated from the date the problem is corrected. Proper authorization is required when material changes are made.

**Records** - Billings are to reflect the cost of labor, material and overhead. Records are to be maintained by the vendor agency that provides complete cost billing information and also an audit trail for post auditing. Source documentation should be made available, upon request, for review by the billed agency.





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When problems arise with the collection of interagency receivables, agencies are to follow the steps in [Subsection 85.90.40.d](#).

Vendor agencies are not to request or require advances from receiving agencies unless the advance was approved in writing by the OFM Director or authorized designee ([RCW 39.34.150](#)).

Refer to [Section 90.20](#) for additional requirements applicable to fiscal year end cutoff.

Refer to [Subsection 85.90.30](#) for discussion of interfund services provided and used and [Subsection 85.90.50](#) for transfers.

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### **85.90.70 Agency vendor payment revolving account charges**

July 1, 2001

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#### **85.90.70.a**

Account 720 "Agency Vendor Payment Revolving Account" may be used by agencies ([RCW 42.26](#)), with the approval of OFM, for the payment of goods or services which are payable from monies other than those maintained in the Office of the State Treasurer.

#### **85.90.70.b**

Use of Account 720 by agencies is to be authorized in writing by the Director of OFM or authorized designee.

#### **85.90.70.c**

Amounts disbursed from Account 720 must be from amounts previously deposited by the agency using the account. These deposits must be from local accounts which are properly chargeable with the disbursement. **Amounts to cover disbursements must be deposited prior to actual disbursement.** Refer to [Subsection 85.95.70](#) for illustrative entries.

#### **85.90.70.d**

All amounts accruing to Account 720 as a result of the cancellation of warrants are to be re-deposited in the agency's appropriate local account.

#### **85.90.70.e**

Only the following accounts are to be maintained in the general ledger of Account 720: GL Codes 4310 "Current Treasury Cash Activity (OST Only)," 4325 "Beginning Treasury Cash Balance - Agency Funds," 5199 "Other Liabilities," and the 71XX "In-Process" Series. Subsidiary ledgers are not required. Refer to [Subsection 85.95.70](#) for illustrative entries.



## 85.95 Interfund/Interagency Activities - Illustrative Entries

Section	Title	Effective Date	Page Number
85.95.10	These entries are for illustrative purposes	July 1, 2001	<a href="#">923</a>
85.95.20	Transfers of equity	July 1, 2003	<a href="#">923</a>
85.95.30	Operating transfers	July 1, 2003	<a href="#">924</a>
85.95.35	Special budgeted allocation transfers	July 1, 2008	<a href="#">925</a>
85.95.40	Interfund/interagency services provided and used	July 1, 2008	<a href="#">926</a>
85.95.50	Intra-agency reimbursements (Object T)	July 1, 2008	<a href="#">927</a>
85.95.60	Interagency reimbursements (Object S)	July 1, 2008	<a href="#">928</a>
85.95.70	Agency vendor payment revolving account	July 1, 2001	<a href="#">929</a>

### 85.95.10 These entries are for illustrative purposes

July 1, 2001

The situations in this section illustrate the accounting treatment of some typical interfund/interagency activities. These entries are for illustrative purposes **only** and should **not** be considered all-inclusive. Entries posted to GL Code Series 71XX "In-Process" in treasury and treasury trust accounts also require an entry from the Office of State Treasurer as illustrated below to clear the GL In-Process codes.

The entry would be reversed for In-Process debit amounts.

In-Process (71XX)	Dr.	Cr.
Current Treasury Cash Activity (OST Only) (4310)	xxx	xxx

The entry would be reversed for In-Process debit amounts.

### 85.95.20 Transfers of equity

July 1, 2003

To record the transfer of a fund balance from a discontinued local account to the General Fund. For purposes of this example, assume there is cash as well as outstanding receivables and payables in the



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discontinued account and that the discontinued account is a governmental fund type account. Refer to [Subsection 85.90.50.a](#).

## Discontinued Account:

	Dr.	Cr.
Payables - Short-Term (51XX)	xxx	
Cash Revenue (3210) or Noncash Revenue (3220)		
Revenue Source Code (0679) Equity Transfers Out	xxx	
Cash In Bank (1110)		xxx
Receivables - Short-Term (13XX)		xxx

## General Fund - Basic Account (001):

	Dr.	Cr.
In-Process (71XX)	xxx	
Receivables - Short-Term (13XX)	xxx	
Payables - Short-Term (51XX)		xxx
Cash Revenue (3210) or Noncash Revenue		
(3220) Revenue Source Code (0678) Equity		
Transfers In		xxx

## 85.95.30 Operating transfers

July 1, 2003

### 85.95.30.a

To record an operating transfer in. Refer to [Subsection 85.90.50.b](#).

	Dr.	Cr.
Cash in Bank (1110) or		
In-Process (71XX)	xxx	
Cash Revenue (3210) Revenue Source Code (0621) Operating		
Transfers In		xxx

### 85.95.30.b

To record an operating transfer out. Refer to [Subsection 85.90.50.b](#).

	Dr.	Cr.
Cash Revenue (3210) Revenue Source Code (0622) Operating Transfers Out	xxx	
Cash in Bank (1110) or		
In-Process (71XX)		xxx



## 85.95.35 Special budgeted allocation transfers

July 1, 2008

### 85.95.35.a

To record a special budgeted allocation transfer for an increase allocation to either the Salary and Insurance Increase Revolving Account (Account 406) or the Special Account Retirement Contribution Increase Revolving Account (Account 427). In this entry, the original disbursement was recorded as a cash expenditure to Object A or B in the agency's operating account. Refer to [Subsection 85.90.50.c](#).

#### Allocation Account:

	Dr.	Cr.
Cash Expenditure (6510) Subobjects TA and/or TB	xxx	
Current Period Clearing Account (9920)		xxx
Current Period Clearing Account (9920)	xxx	
Cash Revenues (3210) Revenue Source Code (0626*)		xxx

#### Operating Account (other than General Fund):

	Dr.	Cr.
Current Period Clearing Account (9920)	xxx	
Cash Expenditure (6510) Subobjects TA and/or TB		xxx
Cash Revenues (3210) Revenue Source Code (0626*)	xxx	
Current Period Clearing Account (9920)		xxx

\*The Revenue Source Code would be 03XX for federal or 05XX for private/local when non-state expenditure authority is involved.

**Note:** This is an in-house non-cash journal voucher entry only. Do not send it to the Office of the State Treasurer. Entries are reversed for a negative allocation.

### 85.95.35.b

Special allocation accounts are not used for allocations in the General Fund. Instead, the allocation is made through an allocation appropriation.

#### General Fund:

	Dr.	Cr.
Current Period Clearing Account (9920)	xxx	
Cash Expenditure (6510 Operating Appropriation)		
Subobjects TA and TB		xxx
Cash Expenditure (6510 Allocation Appropriation)		
Subobjects TA and TB	xxx	
Current Period Clearing Account (9920)		xxx



## 85.95.40 Interfund/interagency services provided and used

July 1, 2008

### 85.95.40.a

To record amounts billed for goods and services delivered to another agency or account. Refer to [Subsection 85.90.30](#).

	Dr.	Cr.
Due From Other Agencies (1354) or Due From Other Funds (1353)	xxx	
Revenue (32XX) Revenue Source Code (as appropriate)		xxx

### 85.95.40.b

To record receipt of amount previously billed for goods and services delivered to another agency or account. Refer to [Subsection 85.90.30](#).

	Dr.	Cr.
Cash in Bank (1110) or In-Process (71XX)	xxx	
Due From Other Agencies (1354) or Due From Other Funds (1353)		xxx

### 85.95.40.c

To record liability for goods and services rendered by another agency or account. Refer to [Subsection 85.90.30](#).

	Dr.	Cr.
Expenditures/Expense (65XX) (with appropriate sub-object)	xxx	
Due To Other Agencies (5154) or Due To Other Funds (5153)		xxx

### 85.95.40.d

To record disbursement of amount previously booked as liability for goods and services rendered by another agency or account. Refer to [Subsection 85.90.30](#).

	Dr.	Cr.
Due To Other Agencies (5154) or Due To Other Funds (5153)	xxx	
Cash in Bank (1110) or In-Process (71XX)		xxx



## 85.95.50 Intra-agency reimbursements (Object T)

July 1, 2008

### 85.95.50.a

To record amounts **received** by an account other than a **non-budgeted proprietary fund type account** from another account to reimburse for goods and services rendered on behalf of the reimbursing account. Refer to [Subsection 85.90.60.a.\(1\)](#).

	Dr.	Cr.
Cash in Bank (1110) or In-Process (71XX)	xxx	
Expenditures/Expenses (65XX) Object T		xxx

### 85.95.50.b

To record amounts **paid** by one **budgeted account** to another account to reimburse for goods and services rendered on behalf of the reimbursing account. Refer to [Subsection 85.90.60.a.\(1\)](#).

	Dr.	Cr.
Expenditures/Expenses (65XX) Object T	xxx	
Cash in Bank (1110) or In-Process (71XX)		xxx

### 85.95.50.c

The additional entry needed for an Object T reimbursements **received** by a **budgeted proprietary fund type account** to meet GAAP reporting requirements. Refer to [Subsection 85.90.60.a.\(1\)](#).

	Dr.	Cr.
Expense Adjustment/Eliminations (GAAP) (6525) Object T	xxx	
Revenue Adjustments/Eliminations (GAAP) (3225) Revenue Source Code (as appropriate)		xxx

### 85.95.50.d

To record an intra-agency reimbursement **received** by a **non-budgeted proprietary fund type account**. Refer to [Subsection 85.90.60.a.\(2\)](#).

	Dr.	Cr.
Cash in Bank (1110) or In-Process (71XX)	xxx	
Cash Revenues (3210) Revenue Source Code (0420) Charges for Services		xxx



## 85.95.60 Interagency reimbursements (Object S)

July 1, 2008

### 85.95.60.a

To record amounts **received** by an account **other than a non-budgeted proprietary fund type account** in one agency from another agency to reimburse for goods and services rendered on behalf of the reimbursing agency. Refer to [Subsection 85.90.60.b.\(1\)](#).

	Dr.	Cr.
Cash in Bank (1110) or In-Process (71XX)	xxx	
Expenditures/Expenses (65XX) Object S		xxx

### 85.95.60.b

To record amounts **paid** by one agency to another agency to reimburse for goods and services rendered on behalf of the reimbursing agency. Refer to [Subsection 85.90.60.b.\(1\)](#).

	Dr.	Cr.
Expenditures/Expenses (65XX) Object E	xxx	
Cash in Bank (1110) or In-Process (71XX)		xxx

### 85.95.60.c

The additional entry needed for Object S reimbursements to a **budgeted proprietary fund type account** to meet GAAP reporting requirements. Refer to [Subsection 85.90.60.b.\(1\)](#).

	Dr.	Cr.
Expense Adjustments/Eliminations (GAAP) (6525) Object S	xxx	
Revenue Adjustments/Eliminations (GAAP) (3225) Revenue Source Code (as appropriate)		xxx

### 85.95.60.d

To record an interagency reimbursement **received** by a **non-budgeted proprietary fund type account**. Refer to [Subsection 85.90.60.b.\(3\)](#).

	Dr.	Cr.
Cash in Bank (1110) or In-Process (71XX)	xxx	
Cash Revenues (3210) Revenue Source Code (0420) Charges for Services		xxx



85.95.70 Agency vendor payment revolving account

July 1, 2001

85.95.70.a

To record deposits of monies in the Agency Vendor Payment Revolving Account. Refer to [Subsection 85.90.70](#).

Operating Account:

	Dr.	Cr.
Expenditures/Expenses (65XX) (with appropriate sub-object)	xxx	
Cash in Bank (1110)		xxx

Agency Vendor Payment Revolving Account (720):

	Dr.	Cr.
Receipts In-Process (7110)	xxx	
Other Liabilities (5199)		xxx

85.95.70.b

To record disbursements from the Agency Vendor Payment Revolving Account. Refer to [Subsection 85.90.70](#).

Agency Vendor Payment Revolving Account (720):

	Dr.	Cr.
Other Liabilities (5199)	xxx	
In-Process (71XX)		xxx