

University of Missouri System Accounting Policies and Procedures



Policy Number: APM 30.15

Policy Name: Capital Project Notes

General Policy and Procedure Overview:

The University of Missouri System Capital Project Notes (the Notes) consist of short-term annual borrowings to finance various capital projects, which have not been previously bond funded and are not expected to be bond funded, including small construction projects, furniture, fixtures, equipment and library books. The Notes are sold in mid-June and settle on the first business day in July. The Notes mature on the last business day of the following June. The Office of the Treasurer (Treasurer's Office) is responsible for negotiating the transaction. The Office of the Controller (Controller's Office) records the appropriate transactions related to the receipt of proceeds and subsequent payment of the Notes, as well as documentation of expenditures incurred to use the proceeds (i.e. spend down of proceeds). This policy provides guidance on the purpose of the Notes and the accounting entries and controls required for recording the activity.

Definition of Key Terms:

Capital Project Note: Short-term annual borrowing to finance various capital projects including small construction projects, furniture, fixtures, equipment and library books Notes are sold in mid-June and settle on the first business day in July Mature on the last business day of June

Detail Policy and Procedure:

Record Capital Project Notes Proceeds

The proceeds from the Capital Project Notes generally are received in 2 payments: (1) Initial good faith deposit, equal to 2% of the total issuance value, received approximately 7-10 days prior to July 1st, and (2) Remaining Note proceeds, net of premium or discount on issuance, are received on July 1st. Each deposit is recorded by preparing a Cash Receipts Report (CRR). The CRR will create the following entry to the General Ledger:

Transaction Description	Account	dr	cr
CRR entry	190000 Cash (Capital Project Notes ChartField string)	X	
	212000 Notes Payable – Short Term (Capital Project Notes ChartField string)		X

The Capital Project Notes are often issued at either a premium or discount. This amount is the difference between the cash proceeds received and the stated value of the Notes. The Premium or Discount is also noted on the Official Statement (obtained from the Treasurer's Office). The CRR will create the following entry to the General Ledger:

Transaction Description	Account	dr	cr
Record remaining Capital Project Notes proceeds, net of premium or discount on issuance, by preparing a CRR.	190000 Cash (Capital Project Notes ChartField string)	X	
	162000 (Premium)/Discount on Bd Pay (Capital Project Notes ChartField string)	X	X
	212000 Notes Payable – Short Term (Capital Project Notes ChartField string)		X

Record Monthly Interest Expense on Capital Project Notes

Interest on the Capital Project Notes is estimated at the time the Notes are issued. The amount of the estimated Interest Expense is provided and authorized by the Treasurer's Office. This estimated interest expense is accrued and expensed on a monthly basis, at a rate of 1/12th per month.

At the due date of the Notes, generally the last business day in June, the actual interest on the Notes is paid. The bill is received in the Treasurers department where the calculation is verified and the bill is authorized. If there is a difference between the interest accrued and the actual interest paid then an entry will need to be made to adjust Miscellaneous Expense and Accrued Interest Payable to the amount paid. This ensures the accuracy and completeness of the expense transaction.

Transaction Description	Account	dr	cr
Record Interest Expense in a Capital Project Notes Clearing ChartField string	742000 Miscellaneous Expense	X	
	222000 Accrued Interest Payable		X
If Actual Interest Exceeds Accrued Interest Payable then create this entry.	742000 Miscellaneous Expense	X	
	222000 Accrued Interest Payable		X
If Actual Interest is Less Than Accrued Interest Payable then create this entry.	222000 Accrued Interest Payable	X	
	742000 Miscellaneous Expense		X

Record Monthly Amortization of Premium/Discount on Capital Project Notes

The Capital Project Notes are often issued at either a premium or discount. This amount the difference between the cash proceeds received and recorded by CRR (as documented above), and the stated value of the Notes, per the Official Statement. When a premium or discount is received on the Notes, the amount should be amortized on a monthly basis, at a rate of 1/12th per month. The amortization of the Premium/Discount is recorded in a Capital Project Notes Clearing ChartField string.

Transaction Description	Account	dr	cr
Record Monthly Amortization of Premium on Notes	162000 (Premium)/Discount Bd Pay	X	
	742000 Miscellaneous Expense		X
Record Monthly Amortization of Discount on Notes	742000 Miscellaneous Expense	X	
	162000 (Premium)/Discount Bd Pay		X

Record Expenses on Cost of Issuance

Various transaction costs are incurred during the negotiation and issuance of the Notes. Invoices for these "costs of issuance" are received by the Treasurer's Office. The Treasurer's Office approves the invoices and provides the invoices to the Controller's Office for payment, thus providing authorization for the transaction and providing segregation of duties. The Controller's Office prepares a non-PO voucher payment request to pay the voucher. The costs of issuance expenditures are expensed as incurred, and are recorded in a Capital Project Notes Clearing ChartField string.

Transaction Description	Account	dr	cr
Record costs of issuance expenditures in a Capital Project Notes Clearing ChartField string	750000 Professional Services	X	
	190000 Cash		X

Monthly Allocation to Reflect Interest Expense, Premium/Discount, Cost of Issuance, Net of Investment Income

All of the amortization and expenses related to the issuance of the Notes are recorded in a Capital Project Notes Clearing ChartField string. On a monthly basis, these expenses are reallocated as an expenditure charge against the related investment income received on the Note proceeds. This reallocation is done through an automated PeopleSoft Finance process called an Allocation. The Allocation is run at month end, prior to month end close and is called "SUM006 Capital Proj N Exp Clg".

Transaction Description	Account	dr	Cr
Allocation SUM006 will look at the monthly transactions in the Capital Project Notes Clearing ChartField string (UMSYS - 0090 - A1203005 - 0	475200 Invest Income – Cap Proj Notes	X	

- 00 - 0) for accounts 390000 through 999995 and will create a journal to offset these amounts against UM System Investment Income.			
	495000 Misc Revenue – Non Taxable		X

This results in a total balance in the Capital Project Notes Clearing ChartField string at month end of \$0 (zero). At year end one final entry is made in the Capital Project Notes Clearing ChartField string which nets all debits and credits to zero so that the ChartField string has a zero balance in all of the accounts.

Record Payment on Capital Project Notes at Due Date

Payment on the Capital Project Notes is due on the last business day of June. The Treasurer's Office receives documentation from the purchasing bank of the exact amount of the payment to be made, including principal and interest. The appropriate funds are wired to the purchasing bank by the Treasurer's Office. The Treasurer's Office provides documentation of the transaction to the Office of the Controller. This is the authorization for the accounting transactions. The Controller's Office prepares two non-PO vouchers to record the payment.

Transaction Description	Account	dr	Cr
Record Principal Payment on Capital Project Notes	212000 Notes Payable – Short Term	X	
	190000 Cash		X
Record Interest Payment on Capital Project Notes	222000 Accrued Interest Payable	X	
	190000 Cash		X

NOTE: As discussed in Record Monthly Interest Expense on Capital Project Notes above, if the amount of the actual interest payment is different than the Accrued Interest Payable balance, an additional entry will need to be made to record the difference between the actual expense and the accrual.

Monthly Spend-down Reporting

On a monthly basis, the Controller's Office prepares a monthly spend-down report on the Notes, which is provided to the Vice President of Finance and Administration, Treasurer and Controller. The report provides summarized information about the capital expenditures incurred for the month, reflecting the utilization of the proceeds on the Notes. The report provides information on the Note proceeds and premium/discount of the actual issue, along with the related investment income, capital expenditures, cost of issuance, and interest expense. Included in the report is information on actual-to-date revenues and expenditures, actual-to-date and projected revenues and expenditures for the remaining year, and the original projected revenue and expenditure balances. Supporting documents attached to the report include a detailed monthly spend-down schedule, reconciliation of the capital expenditures to the financial statements, and a copy of the monthly financial statements. The supporting documents are prepared by using query, web reports, the monthly Statement of Revenues, Expenditures, and Other Changes in Net Assets

(RECNA), and prior months' excel files. The review of this information is a managerial control over the accuracy and completeness of the accounting process.

For more information on the spend-down report, contact the Controller's Office.

Responsibility:

Treasurer's Office

- Review and approve monthly spend-down report
- Negotiates the transaction
- Approves invoices and provides documentation to the Controller's Office

Controller's Office:

- Records the appropriate transactions related to the receipt of proceeds and subsequent payment of the Notes, as well as documentation of expenditures incurred to utilize the proceeds (i.e. spend down of proceeds).
- Reviews and approve monthly spend-down report

Vice President of Finance and Administration:

- Reviews and approves monthly spend-down report

Effective Date: January 11, 1005

Revised Date: May 21, 2007

Questions and Comments?

Questions regarding interpretation and implementation of the Accounting Policy should be directed to the Campus Accounting Office. Suggested edits or revisions to the policy should be directed to the Office of the Controller.