

SECTION XII--INTERPRETATIONS

ACCOUNTING INTERPRETATION NO. 6

Subject: Capital Outlay Accumulations

This interpretation is to outline a uniform procedure for budgeting and accounting for the three types of capital outlay accumulations as authorized by SDCL 9-21-14.1 and 9-21-14.2, 9-21-31, and 9-21-12.

CAPITAL ACCUMULATIONS ASSIGNMENT - Municipalities are authorized to accumulate funds for capital outlay purposes by resolution of the governing body (SDCL 9-21-14.1). The resolution must be enacted by a two-thirds vote and must set forth clearly the purposes and maximum amount of the accumulation. The funds accumulated must be expended within sixty months from the date of the resolution (SDCL 9-21-14.2).

The maximum capital outlay accumulations per SDCL 9-21-14.1 shall be as follows:

- (1) In first-class municipalities the amount of the accumulation for all purposes may never exceed an amount equivalent to four dollars per thousand dollars of assessed value of all property within the municipality;
- (2) In second-class municipalities the amount of the accumulation for all purposes may never exceed an amount equivalent to ten dollars per thousand dollars of assessed value of all property within the municipality or one hundred twenty-five thousand dollars, whichever is greater;
- (3) In third-class municipalities the amount of the accumulation may never exceed one hundred twenty-five thousand dollars.

CAPITAL REPLACEMENT COMMITMENT - SDCL 9-21-31 allows a municipality by ordinance to create a capital replacement commitment account for general fixed assets, which commitment shall not exceed fifty percent of the value of the general fixed assets.

DEPRECIATION RESERVE - SDCL 9-21-12 allows a municipality to create a depreciation reserve **by resolution** within each proprietary fund, as necessary, not to exceed the accumulated depreciation of the fixed assets of the respective funds.

Budgeting:

The years in which resources are being accumulated for future capital outlay expenditure, the appropriation ordinances should describe the accumulations as shown at Section VI, Illustration 5. Total appropriations for expenditures and total appropriations for accumulations should equal total means of finance. The year the accumulations are to be expended, the amount to be expended should be included in the appropriate budget account as an expenditure and the resources available, or previously accumulated, should be included in the means of finance.

Accounting:

Capital outlay accumulations should be recorded to respective fund balance accounts **265.02** and **266.02** in the General Fund and account number **253.26** in the enterprise funds.

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The accounting entry to record the dedicated resources is as follows:

Governmental Funds:

Unassigned Fund Balance	xx
Fund Balance Committed/Assigned for Capital Outlay Accumulations	xx

GAAP promulgates that fund balance be reported as committed if the accumulation is established by ordinance but it may also be reported as assigned if the accumulation is initiated by resolution of the governing board.

For Government-Wide finance statements, General Fund assignments should be reported as an unrestricted net asset.

Periodically, each year as additional monies are raised, the above entry may be made to increase the balance of the commitment/assignment. Each year the amount to be accumulated for that respective year should be built into the annual budget.

Resources for the capital outlay accumulations can be derived from the General Fund tax levy, unobligated cash on hand or by authorized transfers of surplus monies from other funds.