

NARRATIVE

Construction Allotments are used to fund county construction projects on State Aid Highways. Annually, each Minnesota County Highway Department is issued a Notice of Annual Apportionment, this document shows the new year allotments for each construction account. The Annual Apportionment Letters are available at the State Aid Finance Website:

<http://www.dot.state.mn.us/safinance/commorder/apportionments.html>

There are two primary construction allotments for construction projects, this chapter will discuss these two allotments. Both allotments will be discussed together because the accounting rules are the same in each instance. The two allotments are, *CSAH Regular Construction Allotment* and *CSAH Municipal Construction Allotment*.

SPECIAL CONSIDERATIONS

When reviewing the Examples on the following pages, please note the following special items that you might encounter from time to time.

- A. The account used in our example is for a Municipal Construction situation. When accounting for a Regular Construction Project, the accounting would be identical; however, the Regular Construction accounts would be used instead of Municipal.
- B. Note in Example D, page 3.11, regarding an *Underrun with an Overpayment* that we show the use of an account called *Due to State Aid – Overpayments*. Note the way in which this account is used to keep track of Overpayments due to project underruns from State Aid. Note also the awarding of Project 88-603-03 and how this account is affected when State Aid applies the overpayment to this newly let project.

If you wish to keep Regular and Municipal Overpayments segregated, you may wish to set up separate overpayment accounts. They may be set up as follows:

- (liability)* - DUE TO STATE AID REGULAR OVERPAYMENTS
- (liability)* - DUE TO STATE AID MUNICIPAL OVERPAYMENTS

This is not necessary to have separate accounts since overpayments are not very common and most are applied to other projects in a timely order.

ACCOUNTS NEEDED

<i>(const exp)</i>	- REGULAR CONSTRUCTION EXPENSES (there will be numerous of these)
<i>(const exp)</i>	- MUNICIPAL CONSTRUCTION EXPENSES (there will be numerous of these)
<i>(revenue)</i>	- REGULAR CONSTRUCTION REVENUE
<i>(revenue)</i>	- MUNICIPAL CONSTRUCTION REVENUE
<i>(asset)</i>	- CASH
<i>(asset)</i>	- REGULAR CONSTRUCTION RECEIVABLE
<i>(asset)</i>	- MUNICIPAL CONSTRUCTION RECEIVABLE
<i>(asset)</i>	- REGULAR CONSTRUCTION ALLOTMENT
<i>(asset)</i>	- MUNICIPAL CONSTRUCTION ALLOTMENT
<i>(liability)</i>	- CONTRACTS PAYABLE
<i>(liability)</i>	- DUE TO STATE AID - OVERPAYMENTS
<i>(liability)</i>	- REGULAR CONSTRUCTION DEFERRED REVENUE
<i>(liability)</i>	- MUNICIPAL CONSTRUCTION DEFERRED REVENUE

The following accounts are needed **only** if there are allotment transfers between maintenance and construction accounts:

<i>(asset)</i>	- REGULAR MAINTENANCE ALLOTMENT
<i>(asset)</i>	- MUNICIPAL MAINTENANCE ALLOTMENT
<i>(liability)</i>	- REGULAR MAINTENANCE DEFERRED REVENUE
<i>(liability)</i>	- MUNICIPAL MAINTENANCE DEFERRED REVENUE

SEQUENCE OF EVENTS**PROJECT IS APPROVED**

Your allotments are reduced throughout the year as construction contracts are let and payment requests are sent in for State Aid Funding Approval. When State Aid approves the funding you will need to recognize the State Aid Receivable. Refer to page 3.8, Example A, #1 for a graphic display of this entry.

Recognize receivable from State Aid and reduce the allotment.

Accounting Entry - for amount of State Aid Construction Obligation ONLY

Debit Account: *(asset)* State Aid Receivable

Credit Account: *(asset)* State Aid Allotment

NOTE: Counties can request and receive Project Development, Construction Engineering, Utility Relocation and Right of Way monies from State Aid Funds. Be sure the above entry is only in the amount of the **State Aid Construction Obligation** as stated on the State Aid Partial Payment Request Form. See the next step to post the amounts for Project Development, Construction Engineering, Utility Relocation and Right of Way.

After the State Aid Partial Payment Request has been approved you will receive the actual payment for the project. State Aid advances 95% of the total State Aid Construction Obligation. The remaining 5% is *Encumbered* and will be paid to you when the project is complete and all costs are verified. In addition, if requested, you will receive Project Development, Utility Relocation and Right of Way. Requests for actual Construction Engineering costs are submitted along with the Report of Final Estimate. Refer to page 3.8, Example A, #2A, 2B, & 2C for a graphic display of the following entries.

Be sure to break up the entry as suggested below if you are being paid for Project Development, Construction Engineering, Utility Relocation and/or Right of Way.

- A) Recognize the receipt of the State Aid Payment.

Accounting Entry - for 95% of State Aid obligation only

Debit Account: (asset) Cash

Credit Account: (asset) State Aid Receivable

- B) Recognize receipt of Project Development, Construction Engineering, Utility Relocation and Right of Way.

Accounting Entry - for the amount of the Preliminary Engineering and/or Utility Relocation and/or Right of Way, if any

Debit Account: (asset) Cash

Credit Account: (asset) State Aid Construction Allotment

- C) Recognize revenue for Project Development, Construction Engineering, Utility Relocation and Right of Way.

Accounting Entry - for the amount of the Preliminary Engineering and/or Utility Relocation and/or Right of Way, if any

Debit Account: (liability) State Aid Deferred Revenue

Credit Account: (revenue) State Aid Construction Revenue

WORK BEGINS ON THE PROJECT

Sometime after State Aid approval, work actually begins on the contract. Your county inspectors verify that the work is indeed done according to specifications and a partial payment is paid to the contractor. There are two things to be aware of:

Amount of Work Certified (\$ amount of work actually performed)

minus: Any retainage (\$ withheld as an insurance factor)

equals: Cash paid to Contractor (\$ amount of actual disbursement)

The following entries will need to be made to recognize the construction expense, the *earned* State Aid revenue, and the disbursement to the contractor. Refer to page 3.8, Example A, #3A, 3B & 3C for a graphic display of the following entries.

- A) Recognize the construction expense.

Accounting Entry - recognize expenses as work is certified on contract.

Debit Account: (*const exp*) Construction Expenses

Credit Account: (*liability*) Contracts Payable

- B) Recognize the amount of the State Aid Allotment that can now be considered Current Year *Earned Revenue*.

Accounting Entry - recognize revenue for amount of work certified.

Debit Account: (*liability*) State Aid Deferred Revenue

Credit Account: (*revenue*) State Aid Construction Revenue

- C) Recognize the disbursement to the contractor.

Accounting Entry - for amount of contractor disbursement.

Debit Account: (*liability*) Contracts Payable

Credit Account: (*asset*) Cash

PROJECT IS FINALED

Numerous partial payments may be made to the contractor following the same sequence as in the step above. When the contract is completed, and final notification is sent into the State, the State will issue a Final State Aid Payment Notice. This notice, usually accompanied by a check, will outline the total project costs and inform you of any *Increases* or *Decreases* to your Construction Allotment Account.

Four different situations can occur. These are:

- A) - Project is completed exactly as estimated
- B) - Project overruns original estimate
- C) - Project Underruns original estimate without a State Aid overpayment
- D) - Project Underruns original estimate with a State Aid overpayment

A) PROJECT IS COMPLETED AS ESTIMATED

The State will send the original *encumbered* amount to the county which we already have booked as a State Aid receivable. Refer to page 3.8, Example A, #4A for a graphic example of this entry.

Accounting Entry - for amount of State Aid receipt

Debit Account: (asset) Cash

Credit Account: (asset) State Aid Receivable

B) PROJECT OVERRUNS ORIGINAL ESTIMATE

The State will send the original *encumbered* amount to the county as well as *additional* State Aid allotment monies that are due and available in the allotment. The Final Notice will inform you of the total project costs. Remember costs that were not previously recorded against your allotment must be recorded at this time. Refer to page 3.9, Example B, #4(B1) through 4(B4), for a graphic display of these entries.

B1) Recognize overrun and reduce allotment

Accounting Entry - for amount of *overrun*

Debit Account: (asset) State Aid Receivable

Credit Account: (asset) State Aid Construction Allotment

B2) Record receipt of the State Aid Obligation.

Debit Account: (asset) Cash

Credit Account: (asset) State Aid Receivable

B3) Recognize receipt of Construction Engineering (if requested).

Debit Account: (asset) Cash

Credit Account: (asset) State Aid Construction Allotment

B4) Recognize revenue for Construction Engineering (if requested).

Debit Account: (liability) State Aid Construction Deferred Revenue

Credit Account: (revenue) State Aid Construction Revenue

C) PROJECT UNDERRUNS ORIGINAL ESTIMATE WITHOUT AN OVERPAYMENT

This means that State Aid has encumbered too much and will only reimburse the portion of the encumbered amount that covers the actual project costs. The Final Payment Notice will inform you of the total project costs. Remember that the amount of the over estimate will reduce your receivable and increase your allotment. Refer to page 3.10, Example C, #4(C1) and 4(C2) for a graphic display of these entries.

C1) Recognize the *underrun*.

Accounting Entry - for amount of *underrun*

Debit Account: (*asset*) State Aid Allotment

Credit Account: (*asset*) State Aid Receivable

C2) Record receipt of the State Aid Obligation.

Accounting Entry - for amount of State Aid receipt

Debit Account: (*asset*) Cash

Credit Account: (*asset*) State Aid Receivable

D) PROJECT UNDERRUNS ORIGINAL ESTIMATE WITH AN OVERPAYMENT

This means that State Aid has encumbered too much and also advanced too much cash to the county. As a result, the county owes State Aid a refund. State Aid usually does not request the money back. It is usually recorded as an *overpayment* and applied against the next construction project that is submitted for State Aid Funding. This money should be posted to a liability account (Due to State Aid – Overpayments) until you are notified of its use on another project. Refer to page 3.11, Example D, #4(D1) and 4(D2) for a graphic display of these entries.

The allotment balance must be increased by both the *overpayment* and the original *encumbered* amounts.

D1) Recognize the *overpayment*.

Accounting Entry - for amount of *overpayment*

Debit Account: (*asset*) State Aid Allotment

Credit Account: (*liability*) Due to State Aid - Overpayments

D2) Reduce the receivable and increase the allotment for the original *encumbered* amount.

Accounting Entry - for amount of State Aid encumbered

Debit Account: (*asset*) State Aid Allotment

Credit Account: (*asset*) State Aid Receivable

When the project is FINALED, the county will pay the retainage withheld to the contractor and authorize the Certificate of Final Acceptance. Refer to page 3.8 - 3.11, Examples A – D, #5 for a graphic display of this entry.

Recognize final disbursement to the contractor.

Accounting Entry - for amount of contractor disbursement

Debit Account: (*liability*) Contracts Payable

Credit Account: (*asset*) Cash

REVOCAION OF A STATE AID ROAD

When a county revokes a State Aid Route for which State Aid Construction Funds have previously been spent, the District State Aid Engineer determines the remaining life of the project and computes the value of the items that were financed with State Aid Funds. This value is considered an overpayment to the county and will be subtracted from the next State Aid contract let by the county. The revenue from prior years must also be reduced due to the revocation. Refer to page 3.11, Example D, #6 for a graphic display of this entry.

Recognize State Aid Overpayment for revoked State Aid Road.

Accounting Entry –

Debit Account: (*asset*) State Aid Construction Allotment

Credit Account: (*liability*) Due to State Aid Overpayments

Accounting Entry – reduce prior year revenue due to revocation

Debit Account: (*equity*) Fund Balance

Credit Account: (*liability*) State Aid Construction Deferred Revenue

EXAMPLES

Example A

EXAMPLE A									
SAP 88-602-02 completed as estimated									
SAP 88-602-01 received 95% of contract and project development									
ACCOUNT NAMES →		Municipal Construction Expenses	Municipal Construction Revenue	Cash	Municipal Construction Receivable	Municipal Construction Allotment	Contracts Payable	Municipal Construction Def Rev	Fund Balance
ACCOUNT TYPES →		<i>expense</i>	<i>revenue</i>	<i>asset</i>	<i>asset</i>	<i>asset</i>	<i>liability</i>	<i>liability</i>	<i>equity</i>
Jan 1	Beginning Balance					20,000		(20,000)	
Jan 25	New Years Allotment					85,000		(85,000)	
<u>SAP 88-601-01</u>									
1	Apr 16	Project approved			50,000	(50,000)			
2A	Apr 16	Receive 95%		47,500	(47,500)				
2B	Apr 16	Project Develop Received		2,500		(2,500)			
2C	Apr 16	Recog Revenue-Proj Devel	(2,500)					2,500	
<u>SAP 88-602-02</u>									
	May 4	Project approved			40,000	(40,000)			
	May 4	Receive 95%		38,000	(38,000)				
<u>Partial Payment</u>									
3A	Aug 11	SAP 88-601-01 Certified	30,000				(30,000)		
3B	Aug 11	Recognize Revenue		(30,000)				30,000	
3C	Aug 11	Pay Contractor		(27,000)			27,000		
<u>Partial Payment</u>									
	Sep 27	SAP 88-602-02 Certified	40,000				(40,000)		
	Sep 27	Recognize Revenue		(40,000)				40,000	
	Sep 27	Pay Contractor		(36,000)			36,000		
4A	Oct 2	SAP 88-602-02 Final State Aid Payment		2,000	(2,000)				
5	Oct 23	Final Pymt to Contractor Retainage		(4,000)			4,000		
Account Totals (year End)		\$ 70,000	\$ (72,500)	\$ 23,000	\$ 2,500	\$ 12,500	\$ (3,000)	\$ (32,500)	\$ 0

Example B

EXAMPLE B								
SAP 88-602-02 completed with an overrun								
SAP 88-602-01 received 95% of contract and project development								
ACCOUNT NAMES →	Municipal Construction Expenses	Municipal Construction Revenue	Cash	Municipal Construction Receivable	Municipal Construction Allotment	Contracts Payable	Municipal Construction Def Rev	Fund Balance
ACCOUNT TYPES →	<i>expense</i>	<i>revenue</i>	<i>asset</i>	<i>asset</i>	<i>asset</i>	<i>liability</i>	<i>liability</i>	<i>equity</i>
Jan 1	Beginning Balance				20,000		(20,000)	
Jan 25	New Years Allotment				85,000		(85,000)	
<u>SAP 88-601-01</u>								
Apr 16	Project approved			50,000	(50,000)			
Apr 16	95% Received		47,500	(47,500)				
Apr 16	Project Development Rcvd		2,500		(2,500)			
Apr 16	Recog Rev on Proj Develop						2,500	
<u>SAP 88-602-02</u>								
May 4	Project approved			40,000	(40,000)			
May 4	95% Received		38,000	(38,000)				
<u>Partial Payment</u>								
Aug 11	SAP 88-601-01 Certified	30,000				(30,000)		
Aug 11	Recognize Revenue						30,000	
Aug 11	Pay Contractor		(27,000)			27,000		
<u>Partial Payment</u>								
Sep 27	SAP 88-602-02 Certified	42,000				(42,000)		
Sep 27	Recognize Revenue						42,000	
Sep 27	Pay Contractor		(36,000)			36,000		
<u>Final State Aid Payment</u>								
SAP 88-602-02								
4(B1) Oct 2	Recognize Overrun			2,000	(2,000)			
4(B2) Oct 2	State Aid Payment		4,000	(4,000)				
4(B3) Oct 2	Constr Eng Receipt		3,000		(3,000)			
4(B4) Oct 2	Recog CE Revenue						3,000	
5 Oct 23	Final Payment to Contractor Retainage		(6,000)			6,000		
Account Totals (Year End)	\$ 72,000	\$ (77,500)	\$ 26,000	\$ 2,500	\$ 7,500	\$ (3,000)	\$ (27,500)	\$ 0

Example C

EXAMPLE C								
SAP 88-602-02 completed with an underrun - without a State Aid overpayment								
SAP 88-602-01 received 95% of contract and preliminary engineering								
ACCOUNT NAMES →	Municipal Construction Expenses	Municipal Construction Revenue	Cash	Municipal Construction Receivable	Municipal Construction Allotment	Contracts Payable	Municipal Construction Def Rev	Fund Balance
ACCOUNT TYPES →	<i>expense</i>	<i>revenue</i>	<i>asset</i>	<i>asset</i>	<i>asset</i>	<i>liability</i>	<i>liability</i>	<i>equity</i>
Jan 1 Beginning Balance					20,000		(20,000)	
Jan 25 New Years Allotment					85,000		(85,000)	
<u>SAP 88-601-01</u>								
Apr 16 Project approved				50,000	(50,000)			
Apr 16 95% Received			47,500	(47,500)				
Apr 16 Project Development Rcvd			2,500		(2,500)			
Apr 16 Recog Rev on Proj Develop		(2,500)					2,500	
<u>SAP 88-602-02</u>								
May 4 Project approved				40,000	(40,000)			
May 4 95% Received			38,000	(38,000)				
<u>Partial Payment</u>								
3A Aug 11 SAP 88-601-01 Certified	30,000					(30,000)		
3B Aug 11 Recognize Revenue		(30,000)					30,000	
3C Aug 11 Pay Contractor			(27,000)			27,000		
<u>Partial Payment</u>								
Sep 27 SAP 88-602-02 Certified	39,000					(39,000)		
Sep 27 Recognize Revenue		(39,000)					39,000	
Sep 27 Pay Contractor			(36,000)			36,000		
<u>Final State Aid Payment</u>								
SAP 88-602-02								
4(C1) Oct 2 Recognize Underrun				(1,000)	1,000			
4(C2) Oct 2 Record State Aid Payment			1,000	(1,000)				
5 Oct 23 Final Payment to Contractor Retainage			(3,000)			3,000		
Account Totals (Year End)	\$ 69,000	\$ (71,500)	\$ 23,000	\$ 2,500	\$ 13,500	\$ (3,000)	\$ (33,500)	\$ 0

Example D

EXAMPLE D										
SAP 88-602-02 completed with an underrun and a State Aid overpayment										
SAP 88-602-01 received 5% of contract for project development										
SAP 88-603-03 added to this example to show overpayment applied to next project										
ACCOUNT NAMES →	Municipal Construction Expenses	Municipal Construction Revenue	Cash	Municipal Construction Receivable	Municipal Construction Allotment	Contracts Payable	Due to State Aid Over Payment	Municipal Construction Def Rev	Fund Balance	
ACCOUNT TYPES →	<i>expense</i>	<i>revenue</i>	<i>asset</i>	<i>asset</i>	<i>asset</i>	<i>liability</i>	<i>liability</i>	<i>liability</i>	<i>equity</i>	
Jan 1	Beginning Balance				20,000			(20,000)		
Jan 25	New Years Allotment				85,000			(85,000)		
<u>SAP 88-602-02</u>										
May 4	Project approved			40,000	(40,000)					
May 4	95% Received		38,000	(38,000)						
<u>Partial Payment</u>										
Sep 27	SAP 88-602-02 Certified	37,000				(37,000)				
Sep 27	Recognize Revenue							37,000		
Sep 27	Pay Contractor		(34,000)			34,000				
<u>SAP 88-602-02</u>										
Final State Aid Payment										
4(D1) Oct 2	Recognize Overpayment				1,000		(1,000)			
4(D2) Oct 2	Reduce Rcvbl-Inc Allot				(2,000)	2,000				
5 Oct 23	Final Pymt to Contractor		(3,000)			3,000				
<u>SAP 88-603-03</u>										
Dec 2	State Aid Notification			10,000	(10,000)					
Dec 2	Apply OP from 602-02			(1,000)			1,000			
Dec 2	Amt Rec'd - 95% minus \$1000 Overpayment		8,500	(8,500)						
6 Dec 6	Revocation of SA Road & Reduce Prior Revenue				25,000		(25,000)	(25,000)	25,000	
Account Totals (Year End)										
		\$ 37,000	\$ (37,000)	\$ 9,500	\$ 500	\$ 83,000	\$ 0	-25,000	\$ (93,000)	\$ 25,000