

Capital Reserves and EDA Grants



Department of Education
Division of Finance
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What is a Capital Reserve?

- **Tool** whereby districts can accumulate funds to implement projects in the Long Range Facility Plan.
- Accounting procedure segregates the cash in a separate asset account and removes and restricts the amount from the Unreserved Fund Balance.



Advantages of Capital Reserve

- Deposits and Withdrawals out of CAP.
- Method of removing potential excess from unreserved fund balance.
- Method of reserving and restricting funds for future capital projects.
- Deposits do not have to be identified by project.



Do I have to use it?

NO!



General Rules

- NJSA 18A:7G-31 & NJAC 6A:26-9.1 govern the use of capital reserves.
- Must be used to implement projects in the LRFP.
- Balance cannot exceed amount needed to implement projects not met by state support. Adjusted annually in QAAR (Addendum A).



Deposits

- Any time after submission of the LRFP.
- Requires board resolution.
- Undesignated general fund balance or excess undesignated general fund balance anticipated in budget.



Deposits Continued

- Audited excess may **not** be deposited.
- Appropriations in the annual budget are outside cap.
- Not made for specific projects unless specific voter approval sought and received.



Withdrawals

- Any time after approval of LRFP
- Board Approval:
 - Costs up to 10% above local portion of final eligible costs.
 - To transfer to debt service.
 - After voter or Commissioner approval as follows.



Withdrawals Continued

- Voter or board of school estimate approval (separate statement of purpose w/budget)
 - Excess costs of school facilities project
 - Local funding of other capital projects



Withdrawals Continued

- Commissioner Approval:
 - Withdrawal prior to approved LRF
 - Emergencies



Withdrawals for Local Amount

- Referenda projects
 - Must be identified in the approved referendum question.
 - Transferred to fund 30 and accounted for with the Bond proceeds.
- Non-referenda projects
 - Requires board resolution.
 - Up to 10% above local share less excess costs.
 - Transferred to fund 30 and accounted for with the EDA grant.



Withdrawal for Excess or Other Capital Projects

- Requires voter or board of school estimate approval.
- Requires separate Statement of Purpose.
- If referendum project, use and specific amount must be identified in approved question.



Withdrawals for Debt Service

- Requires board resolution.
- May transfer funds to fund 40 to offset principal and interest payments for bonded projects in LRFP.



Accounting and Recording

- Five “balance sheet coded” accounts used to track a capital reserve:
 - 10-116 Capital Reserve Asset Account.
 - 10-307 Budgeted Withdrawal-Eligible.
 - 10-309 Budgeted Withdrawal-Excess.
 - 10-604 Increase in Capital Reserve.
 - 10-761 Reserved Fund Balance-Capital Reserve.



Accounting and Recording

- Three new appropriation lines:
 - 12-000-400-931 Capital Reserve Transfer to Capital Projects.
 - 12-000-400-932 Current Capital Outlay Transfer to Capital Projects.
 - 12-000-400-933 Capital Reserve Transfer to Debt Service.



Accounting and Recording

- Activity during the year is recorded in the budgetary and asset accounts.
- 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.
- Adjustments to fund balance are recorded as part of the year-end closing entries.



Accounting and Recording

- No requirement to maintain separate bank account.
- All related investment income must be budgeted and deposited into the capital reserve account.



Accounting and Recording

- Capital reserve withdrawal and current capital outlay being transferred to fund 30 and used for capital projects are expended in fund 12.
- Interest earned on the funds is recorded as general fund revenue as an increase in the capital reserve asset account.



“Other” Project costing \$500

- No Capital Reserve Funds.
- Funded by 02-03 Capital Outlay Budget.
- 02-03 Budget:
 - Revenue: 10-XXXX
 - Appropriation: 12-000-400-XXX



"Other" Project Costing \$400

- Funded with existing Capital Reserve Funds.
- 02-03 Budget:
 - Revenue: 10-309
 - Appropriation: 12-000-400-XXX



“Other” Project Costing \$800

- \$500 funded with 02-03 C/O budget.
- \$300 funded with Cap Res Withdrawal.
- 02-03 Budget:
 - Revenue: 10-309 (\$300)
 - Revenue: 10-XXXX (\$500)
 - Appropriation: 12-000-400-XXX (\$800)



"SF" Project Costing \$1,000

- \$600 funded with Capital Reserve
- \$400 funded with EDA Grant
- 02-03 General Fund Budget :
 - Revenue: 10-307 (\$600)
 - Appropriation: 12-000-400-931 (\$600)
- Detail Project in SD 12



\$1,000 "SF" Project Cont.

- 02-03 Capital Projects Budget:
 - Revenue: 30-5200-000 (\$600)
 - Revenue: 30-3255-000 (\$400)
 - Appropriation: 30-000-4XX-XXX (\$1,000)



“SF” Project Costing \$2,000

- \$1,200 funded with 02-03 C/O budget.
- \$800 funded with EDA Grant.
- 02-03 General Fund Budget :
 - Revenue: 10-XXXX (1,200)
 - Appropriation: 12-000-400-932 (1,200)
- Detail Project in SD 4.
- Can get capital outlay SGLA if over CAP.



\$2,000 "SF" Project Cont.

- 02-03 Capital Projects Budget:
 - Revenue: 30-5200-000 (1,200)
 - Revenue: 30-3255-000 (800)
 - Appropriation: 30-000-4XX-XXX (2,000)



"SF" Project Costing \$8,000

- \$1,000 funded with 02-03 C/O budget.
- \$4,000 funded with capital reserve.
- \$3,000 funded with EDA Grant.
- 02-03 General Fund Budget :
 - Revenue: 10-XXXX (1,000)
 - Revenue: 10-307 (4,000)
 - Appropriation: 12-000-400-932 (1,000)
 - Appropriation: 12-000-400-931 (4,000)



\$8,000 "SF" Project Cont.

- 02-03 Capital Projects Budget:
 - Revenue: 30-5200-000 (5,000)
 - Revenue: 30-3255-000 (3,000)
 - Appropriation: 30-000-4XX-XXX (8,000)



Unplanned Situations

- During 02-03 board has an “other” project it wishes to advance
 - Must the board receive department approval-**Yes**
 - May the board simply withdraw money from capital reserve to fund the project-**No**
 - May the board fund the project with surplus-**Yes**
 - May the board use current appropriations to fund the project-**No**



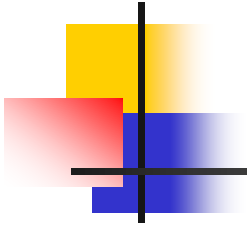
Unplanned Situations Cont.

- During 02-03 board has a project it wishes to advance that is eligible for an EDA grant (School Facility Project)
 - Must the board receive department approval even if it elects not to take an EDA Grant-**Yes**



Unplanned Situations Cont.

- If the board submits and receives approval of the project with FEC of \$50,000 (\$30,000 Local; \$20,000 EDA Grant) could the board
 - Fund its local share with cap reserve-**Yes with board resolution**
 - Fund its local share with surplus-**No**
 - Fund its local share out of current appropriations-**Yes if in SD4**



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Maintenance Reserve 02-03

- M-1 requires an 02-03 reserve deposit or budget of \$147,000.
- District wishes to deposit all in MR
 - 10-606 – 147,000
- District wishes to deposit all in 261
 - 12-000-261-XXX – 147,000
- District wishes to deposit both in 261 and MR
 - 10-606 – 47,000
 - 12-000-261-XXX – 100,000



EDA Grant Recording General Rules

- N.J.A.C. 6A:26-4 governs.
- GAAP requires that capital grants be accounted for in a capital projects fund.
- Therefore, EDA grants, plus local support, are recorded in the capital projects fund.



Non-Referenda Projects

- Accounted for in fund 30.
- Transfer of local funding sources to fund 30 occurs upon execution of grant agreement.



Referenda Projects

- Accounted for in fund 30.
- Referendum must include all other local funding sources, e.g. surplus, capital reserve.
- Transfer of local funding sources and recording of bond proceeds occurs upon issuance of the bond.



Retroactive Grants

Non Referendum Project

- Record in the fund that funded the project.
 - Miscellaneous unrestricted state aid in 11.
 - Transfer any proportionate share to ECPA.
- Department encourages deposit into capital reserve or tax relief.
- If reimbursing ECPA, must be used for early childhood programs and services in fund 20.



Retroactive Grants Referendum Project

- Recorded as a receivable in fund 30 once the grant agreement is signed.
- Combined with bond proceeds and other revenue sources.

Retroactive Grants

Bond Anticipation Notes

- Bond anticipation notes are recorded as current liabilities and result in a temporary deficit in fund 30.
- EDA grant is recorded as revenue in fund 30 and used to pay off the note.
- When year-end closing entries are made, the deficit is alleviated.



Accounting and Recording

- Accounts used in fund 30:
 - Revenue Accounts
 - 30-3255-000 - Additional State School Building Aid-EDA Grant
 - 30-5200-000 - Interfund Transfer
 - Appropriation Accounts
 - 30-000-XXX-XXX



Accounting and Recording

- Accounts used in fund 12
 - Appropriation Accounts
 - 12-000-400-931 – Capital Reserve Transfer to Capital Projects
 - 12-000-400-932 – Current Capital Outlay Transfer to Capital Projects