



# Sample Capital Project #1

## Construction of a New Office Building (City)

The City Council has passed a resolution to establish a capital project for the construction of a new office building. After receiving sealed bids from construction companies and proposals from engineering firms and attorneys, the project’s costs are budgeted to be \$2,275,000:

- \$2,160,000 construction costs;
- \$100,000 engineering fees; and
- \$15,000 legal fees.

The project is to be financed with:

- \$2 million in issued serial bonds;
- \$225,000 of interfund transfers from the general fund; and
- \$50,000 in State aid.

The accounting entries for the project are as follows:

### Year One of the Capital Project

1. To establish the budget for the capital project in accordance with the City Council’s resolution.

| Account                           | Subsidiary Account | Debit       | Credit      |
|-----------------------------------|--------------------|-------------|-------------|
| H510 Estimated Revenues           |                    | \$2,275,000 |             |
| H5710 Serial Bonds                | \$2,000,000        |             |             |
| H5031 Interfund Transfers*        | \$225,000          |             |             |
| H3097 State Aid, Capital Projects | \$50,000           |             |             |
| H960 Appropriations               |                    |             | \$2,275,000 |
| H1620.21 Engineering Fees         | \$100,000          |             |             |
| H1620.22 Legal Fees               | \$15,000           |             |             |
| H1620.24 Building Construction    | \$2,160,000        |             |             |

\* Must also include an appropriation for the transfer in the general fund.

2. To record the transfer from the general fund.

| Account                  | Subsidiary Account | Debit     | Credit    |
|--------------------------|--------------------|-----------|-----------|
| H200 Cash                |                    | \$225,000 |           |
| H980 Revenues            |                    |           | \$225,000 |
| H5031 Interfund Transfer | \$225,000          |           |           |

**2a.** Collateral entry made in the general fund to record the transfer.

| Account                                 | Subsidiary Account | Debit     | Credit    |
|---|--------------------|-----------|-----------|
| A522 Expenditures                       |                    | \$225,000 |           |
| A9950.9 Transfer, Capital Projects Fund | \$225,000          |           |           |
| A200 Cash                               |                    |           | \$225,000 |

Note: The City Council may need to modify the general fund budget if appropriations are not available in the A9950.9 Transfer to Capital Projects Fund account.

The City submitted the appropriate forms and sent in the application to the appropriate State agency to qualify for State aid. The full \$50,000 amount has been determined to be earned and will be available within the City's availability period.

**3.** To record the amount of State aid after submission of the application.

| Account                           | Subsidiary Account | Debit    | Credit   |
|-----------------------------------|--------------------|----------|----------|
| H410 State and Federal, Other     |                    | \$50,000 |          |
| H980 Revenues                     |                    |          | \$50,000 |
| H3097 State Aid, Capital Projects | \$50,000           |          |          |

**4.** To record the payment of engineering fees after receiving an invoice for completed work.

| Account                   | Subsidiary Account | Debit    | Credit   |
|---------------------------|--------------------|----------|----------|
| H522 Expenditures         |                    | \$50,000 |          |
| H1620.21 Engineering Fees | \$50,000           |          |          |
| H200 Cash                 |                    |          | \$50,000 |

**5.** To record payments to contractors based on claims for completed work. Agreements with the contractors require 10 percent to be retained pending final approval of work completed and the release of the amount retained. Progress payments to contractors amounted to \$150,000 less 10 percent retained.

| Account                         | Subsidiary Account | Debit     | Credit    |
|---------------------------------|--------------------|-----------|-----------|
| H522 Expenditures               |                    | \$135,000 |           |
| H1620.24 Construction Contracts | \$135,000          |           |           |
| H200 Cash                       |                    |           | \$135,000 |

5a. Collateral entry to record retained amount of contract (10 percent of the \$150,000).

| Account                         | Subsidiary Account | Debit    | Credit   |
|---------------------------------|--------------------|----------|----------|
| H521 Encumbrances               |                    | \$15,000 |          |
| H1620.24 Construction Contracts | \$15,000           |          |          |
| H821 Reserve for Encumbrances   |                    |          | \$15,000 |

The City Council passed a resolution to issue a \$2 million bond anticipation note (BAN). This note was issued to provide cash flow for the capital project. Serial bonds will be issued at the end of the capital project to pay off the BAN issued and provide permanent financing.

6. To record the receipt of the BAN proceeds.

| Account                              | Debit       | Credit      |
|--------------------------------------|-------------|-------------|
| H200 Cash                            | \$2,000,000 |             |
| H626 Bond Anticipation Notes Payable |             | \$2,000,000 |

7. To record the payment to bond counsel for the cost of the BAN issuance.

| Account             | Subsidiary Account | Debit   | Credit  |
|---------------------|--------------------|---------|---------|
| H522 Expenditures   |                    | \$7,500 |         |
| H1620.22 Legal Fees | \$7,500            |         |         |
| H200 Cash           |                    |         | \$7,500 |

8. To record payments to contractors, based on claims for completed work. Agreements require 10 percent to be retained pending final approval of work completed and the release of the amount retained. Progress payments to contractors amounted to \$1 million less 10 percent retainage.

| Account                         | Subsidiary Account | Debit     | Credit    |
|---------------------------------|--------------------|-----------|-----------|
| H522 Expenditures               |                    | \$900,000 |           |
| H1620.24 Construction Contracts | \$900,000          |           |           |
| H200 Cash                       |                    |           | \$900,000 |

8a. Collateral entry to record retained amount of contract (10 percent of the \$1 million).

| Account                         | Subsidiary Account | Debit     | Credit    |
|---------------------------------|--------------------|-----------|-----------|
| H521 Encumbrances               |                    | \$100,000 |           |
| H1620.24 Construction Contracts | \$100,000          |           |           |
| H821 Reserve for Encumbrances   |                    |           | \$100,000 |

The following entries will be made at the end of the capital project's first year.

**9.** To close project revenues at the end of Year 1.

| Account                           | Subsidiary Account | Debit     | Credit    |
|-----------------------------------|--------------------|-----------|-----------|
| H980 Revenues                     |                    | \$275,000 |           |
| H5031 Interfund Transfer          | \$225,000          |           |           |
| H3097 State Aid, Capital Projects | \$50,000           |           |           |
| H912 Unrestricted Fund Balance    |                    |           | \$275,000 |

**10.** To close project expenditures at the end of Year 1.

| Account                         | Subsidiary Account | Debit       | Credit      |
|---------------------------------|--------------------|-------------|-------------|
| H912 Unrestricted Fund Balance  |                    | \$1,092,500 |             |
| H522 Expenditures               |                    |             | \$1,092,500 |
| H1620.21 Engineering Fees       | \$50,000           |             |             |
| H1620.22 Legal Fees             | \$7,500            |             |             |
| H1620.24 Construction Contracts | \$1,035,000        |             |             |

## Year Two of the Capital Project

11. To record payments to contractors, based on claims for completed work. Agreements require 10 percent to be retained pending final approval of work completed and the release of the amount retained. Progress payments to contractors amounted to \$1,010,000 less 10 percent retainage. Contractors are nearing the completion of the work.

| Account                         | Subsidiary Account | Debit     | Credit    |
|---------------------------------|--------------------|-----------|-----------|
| H522 Expenditures               |                    | \$909,000 |           |
| H1620.24 Construction Contracts | \$909,000          |           |           |
| H200 Cash                       |                    |           | \$909,000 |

11a. Collateral entry to record retained amount of contract (10 percent of the \$1,010,000).

| Account                         | Subsidiary Account | Debit     | Credit    |
|---------------------------------|--------------------|-----------|-----------|
| H521 Encumbrances               |                    | \$101,000 |           |
| H1620.24 Construction Contracts | \$101,000          |           |           |
| H821 Reserve for Encumbrances   |                    |           | \$101,000 |

12. To record the final payment for engineering fees.

| Account                   | Subsidiary Account | Debit    | Credit   |
|---------------------------|--------------------|----------|----------|
| H522 Expenditures         |                    | \$50,000 |          |
| H1620.21 Engineering Fees | \$50,000           |          |          |
| H200 Cash                 |                    |          | \$50,000 |

13. To record the State aid received based upon the claim filed.

| Account                       | Debit    | Credit   |
|-------------------------------|----------|----------|
| H200 Cash                     | \$50,000 |          |
| H410 State and Federal, Other |          | \$50,000 |

The City Council approved the issuance of a \$2 million serial bond for permanent financing. The City Council also approved using the proceeds to pay off the BAN principal.

14. To record the issuance of the serial bond.

| Account            | Subsidiary Account | Debit       | Credit      |
|--------------------|--------------------|-------------|-------------|
| H200 Cash          |                    | \$2,000,000 |             |
| H980 Revenues      |                    |             | \$2,000,000 |
| H5710 Serial Bonds | \$2,000,000        |             |             |

**14a.** Collateral entry to be made in the Schedule of Non-Current Governmental Liabilities.

| Account   | Debit       | Credit      |
|---|-------------|-------------|
| W129 Total Non-Current Governmental Liabilities | \$2,000,000 |             |
| W628 Bonds Payable                              |             | \$2,000,000 |

**15.** To record the BAN payment. Serial bond proceeds are used to pay off the BAN. Interest of \$20,000 on the note will be paid from the general fund as budgeted appropriations were all allocated for the building's construction.

| Account                              | Debit       | Credit      |
|--------------------------------------|-------------|-------------|
| H626 Bond Anticipation Notes Payable | \$2,000,000 |             |
| H200 Cash                            |             | \$2,000,000 |

**15a.** Collateral entry made in the general fund to pay for the \$20,000 of BAN interest.

| Account              | Subsidiary Account | Debit    | Credit   |
|----------------------|--------------------|----------|----------|
| A522 Expenditures    |                    | \$20,000 |          |
| A9730.7 BAN Interest | \$20,000           |          |          |
| A200 Cash            |                    |          | \$20,000 |

**16.** To record the legal fees incurred for the issuance of the serial bond and the BAN payment.

| Account             | Subsidiary Account | Debit   | Credit  |
|---------------------|--------------------|---------|---------|
| H522 Expenditures   |                    | \$7,500 |         |
| H1620.22 Legal Fees | \$7,500            |         |         |
| H200 Cash           |                    |         | \$7,500 |

The engineer notified the City Council of the project's completion, indicating that he has inspected the work and deemed it to be free of material defects. The City Council declared the project complete and approved the release of any retained funds and the closing out of the project.

**17.** To record the final retainage payment to the contractors. The engineer signed the release forms for the payments and the forms are attached to claim vouchers.

| Account                         | Subsidiary Account | Debit     | Credit    |
|---------------------------------|--------------------|-----------|-----------|
| H522 Expenditures               |                    | \$216,000 |           |
| H1620.24 Construction Contracts | \$216,000          |           |           |
| H200 Cash                       |                    |           | \$216,000 |

17a. Collateral entry to be made to reduce encumbered amount being held for retained percentages.

| Account                         | Subsidiary Account | Debit     | Credit    |
|---------------------------------|--------------------|-----------|-----------|
| H821 Reserve for Encumbrances   |                    | \$216,000 |           |
| H521 Encumbrances               |                    |           | \$216,000 |
| H1620.24 Construction Contracts | \$216,000          |           |           |

18. To close revenues at the end of Year 2.

| Account                        | Subsidiary Account | Debit       | Credit      |
|--------------------------------|--------------------|-------------|-------------|
| H980 Revenues                  |                    | \$2,000,000 |             |
| H5710 Serial Bonds             | \$2,000,000        |             |             |
| H912 Unrestricted Fund Balance |                    |             | \$2,000,000 |

19. To close expenditures at the end of Year 2.

| Account                         | Subsidiary Account | Debit       | Credit      |
|---------------------------------|--------------------|-------------|-------------|
| H912 Unrestricted Fund Balance  |                    | \$1,182,500 |             |
| H522 Expenditures               |                    |             | \$1,182,500 |
| H1620.21 Engineering Fees       | \$50,000           |             |             |
| H1620.22 Legal Fees             | \$7,500            |             |             |
| H1620.24 Construction Contracts | \$1,125,000        |             |             |

20. To close the capital project budget at the project's conclusion.

| Account                           | Subsidiary Account | Debit       | Credit      |
|-----------------------------------|--------------------|-------------|-------------|
| H960 Appropriations               |                    | \$2,275,000 |             |
| H1620.21 Engineering Fees         | \$100,000          |             |             |
| H1620.22 Legal Fees               | \$15,000           |             |             |
| H1620.24 Construction Contracts   | \$2,160,000        |             |             |
| H510 Estimated Revenues           |                    |             | \$2,275,000 |
| H5710 Serial Bonds                | \$2,000,000        |             |             |
| H3897 State Aid, Capital Projects | \$50,000           |             |             |
| H5031 Interfund Transfer          | \$225,000          |             |             |

20a. Collateral entry made in the Schedule of Non-Current Governmental Assets to record the new building's value.

| Account                                    | Debit       | Credit      |
|--|-------------|-------------|
| K102 Buildings                             | \$2,275,000 |             |
| K159 Total Non-Current Governmental Assets |             | \$2,275,000 |

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## Contact

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