

Capital Reserve Accounts:

General Rules

N.J.S.A 18A:7G-31 et seq. and N.J.A.C. 6A:26-9.1 et seq. establish the use of and rules for capital reserve accounts (withdrawals, deposits, and transfers).

- Funds in a capital reserve account must be used to implement the capital projects in the long-range facilities plan (LRFP). Withdrawals may not be used for current expense.
- The capital reserve account balance cannot exceed the amount needed to implement the capital projects in the LRFP not met by state support; this amount is required to be adjusted annually in the Quality Assurance Annual Report (QAAR).

Deposits:

- Upon submission of the LRFP, a district, by board resolution, may deposit additional funds into the capital reserve account through transfer of undesignated general fund balance or excess undesignated general fund balance anticipated in the budget. Audited excess general fund balance may **not** be deposited into the capital reserve.
- Funds may be appropriated in the annual budget; such appropriation is outside the calculation of a district's budget cap. Deposits are not made for a specific capital project unless specific voter approval was sought and received.

Withdrawals for Local Amount of School Facilities Projects:

- Withdrawals for referendum authorized school facilities projects may be made if the capital reserve use and amount is identified in the approved referendum question.
- Withdrawals for a non-referendum school facilities project may be made, by board resolution, up to 10% above the local amount of the final eligible costs (10% above "local share less excess costs"). Withdrawals must be transferred to the capital projects fund and accounted for separately with the corresponding EDA grant.

Withdrawals for Excess Costs or Other Capital Projects:

- Upon voter or board of school estimate approval, withdrawals may be made to fund excess costs of school facilities projects or other capital projects (need a separate Statement of Purpose).
- Withdrawals for referendum approved other capital projects may be made if the capital reserve use and specific amount is identified in the approved question.

Withdrawals for Debt Service:

- A district, by board resolution, may withdraw and transfer funds to the debt service fund to offset principal and interest payments for bonded projects in the LRFP.

Accounting and Recording

- There are five balance sheet accounts that are used in accounting for a capital reserve and three new appropriation lines. These accounts are outlined on the page titled “Account Numbers Used in Accounting for Capital Reserves.”
- Activity during the year is recorded in the budgetary and asset accounts, not fund balance accounts.
- Adjustments to fund balance are recorded as part of the year-end closing entries.
- The Capital Reserve Asset Account (10-116) is required to segregate the restricted capital reserve assets and is used during the year to record all activity. There is no requirement to open a separate bank account for this activity. However, given the requirement to budget and deposit all related investment income into the capital reserve account, including what is earned on current year increases, it is practical to open a separate bank account to make recording of interest easier. However, it is the option of the district to do so.
- The method of transferring the capital reserve to the capital projects fund and accounting for the entire project in one place effectively expends the entire withdrawal in Fund 12. However, there will still be interest earned on the money as it is spent down. This interest should be recorded as revenue in the general fund as an increase in the capital reserve asset account.

Account Numbers Used in Capital Reserve Accounting:

10-116 Capital Reserve Account

The restricted asset account comprised of investments held for future capital projects and the earnings attributable to those investments.

10-307 Budgeted Withdrawal from Capital Reserve-Eligible Costs

The budgetary account used to record the formal appropriation of eligible costs accumulated in the capital reserve account for current year appropriations.

10-309 Budgeted Withdrawal from Capital Reserve-Excess Costs

The budgetary account used to record the formal appropriation of excess costs accumulated in the capital reserve account for current year appropriations.

10-604 Increase in Capital Reserve

The budgetary account used to record increases in the capital reserve account for approved anticipated deposits.

10-761 Reserved Fund Balance – Capital Reserve Account

The fund balance account used for the segregation of fund balance equal to the capital reserve account balance (10-116), including any accrued interest required by law to be deposited into that account.

*** 12-000-400-931 Capital Reserve Transfer to Capital Projects**

The appropriation line in the Capital Outlay Fund to record the transfer of capital reserve amounts to the Capital Projects Fund

*** 12-000-400-932 Current Capital Outlay Transfer to Capital Projects**

The appropriation line in the Capital Outlay Fund to record the transfer of current budgeted capital outlay appropriations to the Capital Projects Fund.

*** 12-000-400-933 Capital Reserve Transfer to Debt Service**

The appropriation line in the Capital Outlay Fund to record the transfer of capital reserve amounts to the Debt Service Fund.

**** New Account Numbers***

Capital Reserve Account

Capital reserve accounts may be established by New Jersey school districts for the accumulation of funds to be used in subsequent years to implement capital projects in a district's approved Long Range Facility Plan (LRFP). Restrictions exist in both statute and administrative code related to the fiscal activity in a capital reserve account. The following section provides examples of the journal entries required to account for the activity in a capital reserve account.

A capital reserve account is maintained in the general fund. Withdrawal activity is recorded in the capital outlay subfund (Fund 12). Withdrawals made to fund local support of a school facilities project are recorded in a fund transfer line in the capital outlay subfund (Fund 12) and subsequently transferred to the capital projects fund (Fund 30). There are five balance sheet-coded accounts that are used in accounting for a capital reserve.

10-116 Capital Reserve Account

The restricted asset account comprised of investments held for future capital projects and the earnings attributable to those investments.

10-307 Budgeted Withdrawal from Capital Reserve-Eligible Costs

The budgetary account used to record the formal appropriation of eligible costs accumulated in the capital reserve account for current year appropriations.

10-309 Budgeted Withdrawal from Capital Reserve-Excess Costs

The budgetary account used to record the formal appropriation of excess costs accumulated in the capital reserve account for current year appropriations.

10-604 Increase in Capital Reserve

The budgetary account used to record increases in the capital reserve account for approved anticipated deposits.

10-761 Reserved Fund Balance – Capital Reserve Account

The fund balance account used for the segregation of fund balance equal to the capital reserve account balance (10-116), including any accrued interest required by law to be deposited into that account.

It should be noted that entries to fund balance are not made when establishing the account nor during the year when recording activity in the account. Entries to fund balance are made with closing entries at the end of the year to record the actual activity during the year.

Deposits:

Funds may be deposited into the reserve at any time after submission of the district's LRFP and may come from the following sources: 1) undesignated, unreserved general fund balance; 2) excess undesignated, unreserved general fund balance that is anticipated in the budget certified for taxes and/or 3) investment income earned on the account balance. **Audited** excess undesignated unreserved general fund balance **may not** be deposited into a capital reserve

account. It is mandatory that all related investment income be budgeted and deposited into the capital reserve account, including that earned on current year increases in the account.

Funds may be appropriated from any funding source in the district's annual budget to supplement the funds in the account as required to meet the local support need of its LRFP submitted to the Department. Such appropriation is outside the calculation of a district's cap.

Withdrawals:

Withdrawals from the capital reserve account to the capital outlay subfund can be made at any time after approval of the district's LRFP to fund local support of capital projects with the following approvals:

- **Board Approval:**
 - Costs up to 10% above the local amount of final eligible costs
 - To transfer funds to Debt Service
 - After voter or Commissioner approval as outlined below

- **Voter or Board of School Estimate Approval (need separate Statement of Purpose with Budget)**
 - Excess costs of school facilities project
 - Local funding of other capital projects

- **Commissioner approval**
 - Withdrawal prior to approved LRFP or for emergencies

Withdrawals from the account can be transferred to the debt service fund for the purpose of offsetting principal and interest payments for bonded projects that are included in the district's approved LRFP. Withdrawals **cannot** be used for current expenses or to augment a referendum authorized capital project unless the capital reserve use is specifically identified as a revenue source in the referendum question.

Example - Initial Establishment of a Capital Reserve Account:

In accordance with existing statute and regulations, the board of education has passed a resolution for the establishment of a capital reserve account. On July 1st the district has opening account balances of \$1,000,000 in Investments and \$1,000,000 in Unreserved Fund Balance. The approved annual budget includes an increase in the capital reserve account of \$515,000, which is comprised of \$500,000 of Unreserved Fund Balance and \$15,000 of budgeted earnings on the capital reserve account.

July 1st

- To record the budget

Dr. Estimated Revenues (10-301)	15,000	
Dr. Budgeted Fund Balance (10-303)	500,000	
Cr. Increase in Capital Reserve (10-604)		515,000

Postings:

Revenue Ledger – Estimated Revenue		
Interest on Investments (10-1510-000)		15,000

- To record the approved transfer of the unreserved fund balance. It should be noted that the entry does not impact fund balance, only the assets related to that fund balance. The actual adjustment to fund balance will be recorded as part of the year-end closing entries.

Dr. Capital Reserve Account (10-116)	500,000	
Cr. Investments (10-111)		500,000

July 31st

- To record the investment income earned during the month.

Dr. Capital Reserve Account (10-116)	1,250	
Cr. Revenues (10-302)		1,250

Postings:

Revenue Ledger – Actual Revenue		
Interest on Investments (10-1510-000)		1,250

Throughout the year entries are made to record the receipt of investment income and the corresponding increase in the capital reserve asset account.

On January 1st, the district anticipates excess surplus of \$200,000 and on January 19th the board passes a resolution to deposit the anticipated excess into the capital reserve.

January 20th

- To record the increase in capital reserve.

Dr. Budgeted Fund Balance (10-303)	200,000	
Cr. Increase in Capital Reserve (10-604)		200,000

- To record the approved transfer of the unreserved fund balance. As mentioned above, the entry does not impact fund balance, only the assets related to that fund balance. The adjustment to fund balance is part of the year-end closing entries.

Dr. Capital Reserve Account (10-116)	200,000	
Cr. Investments (10-111)		200,000

June 30th

- To record \$2,000 of investment income earned, but not received as of June 30th.

Dr. Interest Receivable on Investments (10-114)	2,000	
Cr. Revenues (10-302)		2,000

Postings:

Revenue Ledger – Actual Revenue		
Interest on Investments (10-1510-000)		2,000

For purposes of this illustration it is assumed that there is no other activity in the general fund. The pre-closing trial balance appears as follows:

<u>A/C</u>	<u>DR.</u>	<u>CR.</u>
111 Investments	300,000	
114 Interest Receivable on Investments	2,000	
116 Capital Reserve Account	715,000	
301 Estimated Revenues	15,000	
302 Revenues		17,000
303 Budgeted Fund Balance	700,000	
604 Increase in Capital Reserve		715,000
770 Unreserved Fund Balance		<u>1,000,000</u>
Totals	<u>\$1,732,000</u>	<u>\$1,732,000</u>

After all postings have been made for the adjusting entries, the following closing entries are recorded to reverse the budget and close the actual activity to fund balance.

- To reverse the capital reserve budget

Dr. Increase in Capital Reserve (10-604)	715,000	
Cr. Estimated Revenues (10-301)		15,000
Cr. Budgeted Fund Balance (10-303)		700,000

- To close the actual activity for the year and establish the restricted fund balance required under administrative code.

Dr. Revenues (10-302)	17,000	
Dr. Unreserved Fund Balance (10-770)	700,000	
Cr. Reserved Fund Balance –		
Capital Reserve Account (10-761)		717,000

It should be noted that the reserved fund balance amount is \$2,000 greater than the capital reserve account, due to the accrual of interest income. Although the accrued investment income has not been received and placed in the capital reserve account as of June 30th, it is required by law to be deposited to that account, and as such is part of the restricted fund balance at June 30th.

After the closing entries have been made, and assuming no other activity in the general fund for illustration purposes, the trial balance would appear as follows:

<u>A/C</u>	<u>DR.</u>	<u>CR.</u>
111 Investments	300,000	
114 Interest Receivable on Investments	2,000	
116 Capital Reserve Account	715,000	
761 Reserved Fund Balance-Capital Reserve		717,000
770 Unreserved Fund Balance		<u>300,000</u>
Totals	<u>\$1,017,000</u>	<u>\$1,017,000</u>

Example – Budgeting a Withdrawal from the Capital Reserve Account:

A district has a July 1st capital reserve account balance and corresponding reserved fund balance of \$717,000. For purposes of this illustration no other accounts have opening balances. The district has met the statutory and administrative code requirements for withdrawal and will begin to use the accumulated funds this year to fund the local support of an approved school facilities project.

The district has complied with the procedures governing withdrawals from the capital reserve and will withdrawal \$400,000 to fund the local support of eligible costs, and \$100,000 to fund excess costs of an addition to the elementary school. The capital reserve withdrawals are recorded in the capital outlay subfund and subsequently transferred to the capital projects fund. The local support is combined with the other sources of funds for the project (EDA grant, bond referendum) in the capital projects fund. The detailed accounting for the entire project is maintained in the capital projects fund. The remaining balance of the capital reserve account will be spent in the subsequent fiscal year.

The district included \$6,000 of investment income in the annual budget, all of which will be earned on the capital reserve account. This anticipated interest is included in the budget as an increase in the capital reserve account of \$6,000.

July 1st

- To record the budget in the **General Fund:**

Dr. Estimated Revenues (10-301)	6,000	
Dr. Budgeted Withdrawal From		
Capital Reserve-Eligible Costs (10-307)	400,000	
Dr. Budgeted Withdrawal From		
Capital Reserve-Excess Costs (10-309)	100,000	
Cr. Appropriations (10-601)		500,000
Cr. Increase in Capital Reserve (10-604)		6,000
General Fund Postings:		
Revenue Ledger – Estimated Revenue		6,000
Interest on Investments (10-1510-000)		

Expenditure Ledger – Appropriations
 Capital Reserve Transfer to Capital Projects (12-000-400-931) 500,000

- To record in the **General Fund** the withdrawal of funds from the capital reserve account and establish the payable for transfer to the capital projects fund for current year appropriations.

Dr. Cash in Bank (10-101) 500,000
 Cr. Capital Reserve Account (10-116) 500,000

Dr. Expenditures (10-602) 500,000
 Cr. Interfund Payable (10-402) 500,000

General Fund Postings:

Expenditure Ledger – Expenditures
 Capital Reserve Transfer to Capital Projects (12-000-400-931) 500,000

- To record the budget in the **Capital Projects Fund**.

Dr. Estimated Revenues (30-301) 500,000
 Cr. Appropriations (30-601) 500,000

Postings:

Revenue Ledger – Estimated Revenue
 Interfund Transfer (30-5200-000) 500,000

Expenditure Ledger – Appropriations
 Construction Services (30-000-401-450) 500,000

- To establish the receivable for the interfund transfer.

Dr. Interfund Receivable (30-132) 500,000
 Cr. Revenues (30-302) 500,000

Postings:

Revenue Ledger – Actual Revenues
 Interfund Transfer (30-5200-000) 500,000

- To record the transfer of the capital reserve to the capital projects fund.

General Fund:

Dr. Interfund Payable (10-402) 500,000
 Cr. Cash in Bank (10-101) 500,000

Capital Projects Fund:

Dr. Cash in Bank (30-101)	500,000	
Cr. Interfund Receivable (30-132)		500,000

July 31st

- To record the investment income earned during the month.

Dr. Capital Reserve Account (10-116)	500	
Cr. Revenues (10-302)		500

Postings:

Revenue Ledger – Actual Revenue		
Interest on Investments (10-1510-000)		500

Throughout the year, entries are made to record the receipt of investment income and the corresponding increase in the capital reserve asset account.

All encumbrances and expenditures related to the contracts entered into for the addition project are recorded in the capital projects fund.

Investment income earned during the year, including \$200 accrued but not received, totals \$6,200. The pre-closing trial balance appears as follows:

<u>A/C</u>	<u>DR.</u>	<u>CR.</u>
114 Interest Receivable on Investments	200	
116 Capital Reserve Account	223,000	
301 Estimated Revenues	6,000	
302 Revenues		6,200
307 Budgeted Withdrawal Capital Reserve-Eligible	400,000	
309 Budgeted Withdrawal Capital Reserve-Excess	100,000	
601 Appropriations		500,000
602 Expenditures	500,000	
604 Increase in Capital Reserve		6,000
761 Reserved Fund Balance-Capital Reserve		<u>717,000</u>
Totals	<u>\$1,229,200</u>	<u>\$1,229,200</u>

The following closing entries are recorded to reverse the budget and close the actual activity to fund balance.

- To reverse the original budget.

Dr. Appropriations (10-601)	500,000	
Dr. Increase in Capital Reserve (10-604)	6,000	

Cr. Estimated Revenues (10-301)		6,000
Cr. Budgeted Withdrawal from Capital Reserve-Eligible (10-307)		400,000
Cr. Budgeted Withdrawal from Capital Reserve-Excess (10-309)		100,000

- To close the actual activity for the year and adjust the restricted fund balance. The amount closed to fund balance is the difference between the actual revenue and actual expenditures.

Dr. Revenues (10-302)	6,200	
Dr. Reserved Fund Balance – Capital Reserve Account (10-761)	493,800	
Cr. Expenditures (10-602)		500,000

After the closing entries have been made, the trial balance would appear as follows:

<u>A/C</u>	<u>DR.</u>	<u>CR.</u>
114 Interest Receivable on Investments	200	
116 Capital Reserve Account	223,000	
761 Reserved Fund Balance-Capital Reserve		223,200
Totals	<u>\$ 223,200</u>	<u>\$ 223,200</u>

As mentioned earlier, withdrawals from capital reserve can be transferred to the debt service fund for the purpose of offsetting principal and interest payments for bonded projects that are included in the district’s approved LRF.

Example – Board Approved Withdrawal from Capital Reserve to Transfer to Debt Service:

As a final example, the following entries would be made when a board of education approves the withdrawal of \$50,000 in capital reserve to transfer to debt service for the payment of principal on a bonded project.

- To record the withdrawal in the **General Fund**.

Dr. Budgeted Withdrawal From Capital Reserve (10-307/309)	50,000	
Dr. Appropriations (10-601)		50,000

General Fund Postings:

Expenditure Ledger – Appropriations		
Capital Reserve Transfer to Debt Service (12-000-400-933)		50,000

- To record the budget in the Debt Service Fund.

Dr. Estimated Revenues (40-301)	50,000	
Cr. Appropriations (40-601)		50,000

Debt Service Postings:

Revenue Ledger – Estimated Revenues		
Transfers from Other Funds (40-5200-000)		50,000

Expenditure Ledger – Appropriations		
Redemption of Principal (40-701-510-910)		50,000

All subsequent entries (expenditure of appropriation line in capital outlay, transfer of funds to the debt service, expenditure of funds in the debt service, etc.) follow the examples given above regarding transfers to the capital projects fund. The corresponding entries would be made in the general fund and the debt service fund.