

# OFFICE OF THE NEW YORK STATE COMPTROLLER

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**To: Chief Fiscal Officers**

**From: Division of Local Government and School Accountability**

**Subject: Accounting for Retained Percentages (Retainage)**

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## **Purpose of Bulletin**

This bulletin provides updated guidance related to accounting for retained percentages (retainage) for governmental and proprietary funds in fund level financial records. It also updates previous accounting guidance based on the current standards for liability recognition and measurement and it also establishes a new retained percentages account code.

## **Background**

In construction contracts, retainage generally is a sum of money withheld by the local government from progress payments made to the contractor until satisfactory completion of the work. Retainage is a form of security for proper completion of the work under the construction contract. It is typically calculated as a percentage of the progress payment. New York State General Municipal Law (GML) provides that local governments may retain up to 5 percent of each progress payment to the contractor if the contractor is required to provide a performance bond and a labor and material bond both in the full amount of the contract.<sup>1</sup> In all other cases, the local government may retain up to 10 percent of each progress payment.<sup>2</sup>

Previously, our guidance for recording payments to contractors based on claims for construction progress payments was for governmental funds only. Retainage should, however, also be recorded in proprietary funds, when applicable. As a result, we have updated our guidance in this bulletin to demonstrate how to account for retainages within both the governmental and proprietary funds.

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<sup>1</sup> GML Section 106-b(1).

<sup>2</sup> Similar provisions of GML apply with respect to payments from the contractor to subcontractors (GML Section 106-b[2]).

## Accounting Treatment

### Governmental Funds

Under GASB Interpretation No. 6, retainage does not meet the definition of a current liability in governmental funds until it becomes due and payable (e.g., satisfactory completion of the work<sup>3</sup>). As such, the only time this liability would be shown as a current liability on the governmental financial statements would be if the contractor is owed the retainage at year-end and the payment has not yet been made.<sup>4</sup> The requirement to record retainage as an encumbrance in governmental funds, allowing for these funds to be segregated from funds available for appropriation on the financial statements, is still applicable. However, retainages should also be recorded on the supplemental schedule of non-current governmental liabilities (W schedule) using **new retainage account code W605 Retained Percentages, Contracts Payable** until these moneys are due and payable (current).

The following are updated journal entries illustrating the proper accounting treatment of retainage in governmental funds, specifically the capital projects fund:

- a) To record amounts owed to contractors for construction-in-progress (billing of \$100 with 10 percent retainage withheld):

Account	Subsidiary Account	Debit	Credit
H522 Expenditures – Construction		\$90	
H1620.2 Buildings, Equip & Cap Outlay	\$90		
H600 Accounts Payable			\$90
ABC Construction	\$90		
H521 Encumbrances <sup>5</sup>		\$10	
H1620.2 Buildings, Equip & Cap Outlay	\$10		
H821 Reserve for Encumbrances			\$10

It should be noted that the encumbrance entries are for bookkeeping purposes only. In actuality, the retained amount (\$10) should be classified as assigned unappropriated, restricted or committed

<sup>3</sup> Under GML Section 106-b(1), when work or major portions of the work as contemplated by the terms of the contract has reached substantial completion, the local government, upon receipt and approval of a proper requisition, would “promptly pay” the remaining amount of the contract balance less two times the value of any remaining items to be completed (and an amount necessary to satisfy any claims, liens or judgments against the contractor). Substantial completion, for purposes of GML Section 106-b(1) means for public owners (other than school districts and boards of cooperative educational services), the state in the progress of the project when the work required by the contract with the public owner is sufficiently complete in accordance with the contract so that the public owner may occupy or utilize the work for its intended use. For school districts and boards of cooperative educational services, “substantial completion” means the date the partial or final certificate of substantial completion of the project which is the date certified by the architect or engineer when the construction is code compliant and substantially complete in accordance with the contract documents so the school district can occupy or utilize the project or portion thereof for its intended use. As the remaining items of work are satisfactorily completed or corrected, the local government, upon receipt of a proper requisition, would pay for these items (less an amount necessary to satisfy any claims, liens or judgments against the contractor).

<sup>4</sup> If at year end retainage is due and payable (e.g., satisfactorily completion of the work), the liability is recorded as H600 Accounts Payable.

<sup>5</sup> The use of encumbrances helps demonstrate that the retained amount is an “earmarked” appropriation so that the budgeted amount is not overspent.

fund balance, depending on the source of the encumbered amounts. Unlike operating fund encumbrances, capital project encumbrances do not increase appropriations in the next year.

b) To record retainage in the supplemental schedule of non-current governmental liabilities:

Account	Debit	Credit
W129 Total Non-Current Governmental Liabilities W605 Retained Percentages, Contracts Payable	\$10	\$10

c) To liquidate the current payable owed to the contractor:

Account	Subsidiary Account	Debit	Credit
H600 Accounts Payable ABC Construction H200Cash	\$90	\$90	\$90

*If the contractors replace retained cash with eligible securities<sup>6</sup>:*

d) To reclassify retainage:

Account	Subsidiary Account	Debit	Credit
H455 Securities and Mortgages H200 Cash		\$10	\$10

e) To release retainage to contractors upon satisfactory completion of the work (if retainage was reclassified) and remove the encumbrance:

Account	Subsidiary Account	Debit	Credit
H522 Expenditures - Construction H1620.2 Buildings, Equip & Cap Outlay H455 Securities and Mortgages	\$10	\$10	\$10
H821 Reserve for Encumbrances H521 Encumbrances H1620.2 Buildings Equip & Cap Outlay	\$10	\$10	\$10

Account	Debit	Credit
W605 Retained Percentages, Contracts Payable W129 Total Non-Current Governmental Liabilities	\$10	\$10

<sup>6</sup> Under the GML, contractors, from time to time, may withdraw, at their option, the whole or any portion of the amount retained from payments to the contractor pursuant to the terms of the contract, upon depositing with the fiscal officers of the municipality (or if so, directed by the fiscal officer, with a designated bank or trust company having an agreement with the fiscal officer), certain securities having a market value equal to the amounts withdrawn (GML Sections 106, 106-a).

If the contractors DID NOT convert cash to securities:

- f) Upon satisfactory completion of the work, convert the long-term liability to a current payable owed to the contractor and remove the encumbrance:

Account	Debit	Credit
W605 Retained Percentages, Contracts Payable	\$10	
W129 Total Non-Current Governmental Liabilities		\$10

Account	Subsidiary Account	Debit	Credit
H522 Expenditures - Construction		\$10	
H1620.2 Buildings, Equip & Cap Outlay	\$10		
H600 Accounts Payable			\$10
ABC Construction	\$10		
H821 Reserve for Encumbrances		\$10	
H521 Encumbrances			\$10
H1620.2 Buildings, Equip & Cap Outlay	\$10		

- g) To liquidate the current payable (retainage) owed to the contractor:

Account	Debit	Credit
H600 Accounts Payable	\$10	
H200 Cash		\$10

Proprietary Funds

In proprietary funds liabilities are recognized when they are incurred, and do not need to meet the due and payable criteria established for governmental funds. As such, retainage should be recorded as a liability in **new retainage account code 605 Retained Percentages, Contracts Payable** in these funds.

The following journal entries demonstrate the proper treatment of the withholding of retainage in the proprietary funds, specifically the sewer enterprise fund:

- a) To record amounts owed to contractors for construction-in-progress (billing of \$100 with 10 percent retainage withheld):

Account	Subsidiary Account	Debit	Credit
ES105 Construction Work in Progress		\$100	
ES600 Accounts Payable			\$90
ABC Construction	\$90		
ES605 Retained Percentages, Contracts Payable			\$10

b) To liquidate the current payable owed to the contractor:

<b>Account</b>	<b>Subsidiary Account</b>	<b>Debit</b>	<b>Credit</b>
ES600 Accounts Payable ABC Construction ES200 Cash	\$90	\$90	\$90

*If the contractors replace retained cash with eligible securities:*

c) To reclassify retainage:

<b>Account</b>	<b>Debit</b>	<b>Credit</b>
ES455 Securities and Mortgages ES200 Cash	\$10	\$10

d) To release retainage to contractors upon satisfactory completion of work:

<b>Account</b>	<b>Debit</b>	<b>Credit</b>
ES605 Retained Percentages, Contracts Payable ES455 Securities and Mortgages	\$10	\$10

*If the contractors DID NOT convert cash to securities:*

e) To release retainage to contractors upon satisfactory completion of work:

<b>Account</b>	<b>Debit</b>	<b>Credit</b>
ES605 Retained Percentages, Contracts Payable ES200 Cash	\$10	\$10

**Additional Information**

If you have questions pertaining to the accounting guidance described in this bulletin, please contact the New York State Comptroller's [regional office that serves your local government or school district](#).