



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

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

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.



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85.85.30.b

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

	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.



85.85.35 General obligation bond debt issuance and servicing

Jan. 1, 2011

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

- 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	20	
In-Process (71XX)		20



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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

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:



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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		
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



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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

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.



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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	
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.



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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):

	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.



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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):

	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



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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 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.*



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	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.

	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

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



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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):

	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.



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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

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



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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.

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



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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



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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.)

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

85.85.45 Equipment Certificates of Participation (COP)

June 1, 2013

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.

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.



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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	
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



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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:

	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.



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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.

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**:



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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 (UD + COI - OIP)		115

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



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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.

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



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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

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)

July 1, 2021

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:

- \$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



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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.

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)	73.6 mil	
Certificates of Participation Payable (5273)		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	10 mil	
Cash in Bank (1110) or In-Process (71XX)		10 mil
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.



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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

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



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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

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:



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- 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” Subobject 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 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.



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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 (UD + COI - OIP)	.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	
Cash Revenues (3210) Revenue Source Code (0401) Investment Income		.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:

	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



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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
Due from Other Agency – OST (1354)		3.1 mil
Certificates of Participation Payable (5173) Principal Expense Adjustments/Elimination (6525) Subobject PD - Principal COP Lease-Purchase	2 mil	
		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



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(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.

	Dr.	Cr.
Receipts-In-Process (7110) (<i>Par + OIP – UD</i>)	74.1 mil	
Due to Other Agency (5154)		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



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85.85.50.c.(2)

To record payment of costs of issuance.

	Dr.	Cr.
Cash Expenditures/Expenses (6510) with the appropriate Subobject 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.

	Dr.	Cr.
Receipts-In-Process (7110) 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) In-Process (71XX)	10 mil	10 mil

85.85.50.c.(4)

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

	Dr.	Cr.
Investments with LGIP (1206) 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.

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



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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

85.85.52 Real Estate Certificates of Participation (COP) refunding

June 1, 2013

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
- 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



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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:

- 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,



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- 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](#).



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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

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