

Capital Projects and Debt Service

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Prim. Sem. 2016-17

Textbook: Government and Not-for-Profit Accounting, Granof

- This presentation contains information, in addition to the material prepared and provided by the professor, from the book Government and Not-for-Profit Accounting, 7th. Ed., Granof which is the textbook assigned for the course CONT 4059 – “Contabilidad para Entidades que no son Negocios” at the University of Puerto Rico, Río Piedras Campus.



Capital Fund General

Capital Fund General

1.1 Purpose of Capital Fund

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- **General Purpose:** The resources to acquire capital assets, especially those that are financed with debt, are generally accounted for in capital projects funds. (involving sizable amounts of resources)

Capital Fund General

1.1 Purpose of Capital Fund

- **Restriction on Funds:** The capital project reports financial resources that are restricted, committed, or assigned to expenditure for capital outlays.
- **Example:** The capital outlays comprises acquisition or construction of capital facilities such as:
 - Building
 - Infrastructure projects: roads, bridges, airports, sewer systems.

Capital Fund General

1.1 Purpose of Capital Fund

- **Primary Purpose:** The primary purpose of this fund is to ensure and demonstrate the expenditure of the dedicated financial resources is both legally and contractually compliant.

Capital Fund General

1.1 Purpose of Capital Fund

- **Other Funds:**

- However, the costs of capital assets may also be accounted for in the general fund or even special revenue funds, particularly if they are relatively low.
- In that case, those capital assets are purchased directly with current revenues of the general funds or a special revenue funds.

Capital Fund General

1.2 Basis of Accounting

Capital Fund General

1.2 Basis of Accounting

- **Fund accounting:** Modified accrual basis.
- **Government-wide statements:** Accrual.



Capital Fund Bond Proceeds

Capital Fund Bond Proceeds

2.1 Bond Proceeds

Capital Fund Bond Proceeds

2.1 Bond Proceeds

- Governmental funds, including capital projects funds, do not report long-term obligations.
- Therefore, when the proceeds of bonds or other long-term obligations are received by a capital projects fund, they must be accounted for as “Other Financing Sources”.

Capital Fund Bond Proceeds

2.2 Issue of Costs

Capital Fund Bond Proceeds

2.2 Issue of Costs

- When government issue bonds, they seldom receive in cash an amount exactly equal to the bonds' face value. There are at least two sources of the difference between face value and cash received:
 1. **Issue Costs:** broker and dealers fees.
 2. **Premiums and Discounts:**
 - *Discount:* Bond sold to yield an interest rate greater than the coupon rate.
 - *Premium:* A bond sold to yield an interest rate less than the coupon rate.

Capital Fund Bond Proceeds

Example - Bond Issue Cost

A city issues \$10.0 million of bonds at a premium of \$0.2 million. It incurs \$0.6 million in issue costs, and thereby nets \$9.6 million.

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Date	DESCRIPTION	DR.	CR.
	Cash	9,600,000	
	Expenditure – bond issue costs	600,000	
	Other financing source – bond proceeds (face value)		10,000,000
	Other financing source – bond proceeds (bond premium)		200,000
	<i>To record the issuance of bonds and related issue costs.</i>		

Capital Fund Bond Proceeds

2.3 Transaction in Capital Project Funds

Capital Fund Bond Proceeds

2.3 Transaction in Capital Project Funds

- See Example on page 244 to 247



Debt Service Fund

Debt Service Fund

General

3.1 Purpose of Debt Service Fund

Debt Service Fund

General

3.1 Purpose of Debt Service Fund

- GAAP direct that debt service funds be established when:
 1. Legally required, or
 2. Financial resources are being accumulated for principal and interest payments maturing in future years.

Debt Service Fund General

3.2 Sources of Resources for Debt Service Fund

Debt Service Fund General

3.2 Sources of Resources for Debt Service Fund

- Debt service funds may receive their resources from several sources:
 1. Transfers from general fund.
 2. Special taxes restricted to the payment of debt.
 3. Special assessment (charges to an identifiable group of residents who will received a disproportionate share of the benefits of the project for which long-term debt was issued).

Debt Service Fund General

3.2 Basis of Accounting

Debt Service Fund General

3.2 Basis of Accounting

- **Fund Accounting:** Modified accrual basis.

Debt Service Fund General

3.3 Transactions in Debt Service Fund

- See example on page 249 to 252.