

# Accounting for Capital Projects

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## Introduction

### Capital Projects Fund

- Purpose – to account for the acquisition or construction of major capital assets and improvements other than those acquired through proprietary or fiduciary funds.

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# Capital Projects Fund

## When Used:

- Major capital acquisition or construction extends beyond a year.
- Financed by obligations.

Although debt is generally the major source of financing, other financing sources can include State and Federal aid, gifts, budgetary appropriations and capital reserves.

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# Budgeting and Accounting

- Modified accrual
- Separation of projects (subsidiary)
- Project budget (for life of project)
  - By Board resolution. Modify as necessary.
- Revenues and expenditures
  - Annual
- Capital reserves – Accounted for in fund providing the financing – NOT the Capital Project Fund.

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# Project Budget

## Initial Cashflow Example

Account and Explanation	Subsidiary	Debit	Credit
A599 Appropriated Fund Balance		\$100,000	
A960 Appropriations			\$100,000
A9950.9 Transfer to Capital Fund	\$100,000		

Account and Explanation	Subsidiary	Debit	Credit
H510 Estimated Revenues		\$100,000	
H5031 Interfund Transfers	\$100,000		
H960 Appropriations			\$100,000
H1620.2 Buildings	\$100,000		

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# Project Budget

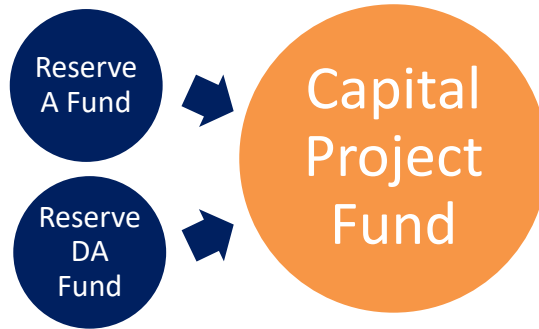
## Final (Estimated completion costs)

Account and Explanation	Subsidiary	Debit	Credit
H510 Estimated Revenue		\$2,100,000	
H5710 Serial Bonds	\$1,500,000		
H3089 State Aid	\$200,000		
H4089 Federal Aid	\$400,000		
H960 Appropriations			\$2,100,000
H1620.2 Buildings	\$2,100,000		

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# Accounting

Transfer reserves to Capital Projects Fund as needed.



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# Fund Transfer

Appropriated Fund Balance/ Reserves

Account and Explanation	Subsidiary	Debit	Credit
A522 Expenditures		\$100,000	
A9950.9 Transfer to Capital Fund	\$100,000		
A200 Cash			\$100,000
H200 Cash		\$100,000	
H980 Revenues			\$100,000
H5031 Interfund Transfers	\$100,000		

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# Accounting

## Summary of Accounting Process

- Capital Projects Fund
  - Record financing and uses.
- Non-Current Governmental Liabilities Schedule
  - Record long-term debt liability.
- Non-Current Governmental Assets Schedule
  - Record value of capital assets.
- Operating Fund
  - Record annual debt payments.



# Accounting

## Use of Municipal Employees/Equipment

- Payroll charged to project.
- Reimburse for equipment.
  - Rate x Hours



# Charges to Project

## Capitalized Costs

Account and Explanation	Subsidiary	Debit	Credit
H522 Expenditures		\$927,000	
H1620.2 Buildings	\$927,000		
H200 Cash			\$927,000

- Note: Charges are capitalized to one expenditure code. Optional coding is encouraged to provide additional accounting detail.

# Financing Sources

## Short-Term Sources

Account and Explanation	Subsidiary	Debit	Credit
H410 Due from State and Federal		\$600,000	
H980 Revenues			\$600,000
H3089 State Aid	\$200,000		
H4089 Federal Aid	\$400,000		
<b>To record revenues/receivables for submitted applications of State and Federal grants.</b>			

Account and Explanation	Subsidiary	Debit	Credit
H200 Cash		\$600,000	
H621 RAN Payable			\$600,000
<b>To record issuance of Revenue Anticipation Note secured by State/Federal grants.</b>			

# Financing Sources

## Revenue Anticipation Note Repayment

Account and Explanation	Subsidiary	Debit	Credit
H222 Cash for RAN		\$600,000	
H410 Due from State and Federal			\$600,000

Account and Explanation	Subsidiary	Debit	Credit
H621 RAN Payable		\$600,000	
H222 Cash for RAN			\$600,000
A522 Expenditures		\$12,000	
A9770.7 RAN Interest	\$12,000		
A200 Cash			\$12,000

# Financing Sources

## Long-Term (Serial Bonds)

Account and Explanation	Subsidiary	Debit	Credit
H200 Cash		\$1,520,000	
H630 Due to Other Funds			\$20,000
H980 Revenues			\$1,500,000
H5710 Serial Bonds	\$1,500,000		
V391 Due from Other Funds		\$20,000	
V980 Revenues			\$5,000
V2710 Premium on Obligation	\$5,000		
V651 Accrued Interest Payable			\$15,000
W129 Total Non-Current Govt Liabilities		\$1,500,000	
W628 Bonds Payable			\$1,500,000

## Bank Accounts

- Separate bank account required only if project is partially financed from:
  - Bonds
  - Bond Anticipation Notes (BANs)
  - Capital Notes

## Bank Accounts

### Proceeds of Bonds, BANs and Capital Notes

- Local Finance Law, § 165 requires:
  - Each issue be in separate account.
  - However, the Board can adopt a resolution to co-mingle:
    - Capital Notes \$100,000 or less with other funds.
    - Bonds, BANs and Capital Notes in a single special account and **not** with other funds.
    - Monies appropriated for the authorized use may be deposited in the same bank account as proceeds of obligations issued.



# Bid Specification Deposits

- Deposit on plans and specifications for the performance of public work.
- Amounts are established by Governing Board for each set of plans/specifications obtained.
- Deposits are returned to each bidder or non-bidder upon the proper return of the plans and specifications.
  - This would be at time of bid submission for bidders.
- Helps to ensure legitimate bid submissions for projects.
- Accounted for as liability in operating fund.
  - Code 730 – Guaranty and Bid Deposits

# Bid Deposits

## Operating Fund Activity

Account and Explanation	Subsidiary	Debit	Credit
A200 Cash		\$20,500	
A455 Securities and Mortgages		\$50,000	
A730 Guaranty and Bid Deposits			\$70,500
<b>To record deposits for bid specifications to be returned upon receipt of bids.</b>			

- Deposits may be a mix of cash and paper securities per GML and local policy.

## Retained Percentages

Construction contracts provide that a certain portion of the amount due the contractor can be withheld until work is free of defects.

- Governmental
  - Recorded as liability in Non-Current Schedule (W).
- Proprietary
  - Recorded as fund liability.

## Retained Percentages

- GML § 106 – Cash withheld from contractor will be released if replaced with the following securities:
  - Bonds or Notes of USA
  - Bonds or Notes of NYS
  - Bonds of NYS Political Subdivisions

## Retained Percentages Governmental

Account and Explanation	Subsidiary	Debit	Credit
H522 Expenditures		\$90,000	
Subsidiary Accounts	\$90,000		
H521 Encumbrances		\$10,000	
Subsidiary Accounts	\$10,000		
H200 Cash			\$90,000
H821 Reserve for Encumbrances			\$10,000
<b>Contractor is paid \$100,000 for contract work to be performed with 10% retainage.</b>			

Account and Explanation	Subsidiary	Debit	Credit
W129 Total Non-Current Govt Liabilities		\$10,000	
W605 Retained Percentages			\$10,000
<b>Collateral entry in long-term liability schedule.</b>			

## Retained Percentages Governmental

Account and Explanation	Subsidiary	Debit	Credit
H455 Securities and Mortgages		\$5,000	
H200 Cash			\$5,000
<b>Contractor exchanges \$5,000 of cash retainage with Bonds backed by the United States (GML §106).</b>			

## Retained Percentages Governmental

Account and Explanation	Subsidiary	Debit	Credit
H522 Expenditures		\$10,000	
Subsidiary Accounts	\$10,000		
H821 Reserve for Encumbrances		\$10,000	
H200 Cash			\$5,000
H455 Securities and Mortgages			\$5,000
H521 Encumbrances			\$10,000
Subsidiary Accounts	\$10,000		
<b>Contract is satisfactorily completed, and retainage is released.</b>			
Account and Explanation	Subsidiary	Debit	Credit
W605 Retained Percentages		\$10,000	
W129 Total Non-Current Govt Liabilities			\$10,000
<b>Reduce collateral entry in long-term liability schedule.</b>			

## Retained Percentages Proprietary (Enterprise)

Account and Explanation	Subsidiary	Debit	Credit
E_105 Construction Work-in-Progress		\$100,000	
E_200 Cash			\$90,000
E_605 Retained Percentages			\$10,000
<b>Contractor is paid \$100,000 for contract work to be performed with 10% retainage.</b>			

## Change Orders

- Formal modification of contract.
- Approved by governing board.
- Criteria for change:
  - Authorize a change in the work.
  - Adjustment in the project cost.
  - Change in the contract time.
- May require budget amendment.
- May be subject to competitive bidding.



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## Short-Term BANs

- Short-term:
  - Matures within one year from date of issue.
  - Record as fund liability.



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# Short-Term BANs

## Payments

Account and Explanation	Subsidiary	Debit	Credit
A522 Expenditures		\$250,000	
A9730.6 Principal, BANs	\$210,000		
A9730.7 Interest, BANs	\$40,000		
A200 Cash			\$250,000
<b>To record payment of BANs from operating fund.</b>			
Account and Explanation	Subsidiary	Debit	Credit
H626 Bond Anticipation Notes Payable		\$210,000	
H980 Revenues			\$210,000
H5731 BANs Redeemed from Appropriations	\$210,000		
<b>To record payment of BANs (reduction of principal).</b>			

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# Long-Term BANs

- Long-term:
  - Maturity is in excess of one year.
  - Account for the same as a bond.

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# Long-Term Debt

## Payments

Account and Explanation	Subsidiary	Debit	Credit
A522 Expenditures		\$250,000	
A9710.6 Principal, Serial Bonds	\$210,000		
A9710.7 Interest, Serial Bonds	\$40,000		
A200 Cash			\$250,000
<b>To record payment of Serial Bonds from operating fund.</b>			
Account and Explanation	Subsidiary	Debit	Credit
W628 Bonds Payable		\$210,000	
W129 Total Non-Current Govt Liabilities			\$210,000
<b>To record payment of Serial Bonds (reduction of principal).</b>			

## Earnings on Investment of Debt Proceeds

- May be applied either to:
  - Payment of principal and interest of debt.
  - For any purpose for which the debt was authorized (only if board authorized its use as a financing source).

## Earnings on Investment of Debt Proceeds

- However:
  - If the interest is earned on BANs,**and**
  - The BANs are redeemed from sale of bonds,**then**
  - The interest earned must be used to pay the principal and interest on the bonds.

## Installment Purchase Contracts

Truck (Gross)	\$20,000
Trade In	3,000
Net Cost	\$17,000

- Capital Projects Fund
  - Net cost of new truck
- Non-Current Governmental Assets Schedule
  - Remove Trade In - Add New Truck
- Operating Fund
  - Budget Yearly Installment Payments
- Non-Current Governmental Liabilities Schedule
  - Record LTD



# Unexpended Balances

Depends on Original Source of Financing:

Source of Balance	Disposition
Bonds	Debt Service Fund
Interfund Transfers	Original Fund
Multiple Sources	Debt Service Fund
BAN	Reserve for Debt (884) in Operating Fund

- How to Transfer? By interfund transfer codes:
  - 9901.9 – Expend out of Capital Project Fund.
  - 5031 – Interfund transfer (revenue) into other fund.

# Project Closeout

## Modify the Budget

Account and Explanation	Subsidiary	Debit	Credit
H510 Estimated Revenues		\$6,250	
H960 Appropriations		\$45,100	
H1620.2 Buildings	\$45,100		
H960 Appropriations			\$51,350
H9901.9 Interfund Transfers	\$51,350		
<b>Project deemed complete per Board Resolution and resolved to closeout excess funds.</b>			

- Note: Excess funds can be an accumulation of completing project under budget and interest earned.

# Project Closeout

## Transfer Funds

Account and Explanation	Subsidiary	Debit	Credit
H522 Expenditures		\$51,350	
H9901.9 Transfer to Other Funds	\$51,350		
H200 Cash			\$51,350
V230 Cash, Special Reserves		\$51,350	
V980 Revenues			\$51,350
V5031 Interfund Transfers	\$51,350		
<b>Excess funds transferred to Debt Service Fund to be applied to future debt payments.</b>			

# Closing Entries

## Operating/Budget/Resultant Asset(s)

Account and Explanation	Subsidiary	Debit	Credit
H980 Revenues		\$2,206,250	
H912 Fund Balance, Unrestricted			\$2,206,250
H912 Fund Balance, Unrestricted		\$2,206,250	
H522 Expenditures			\$2,206,250
H960 Appropriations		\$2,206,250	
H510 Estimated Revenues			\$2,206,250
K102 Buildings		\$2,154,900	
K159 Total Non-Current Govt Assets			\$2,154,900

# Questions?

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