UT System Administration Policy Library – Policy UTS142.4

Policy for Construction in Progress

Responsible Officer: Associate Vice Chancellor – Controller and Chief Budget Office
Sponsoring Office: Office of the Controller
Effective Date: September 8, 2005
Last Reviewed: August 19, 2009
Errors or changes to: policyoffice@utsystem.edu

CONTENTS

POLICY STATEMENT

The State Property Accounting ("SPA") system requires Construction in Progress to be used if:

1. The asset under construction meets the capitalization threshold for its asset category, **and**
2. The project is one year or more in length and/or spans two fiscal years.

Construction in Progress shall be accrued at the end of the fiscal year. However, when certain criteria are met, Construction in Progress shall be capitalized to the appropriate asset categories and depreciated.

All construction costs associated with a project are accumulated and capitalized as construction in progress if the project meets the capitalization threshold. The construction in progress is closed out to the appropriate asset classification when the project is substantially complete, occupied, or placed into service.

RATIONALE

This policy is intended to document a standard for accounting for Construction in Progress.

SCOPE

All institutions and UT System Administration

WEBSITE ADDRESS FOR THIS POLICY

http://www.utsystem.edu/policy/policies/uts142_4.html

RELATED STATUTES, POLICIES, REQUIREMENTS OR STANDARDS

UT System Administration Policies & Standards	Other Statutes, Policies & Standards
	• *Texas Government Code Chapter 2252, Subchapter B* • GASB Statement No. 35 *Basic Financial Statements - and Management's Discussion and Analysis – for Public Colleges and Universities* [issued November 1999] • GASB Statement No. 34, Basic Financial Statements – and Management 's Discussion and Analysis – for State and Local Governments [issued June 1999] • 1996 National Association of College and University Business Officers *Financial Accounting and Reporting Manual for Higher Education* Release 96-4, ¶407.62

CONTACTS

If you have any questions about UT System Administration Policy UTS 142.4, *Policy for Construction in Progress*, contact the following offices:

Subject	Office Name	Telephone Number	Email/URL
	Office of the Controller	512-499-4527	Controllersoffice@utsystem.edu http://www.utsystem.edu/cont/

DEFINITIONS

Capitalization Thresholds: Standard capitalization thresholds for capitalizing assets have been established for each major class of assets as follows (Reporting Requirement for Annual Financial Reports of State Agencies and Universities - July 2004):

Class of Asset	Threshold
Land/Land Improvements	Capitalize All
Buildings/Building Improvements	$100,000
Facilities & Other Improvements	$100,000
Infrastructure	$500,000

Construction in Progress: The economic construction activity status of buildings and other structures, infrastructure, additions, alterations, reconstruction, installation, and maintenance and repairs that are substantially incomplete.

Depreciable Entity: The sum of financial transactions affecting a unique component of a unique property number within a single fiscal year. Each depreciable entity exists as a “layer” of the component so that depreciation can be correctly charged to the component. Each depreciable entity constitutes a separate record on the depreciable entity table in the State Property Accounting system.

Building: A structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be transportable or moveable.

Building Improvements: are capital events that materially extend the useful life of a building or increase the value of a building, or both.

Facilities and Other Improvements: Those assets built, installed or established to enhance the quality or facilitate the use of land for a particular purpose. Examples include: fencing and gates; landscaping; parking lots, driveways, and parking barriers; outside sprinkler systems; recreation areas and athletic fields (including bleachers); golf courses; paths and trails; septic systems; stadiums; swimming pools, tennis courts, basketball courts; fountains; plazas and pavilions; and retaining walls.

Infrastructure Assets: Long-lived assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams and lighting systems.

Retainage: An amount owed to contractors consisting of 5% of each payment amount which is withheld pending successful completion of the contracted work. Retainage so withheld shall be managed in conformance with Subchapter B, Chapter 2252, Texas

Government Code. The contractor must submit a “Consent of Surety” with their payment application in order to have retainage released and paid to them.

Schedule of Values: Breaks down the work performed by Cost of Work, General Conditions, Construction Phase Fees, Construction Contingency, and Preconstruction Fees. (See Exhibit A)

Architect/Engineer: This statement breaks down the work performed by the architect/engineer according to Basic Services fees, Additional Service fees, Change Order Services, and Reimbursable Expenses. (See Exhibit B)

RESPONSIBILITIES

OFPC

- Issues a request on or about August 15th to contracted vendors via the Resident Construction Manager, Project Manager, or Interior Design Manager for estimated amounts due for work performed during the fiscal year that has not yet been invoiced.
- Reviews the monthly Substantial Completion reports and forms for any buildings that have been completed and qualify for capitalization.
- If unable to receive information from the vendor, creates an estimate through OFPC accounting based on the contract amount, prior rate of payments, and amount remaining on contract.
- Communicates with all institutions each February and July to determine if any buildings have been completed and qualify for capitalization have not been transferred to the appropriate asset class.
- Follow up with the institutions will occur at the end of the fiscal year.
- Provides an estimate of retainage related to each project to UT Institutions.

UT Institution

- Determines estimates for amounts to be accrued for Construction in Progress not managed by OFPC at year end.

PROCEDURES

GUIDELINES FOR THE ACCRUAL OF CONSTRUCTION IN PROGRESS

Concept
Construction in progress shall be accrued at year end.

Examples of Expenditures to be Capitalized

- Architect/Engineer Costs (See Exhibit B – A/E Statement)
- Construction Costs (See Exhibit A – Schedule of Values for an example of the Contractor’s costs)
- Interest accrued during construction (See Policy for the Capitalization of Interest Cost UTS142.5)

Determining Amount to Capitalize
For projects which have not been completed and previously transferred from Construction in Progress, an evaluation shall be made to determine if additional costs need to be capitalized as Construction in Progress as follows:

Perform a review of payments made to contracted vendors through the fiscal year-end.

The work performed shall be described in examples such as the Schedule of Values (see Exhibit A), the Architect/Engineer Statement (see Exhibit B), or other forms which adequately explain the work.

If not all invoices for the fiscal year have been submitted by the time accruals are calculated, the remaining payments will be estimated in the following ways:

OFPC
OFPC will issue a request on or about August 15th to contracted vendors via the Resident Construction Manager, Project Manager, or Interior Design Manager for estimated amounts due for work performed during the fiscal year that has not yet been invoiced. For documentation purposes, notice will be via email (see example in Exhibit C). Once the amount is agreed upon by both the vendor and OFPC representative, the estimate should be submitted to an OFPC accounting representative no later than August 31st.

If OFPC accounting is unable to receive information from the vendor, an estimate will be created through OFPC accounting based on the contract amount, prior rate of payments, and amount remaining on contract.

The total will include an estimate for retainage.

Institution (performing own construction)
Institution shall use similar methods to determine estimates for amounts to be accrued for Construction in Progress at year end.

Retainage
Accounting for retainage throughout construction.
The amount of retainage related to each project will be provided by OFPC. The institutions should accrue this cost as they would any other construction cost, by project.

Example 1: Asset placed in service and final retainage is resolved and paid within the same fiscal year.

As a construction project is completed and the Construction in Progress asset moved to the proper asset category (i.e., buildings, infrastructure, etc.) the estimated retainage accrued will be trued up to actual and moved to the proper category with all other capitalized costs. The componentization breakdown provided by OFPC will include retainage at the time the componentization calculations are prepared.

Example 2: Asset placed in service in FY01; final retainage is resolved and paid in FY02. Estimate for retainage was too low.

As a construction project is completed (per qualifications in Section 5) and the Construction in Progress asset moved to the proper asset category (i.e., buildings, infrastructure, etc.) the estimated retainage accrued will be moved to the proper category with all other capitalized costs. The componentization breakdown provided by OFPC will include retainage at the time the componentization calculations are prepared.

A retainage estimate should be made by adding the amount to the depreciable entity as appropriate. If this estimate turns out to be less than the actual retainage amount paid, the value of the asset is corrected as follows.

- **a.** If the difference is under the capitalization threshold, SPA must be notified so appropriate changes can be made to adjust the depreciable entity and the item will be capitalized and depreciated in the proper period.
- **b.** If the difference meets or exceeds the capitalization threshold, then add the amount to the appropriate depreciable entity.

Example 3: Asset placed in service in FY01; final retainage is resolved and paid in FY02. Estimate for retainage was too high.

As a construction project is completed (per qualifications in Section 5) and the Construction in Progress asset moved to the proper asset category (i.e., buildings, infrastructure, etc.) the estimated retainage accrued will be moved to the proper category with all other capitalized costs. The componentization breakdown provided by OFPC will include retainage at the time the componentization calculations are prepared.

A retainage estimate should be made by adding the amount to the depreciable entity as appropriate. If this estimate turns out to be more than the actual retainage amount paid, the value of the asset is corrected for the overestimation by reversing it against the appropriate depreciable entity adjustment column in the capital asset footnote.

GUIDELINES FOR TRANSFERRING CONSTRUCTION IN PROGRESS TO AN ASSET CLASS

Construction in progress assets are capitalized to the appropriate capital asset categories at the earliest occurrence of:

- **a.** Execution of substantial completion contract documents,
- **b.** Occupancy, or
- **c.** When the asset is placed in service.

Notification that Construction in Progress has ended:

OFPC shall review the monthly Substantial Completion reports and forms for any buildings that have been completed and qualify for capitalization per 5.1.

OFPC shall communicate with all institutions each February and July to determine if any buildings have been completed and qualify for capitalization per 5.1 that have not been transferred to the appropriate asset class. Final follow-up with the institutions will occur at the end of the fiscal year.

DEPRECIATION METHODOLOGY
Depreciation is not applicable while assets are accounted for as construction in progress. A policy is being developed which will include depreciation guidelines for those assets which are capitalized and qualify as depreciable assets**.**

FORMS AND TOOLS/ONLINE PROCESSES

Exhibit A – Schedule of Values

Exhibit B – Architect/Engineer (A/E) Statement

Exhibit C – Example of Email Documentation

APPENDIX

Authority

The authority for this Policy is intended to comply with the following:

The Governmental Accounting Standards Board (GASB) establishes standards of financial accounting and reporting (also known as Generally Accepted Accounting Principles, or GAAP) for state and local governmental entities, including public colleges and universities. These standards guide the preparation of external financial reports for those entities.

The Financial Accounting Standards Board (FASB) was created as an independent standard setting body. FASB establishes accounting and financial reporting standards for all private sector commercial and not-for-profit entities. The System applies all GASB pronouncements and applicable FASB statements and Interpretations issued on or before November 30, 1989, except those that conflict with GASB pronouncements.

- GASB Statement No. 35 *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* [issued November 1999], which establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of GASB Statement No. 34, *Basic Financial Statements – and Management 's Discussion and Analysis – for State and Local Governments* [issued June 1999] requires the financial statements to be presented using the full accrual method which recognizes the financial effect of events that impact the entity during the accounting period, regardless of whether cash has been received or spent.
- 1996 National Association of College and University Business Officers *Financial Accounting and Reporting Manual for Higher Education* Release 96-4, ¶407.62.

General Disclosure Requirements
GASB 34 requires general disclosures about capital assets in the notes to the financial statements.

Capital asset disclosures in footnotes should be presented by major classes of capital assets.

Certain note disclosures about capital assets occur in the summary of significant accounting policies, while other information appears in general capital asset disclosures and transition period disclosures. GASB suggests the following disclosures according to major capital asset classes:

1. Beginning and end-of-year asset balance
2. Accumulated depreciation
3. Capital asset additions
4. Capital asset dispositions
5. Annual depreciation charge, broken down by functional area in the statement of activities.

Keywords: construction, accounting