I. Background and Purpose

The City Council annually approves a multi-year Capital Improvement Plan (CIP) and Annual Capital Budget authorizing specific projects and funding sources by fiscal year. These projects often extend over multiple fiscal years and involve numerous funding sources. The following procedures outline the actions taken by the various City staff to manage and administer a capital project from budget approval to project completion.

The following General Ledger Funds account for activities related to Capital Projects of the City:

Fund #Fund Name

300	General Capital Projects
710	Public Utility Capital Projects
300	Storm Water Capital Projects
760	Parking Authority

II. Administering Portsmouth Capital Projects

A. General Rules:

1. All Capital Projects shall be assigned accounting codes in the above funds and shall not be comingled in Operating Funds such as Grants or other Special Funds.
2. A "Transfer To" the appropriate Capital Fund will be the method of moving proceeds for any approved project with any unspent proceeds returned to the respective fund at project closeout.
3. Project budget to be expensed annually will be assigned an Object code beginning in "5". Project budget to be capitalized will be assigned an Object code beginning in "8".
4. Bond proceeds received to pay administrative issuance costs shall be recorded to the General Fund with only Capital Project proceeds recorded to the Capital Fund.
5. A "Revenues Only" project code is used to accumulate remaining project funding for future allocation via transfer to other eligible projects. A budget transfer and/or journal entry of current revenue activity is the method to fund a project in need and must be approved in accordance authorization thresholds per City budget policies.
6. Restricted grant revenues shall be drawn upon as a first priority when eligible to support the timely administration of restricted funds.
7. Restricted bond revenues shall be drawn down from the respective SNAP bank account and applied as project revenue monthly to the extent eligible expenditures have been incurred. Bonds shall serve as a first funding source for drawdown compliance purposes and cash "Transfers In" as a secondary funding source to assist with meeting bond draw requirements.
8. Unspent proceeds of completed projects shall be handled as follows:
   a) Restricted bond revenues shall be moved to the "Revenues Only" project code at project closure for future budget reallocation by City Council action.
   b) Restricted grant revenues (if received in advance) shall be returned to the granting agency or shall not be drawn beyond eligible expenses incurred. Any remaining budget authorization shall be reduced from the project at project closure.

    c)   Cash transfers drawn from the General Fund shall be moved to the "Revenues Only" project code at project closure along with any remaining budget authorization for future use on eligible projects as needed and authorized in accordance with City budget policies.

    d)   Restricted cash transfers from other Funds shall be returned to the originating Fund along with any remaining budget authorization.

B.   **General Ledger/Project Account Code Assignment & Budget Entry**
Upon budget adoption and before the start of the new fiscal year, the budget staff in conjunction with the Debt-Capital Project Manager (Debt-Capital Manager) assigns General Ledger account codes in the MUNIS financial system for approved projects. The budget is entered by the Budget staff prior to the beginning of the fiscal year into the GL to appropriately track in detail the funding sources and expenditures as follows:

1.   General Ledger String:

XXX - XX - XXX- XXXX- XXXXXX- XXX- XXXXXX- XXXXX
(Fund)-(Function)-(Department)-(Division)-(Program)-(Cost Center)-(Object)-(Project)

    a)   *Project Titles and account codes are assigned to succinctly identify the project.*

    b)   *Budgeted revenues are programmed by detailed OBJECT account codes to identify the specific funding source budgeted for each project. Example names include Bonds by issue year, General Fund cash transfer by fiscal year, specific grants by fiscal year, etc. The OBJECT code for revenue "transfers in begin with 499XXX followed by the first digit of the fund number (ex. "1" for Fund 100) then the fiscal year of project funding approval (ex. "19" for fiscal 18-19).*

    c)   *Budgeted expenditures are programmed by detailed PROJECT account codes. The PROJECT field is a 5 digit number with the last 2 digits referencing the fiscal year of originating funding approval of a new project. The first 2 digits are assigned by project type:*
10-13 – Roads/Infrastructure
14-18 – Buildings/Other
19-22 – Public Utilities
23-24 – Equipment/IT
90 – Schools/Education
The third digit is a numerical order, for example, the first roads project in fiscal year 2019 would be 10019, the second would be 10119, etc. Equipment would be 23019, 23119, etc.

2.   Capital Projects Ledger String:

AT THE OPTION OF THE MANAGING DEPARTMENT, projects can also be set up in the Project Ledger (PL) in conjunction with set up in the General Ledger (GL). This option will be provided until such time as an organized and consistent implementation of the module can be achieved by Finance.

Entry of projects in the PL is the responsibility of the Debt-Capital Manager. Detailed instructions can be found on the L: drive in "Using the Project Ledger". Entry of the budget is the responsibility of the Budget Staff after provision of PL strings for entry purposes.

The PL tracks in more detail than can be entered in the GL to include the project description, justification, fixed asset assignment, and the expected and actual date ranges of the project. These fields in the Project Master are required in order to have the project number recognized by the GL. The Project Ledger Menu is under the General Ledger/Project Accounting Menu.

When using the Project Ledger, users are provided a four segment project string to capture detail. These project strings are categorized as either an expense string or a funding source string similar to the GL. In transaction entry, the project string is entered at the same time as the GL account allowing one entry point for both the GL and PL. The set up tabs are available on the main page in Project Master.

a) *Expense strings: Three or four sets of numbers, similar to an account string in the GL but shorter to correspond to specific expenses of the project, such as design plans and surveys, carpeting and flooring, replacement roof, new HVAC, parking lot, etc. This number corresponds to a GL account, and many strings can have the same GL account, but helps to show the costs related to different parts of the project without having to duplicate entries in a spreadsheet. When setting up the string, it is linked to the GL account. The string includes a description of the expense, assigns it as part of the asset cost, and type of expense.*

b) *Funding source strings: Similar to the Expense String, this 3 segment string relates to a specific funding type. This also allows for a funding source to be assigned an order of use, a specific expense to pay (needed for some grants), and the amount available from that source. This also provides for GL account entry by use of the string.*

The new CIP project account codes and budgets are provided to the respective project manager's by the Debt-Capital Manager by the end of June, after projects have been set up and budgets posted to them.

C.   **Project Management Roles and Responsibilities**

Department Heads are responsible for managing all aspects of their assigned capital projects to include facilitation of procurement, work progress and vendor payments in accordance with all legal requirements and City policies and procedures.

The Debt-Capital Manager is responsible for managing the projected cash flow requirements, monitoring revenue activity and preparing drawdowns, and the reconciliation of capital funds available by revenue source such that management decisions can be made based upon accurate and timely general ledger information. The Debt-Capital Manager is responsible for the timely close out and accounting of completed projects and serves as the liaison to City departments for all Capital needs.

D.   **Project Progress Monitoring (Budget Compliance, Funding Status, Project Timelines)**

Quarterly Capital Project Progress meetings are coordinated by the Debt-Capital Manager with the various project managers to review and monitor progress and address funding issues in order to keep all City partners abreast of concerns and status. These meetings serve to resolve budget compliance matters, funding needs, project timelines and timely project closure.

E.   **Project Funding/ Drawdowns (Monitoring of revenues and reimbursement processes)**

The Debt-Capital Manager reviews monthly the financial progress of all City capital projects and processes revenue draw-downs from the various revenue sources (bonds, cash transfers etc.) to cover expenditures incurred.

Budgeted cash transfer journal entries are processed by the Debt-Capital Manager at the start of the each fiscal year. Monthly bond drawdowns are recorded and tracked by project in a subsidiary excel file by the Debt-Capital Manager with undrawn bond balances per bank statements reconciled to the general ledger.

VDOT funded project drawdowns are processed by the Engineering staff and coordinated regularly with the Debt-Capital Manager as documented in "SOPFIN 001 VDOT Capital Projects" dated August 13, 2018 or its most recent update.

Grant funded project drawdowns are processed and coordinated with the Grants Accountant regularly.

F.   **Capital Fund Reconciliation (Accounting of Available Funds by Source)**

A reconciliation of all General Ledger capital funds is performed annually at the close of each fiscal year. This reconciliation is prepared by the Debt-Capital Manager and identifies all remaining funding sources of the Fund by project title/code to include a "Revenues Only" code which holds excess revenues by source that are available to be allocated to other projects. As examples, a subsidiary report of remaining undrawn bond revenues budgeted by project code is reconciled to the Bond Issue SNAP bank balance held as of June 30th. The capital fund cash balance is reconciled to a subsidiary listing of projects with remaining cash budgeted as of June 30th. Accounts receivable balances are reconciled to a subsidiary project listing of expenditures pending reimbursement as of June 30th.

The effect of this reconciliation serves to provide management with available and unallocated revenues by source that can be used to support other project needs via budget transfer or budget supplement. This information is shared with the City Budget Officer and City Manager at least annually for Capital budgeting decision purposes.

Additionally, the PL and GL are reconciled by the Debt-Capital Manager on a monthly basis for all projects entered to both systems to ensure all activity is recorded accurately and timely in both systems. The following actions are performed as part of this monthly reconciliation. Reports to Run:

1. "Project Budget Report" which provides a listing for desired project (or * for all) of encumbrances, revised budget, year to date expenditures/revenue, project to date expenditures/revenue, and available budget. This report is generated as a Month To Date (MTD) in MUNIS Project Accounting-Projects.

2. "MTD Project Budget Report" can be run for active accounts only, however the Project Budget Report does not have the option to filter out closed projects.

A comparison is done for each project to verify that the same revised budget, actual, and available amounts match on both reports. Any discrepancies are resolved, usually through a Project Amendment to G/L Journal and typically to address the lack of a project string being used at time of entry into MUNIS.

G. **Completed Project Close-out & Fixed Asset Capitalization**

The Debt-Capital Manager attends quarterly project meetings with the various project managers. Such meetings include the identification of projects to be closed in the General Ledger. A project is considered ready for closure when been placed in service. Multi-phased projects should be capitalized as each phase is placed in service. Project managers should advise the Debt-Capital Manager when each project or phase of project is placed in service. During this process, project managers should identify to the Debt-Capital Manager any related invoices have not yet been presented for payment. Steps for project closure include:

1. Print Project Detail History to verify that all transactions are recorded and posted.
2. Run Project Budget Report to verify any remaining budget amounts or actuals that need to be transferred to Revenues Only.
3. Review Project Inquiry to double check the information presented on the Project Budget Report.
4. Process journal adjustments/ budget transfers to balance revenues to expenditures by:
5. Removal of excess "Cash Transfers In" back to the originating fund or to a "Revenues Only" account code for future allocation to another eligible project.
6. Removal of excess Bond Proceeds/Interest to a "Revenues Only" account code for future allocation to another eligible project (water project to water project, street project to street project, park project to park project, etc.)
7. Reduction of budgeted revenues that will not be received to the actual amount received. Examples include unissued bonds, unrealized loan proceeds, unrealized federal and state reimbursements, developer agreement payments not received, and inter-local agreement payments not received.
8. Change of project status in the General Ledger to "Inactive" removing the ability for additional transactions to be posting.

9.   For project in CPL, change of project status to "closed" by running "Close Project" in the Project Master to ensure that all strings are closed, the related G/L accounts are closed, and if the project needs to be marked as a Fixed Asset. Transactions in projects that are not in CPL (G/L only) should be set to Inactive using Account Master.

10.   Registration of the completed project into the MUNIS Fixed Asset Module.

III.   Review and Compliance

The Controller will review the General Ledger and CPL quarterly and the completed Annual Fund Reconciliation to ensure compliance with the above noted procedures and the integrity of the GL information provided to the various users.

2/27/2019

X   Cheryl J. Spivey

Cheryl J. Spivey
Chief Financial Officer
Signed by: Spivey, Cheryl