Facilities Officers Conference:

PPV Accounting and Financial Related Topics

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CAPITAL ACCOUNTING AND REPORTING ISSUES

- PPV Projects
- GHEFA Projects
- GSFIC Projects
- Auditor Issues
PPV PROJECTS

Institution’s Accounting Implications

- Institution should record as Capital Asset and Lease Purchase obligation when project is complete. From an accounting perspective, completion is deemed to be when “Certificate of Occupancy” is received.

- The Capital Asset and the related lease purchase obligation (liability) are recorded at the lesser of:
  1) Fair market value of the asset at the inception of the lease, or
  2) Present Value of the minimum lease payments (basically cost value).

  Theresa Jackson in Fiscal Affairs at the system office currently assists institutions in calculating these values.

- The basic rental payments, along with the lessee’s incremental borrowing rate are used to create lease purchase debt/liability schedules for the institutions. A portion of the rental payment is considered principal reduction with the remainder of the payment recognized as interest expense.

- The additional rental payments are considered maintenance expense for the institutions and do not affect the Capital Asset or lease purchase calculations.
Foundation’s Accounting Implications:

- Foundation carries original bond debt (debt to bond holders) until debt is serviced.
- Foundation should record the asset as an Investment in Capital lease.
  - Foundation should not carry the property as a Capital Asset after “Certificate of Occupancy” has been provided to institution.
- Foundation’s Investment in Capital Lease should mirror what the Institution is carrying as Lease Purchase liability (debt). Therefore, as the Institution’s lease liability reduces each year, the Foundation’s Investment in the Capital Lease should also reduce.
GHEFA PROJECTS

Institution’s Accounting Implications:

- GHEFA projects subject to funding limitations authorized by legislature.
- Accounting and reporting is basically the same for GHEFA projects as with normal PPV projects.
- On some GHEFA projects, institutions forward fund some initial project costs that will eventually be captured by the Foundation and that will be reimbursed. Institutions would normally reflect these costs as prepaid items.
  - For GHEFA projects, just as with GSFIC projects, if the institution has only received a letter of intent from GSFIC to sell bonds, but the bonds have not been sold, the institution cannot record a prepaid. This creates accounting issues for the institutions, because in that scenario, the school has to record the initial project costs as their own.
  - GHEFA managers have also provided a mechanism whereby institutions may place on deposit with the Foundation, institutional funds that will be used on the project. These funds are supposed to be used only for “removable capital items” (equipment). Institutions should record the expenditure of these funds as Construction in Progress until the Certificate of Occupancy is received on the project, then the costs should be moved to permanent capital assets.
    - Note: State law specifically prohibits capital improvements to leased assets, so no institutional funds should be used to make permanent capital improvements to an asset where the State/Institution does not hold title.
Foundation’s Accounting Implications:

- Foundation carries original bond debt.
- Foundation should carry investment in capital lease which should mirror activity in lease purchase debt obligation that institution is carrying. Same scenario as with PPV projects.
- As mentioned on the previous slide, institutions may place funds on deposit with the Foundation. The Foundation owns the bank accounts where the funds are held, therefore, the Foundation should record these funds in a “fiduciary/trust” capacity.
GSFIC FUNDED PROJECTS

Two main types of GSFIC Projects affecting Institution reporting:

- Projects administered by GSFIC
- Campus managed MRR projects
GSFIC MANAGED PROJECTS

- GSFIC manages project and maintains all expenses until project is “complete” and Certificate of Occupancy is given to Institution.
- “Completed” projects will be capitalized by the school in fiscal year that “Certificate of Occupancy” is received.
- These projects should be capitalized in accordance with capitalization summary sheet provided by Central Office.
- This total should agree with total on GSFIC project expenditure sheet.
- “Complete” does not necessarily mean totally paid for and residual costs will be included on GSFIC project expenditure sheet in subsequent years that you will also have to capitalize.

- **Note:** There are some institutions that have “hybrid projects” with GSFIC whereby the institution captures some of the construction costs on its books. In these situations it is imperative that the construction managers and the accounting department at the institution are in sync on which projects fit this criteria and how to account for the activity.
CAMPUS MANAGED PROJECTS
(Generally MRR Projects)

- Institutions pays bills and requests reimbursements from GSFIC
- If Institution is attempting to encumber funds related to construction projects at year end, the institution must have an approved purchase order or an executed contract which contains the following:
  - A confirmed vendor
  - Specific goods or services
  - Specific price for the goods and services
  - A stated time or range of completion

- There has been much discussion between Facilities, Fiscal Affairs and the Audit Department as to what is considered an “executed contract” eligible for encumbrance. At this point we have agreed on the following:
  - If the institution has done its due diligence on the bid process and if the contractor has been selected and the “award letter” has been provided to the contractor selected, then all parties are in agreement that a commitment has been made and encumbrances may be made against this contract.

- The issue of “Owners Contingency” has come up in various discussions. Owners Contingency cannot be encumbered because it is not part of any stated contract amount and does not apply to a specific vendor.
AUDITOR ISSUES

State Auditors now focusing more effort looking at PPV projects.

- Documents that Auditors are reviewing:
  - Ground lease agreements
  - Rental Agreements
  - Official Statements

- Areas of Interest:
  - Terms of Ground lease and rental agreements
  - Wording in Official Statements
  - State appropriation/fund usage to pay base rentals (or additional rents)