

## R 6740 RESERVE ACCOUNTS

### A. Capital Reserve Account

1. The Board of Education or a Board of School Estimate may, at any time establish by Board resolution a capital reserve account, pursuant to N.J.S.A. 18A:21-2 and 3, and 18A:7G-31.
2. Funds in the capital reserve account shall not be used for current expenses, pursuant to N.J.S.A. 18A:22-8.2, and shall only be used:
  - a. To implement capital projects in the school district's Long-Range Facilities Plan (LRFP) as required pursuant to N.J.S.A.18A:7G-4(a) and N.J.A.C. 6A:26-2; and
  - b. To augment a capital project funded in whole or part by bond proceeds only when:
    - (1) The original referendum question separately listed the amount and portion of local share (or portion of total costs of a project receiving debt service aid) to be funded by capital reserve pursuant to N.J.A.C. 6A:26-3.7 and 3.12; or
    - (2) Voter or Board of School Estimate approval, as appropriate, was received to augment the original approved question by special appropriation in a Type I school district, by separate question at a special election or through the appropriate line-items and supporting documentation in the base budget at the annual school election pursuant to N.J.A.C. 6A:26-4.4(a)3iii.
3. The Board of Education may increase the balance in the capital reserve account by:
  - a. Appropriating funds in the annual general fund budget certified for taxes to meet the needs of the LRFP that are not met by State support; or

- b. Requesting approval from the Executive County Superintendent, as the Commissioner's designee, to appropriate any excess unreserved general fund balance as calculated in the supporting documentation of the proposed budget into capital reserve in the proposed budget pursuant to N.J.S.A. 18A:7F-7b only when the Board of Education has:
          - (1) Formally established a capital reserve account; and
          - (2) Obtained an approved LRFP in accordance with N.J.A.C. 6A:26-2.
4. The Board of Education, at its option, may satisfy the withdrawal approval requirements set forth in 8. below when funds are deposited into the capital reserve account in the annual budget pursuant to 3.a. and 3.b. above using the designated line item, supporting documentation, and a statement of purpose in the advertised budget. The Board of Education shall include in its statement of purpose:
  - a. The amount of the deposit;
  - b. A description of the future capital project and purpose; and
  - c. A statement that "The amount represents expenditures for construction elements or projects that exceed the facilities efficiency standards determined by the Commissioner as necessary to achieve the Core Curriculum Content Standards."
5. The Board of Education may request express approval of the voters for appropriation of additional amounts into the capital reserve by a separate proposal at budget time, or by a special question at one of the four special elections authorized pursuant to N.J.S.A. 19:60-2. The Board of Education may request approval of a Board of School Estimate, if applicable, for appropriation of additional amounts into capital reserve by a separate proposal at budget time or by special resolution. The amount expressly approved by the voters or Board of School Estimate, as applicable, for deposit into a capital reserve may be from surplus or unrestricted local miscellaneous revenue only if such source is delineated in the question and/or special resolution.

6. The Board shall not deposit into a capital reserve account audited excess undesignated, unreserved general fund balance. The Board of Education shall reserve and designate such funds in the subsequent year's budget pursuant to N.J.A.C. 6A:23A-8.5(b).
7. The Board of Education shall maintain an amount of funds in the capital reserve account that does not exceed the amount needed to implement the capital projects in a school district's LRFP that are not met by State support.
  - a. If the amount in capital reserve exceeds the amount authorized in 7. above, the Board of Education shall withdraw the excess and reserve and designate it in the subsequent year's budget.
  - b. The Board of Education shall ensure that all excess amounts in the capital reserve account identified in the annual audit, required pursuant to N.J.S.A. 18A:23-1 and procedures developed by the Commissioner, are reserved and designated in the subsequent year's budget.
8. The Board of Education may withdraw funds from the capital reserve account at any time as follows:
  - a. By Board resolution for the transfer of funds to the line items in the capital outlay major account/fund to fund pre-development or other pre-application costs associated with architects, lawyers, and construction managers for school facilities projects included in the approved LRFP;
    - (1) Pursuant to N.J.A.C. 6A:26-4.2(a), a Board that used capital reserve for such costs in a capital project funded in part or in whole by bond proceeds has the option to reimburse the general fund from the capital projects fund after approval of the referendum or resolution;
  - b. By Board resolution for the transfer of funds to the line items in the capital outlay major account/fund to fund the local share less any excess costs of a school facilities project as determined in accordance with N.J.A.C. 6A:26-3;

- c. By Board resolution for the transfer of funds to the line items in the capital outlay major account/fund to fund the total costs, less any excess costs, of another capital project, which would otherwise be eligible for State support, as determined in accordance with N.J.A.C. 6A:26-3;
- d. By Board resolution for the transfer of funds to the capital projects fund pursuant to N.J.A.C. 6A:26-4, after receiving voter, Board of School Estimate, or Capital Project Review Board approval, as applicable, of the capital reserve use and specific amount in an approved referendum or resolutions pursuant to N.J.A.C. 6A:26-3.7;
- e. By Board resolution after receiving voter, Board of School Estimate, or Capital Project Review Board approval, as applicable, except as authorized in N.J.A.C. 6A:26- 3.12(c), for the transfer of funds to the line items in the capital outlay major account/fund to fund excess costs of a school facilities project and to fund the total costs for other capital projects that would not otherwise be eligible for State support as determined in accordance with N.J.A.C. 6A:26, Educational Facilities:
  - (1) Voter, Board of School Estimate, or Capital Project Review Board approval, as appropriate, may be obtained through the original budget certified for taxes, in which the Board shall include a statement of purpose in the advertised budget, or through a Board of School Estimate's special appropriation process, if appropriate.
  - (2) The Board of Education or Board of School Estimate, as appropriate, shall include in the statement of purpose or special question for the capital project:
    - (a) The total costs;
    - (b) The final eligible costs;

- (c) The amount requested for withdrawal for excess costs;
  - (d) A description/purpose of the capital project, or portion thereof, which the excess costs will fund; and
  - (e) A statement that "The amount represents expenditures for construction elements or projects that exceed the facilities efficiency standards determined by the Commissioner as necessary to achieve the Core Curriculum Content Standards."
- (3) If requesting a withdrawal for multiple capital projects, the Board of Education or Board of School Estimate, as appropriate, shall include in the statement of purpose or special question the required information identified in 8.e.(1) and (2) above separately for each individual capital project.
- (4) The Board of Education or Board of School Estimate, as appropriate, shall ensure that the amount(s) approved by the voters, Board of School Estimate, or Capital Project Review Board, as appropriate, are used exclusively for the purpose or purposes contained in the associated statement or question.
- (5) For any approved amounts that remain unexpended or unencumbered at the end of the school year, the Board of Education or Board of School Estimate, as appropriate, shall:
- (a) Return such funds to the capital reserve account;
  - (b) Anticipate such funds as part of the designated general fund balance of the subsequent school year budget; or
  - (c) Reserve and designate such funds in the second subsequent school year budget;

- f. By Board resolution and after receiving Commissioner approval in accordance with N.J.A.C. 6A:26-3.13, and voter, Board of School Estimate, or Capital Project Review Board approval, as appropriate, pursuant to 3.b. above and N.J.A.C. 6A:23A-14.1, for the transfer of funds to the line items in the capital outlay major account/fund for the purchase of land; or
        - g. By Board resolution for the transfer of funds to the debt service account for the purpose of offsetting locally funded principal and interest payments for bonded projects that are included in the school district's LRFP.
9. Notwithstanding 8. above, the Board of Education or Board of School Estimate, as appropriate, may at any time, apply to the Commissioner for approval to withdraw funds from its capital reserve account for uses authorized in 2. above. The Board of Education or Board of School Estimate, as appropriate, may make a withdrawal pursuant to N.J.A.C. 6A:23A-14.1 only upon receipt of written approval of the Commissioner. To obtain the Commissioner's approval, the Board of Education shall establish to the satisfaction of the Commissioner that an emergent condition exists necessitating an immediate withdrawal of capital reserve account funds.
10. The Board of Education shall administer and account for the capital reserve account as follows:
  - a. The Board shall establish and maintain the capital reserve account in accordance with Generally Accepted Accounting Principles (GAAP), and shall be subject to annual audit pursuant to N.J.S.A. 18A:23-1 et seq;
  - b. If the cost to complete an approved school facilities project not funded in whole or part by school bonds exceeds the local share less excess costs, those costs up to ten percent above the local share less excess costs may be withdrawn from capital reserve funds in accordance with 8.a. above;

- c. The Board shall transfer to the capital projects account, and account for separately with the corresponding grant, any funds withdrawn for the local share of a school facilities project that is not using school bonds or loan bonds for all or part of the local share that received a grant pursuant to N.J.S.A. 18A:7G-15. For any unexpended transferred capital reserve funds remaining after completion of such school facilities projects, the Board shall:
- (1) Return such funds to the capital reserve account;
  - (2) Anticipate such funds as part of the designated general fund balance of the subsequent school year's budget; or
  - (3) Reserve and designate any unexpended transferred capital reserve funds in the second subsequent year's budget for tax relief.
- d. Pursuant to N.J.S.A. 18A:21-3, the Board of Education shall increase the capital reserve account by the earnings attributable to the investment of the account's assets, and:
- (1) Anticipate as miscellaneous income any investment income included in the original annual general fund budget certified for taxes; and
  - (2) Include any investment earnings in the maximum amount of capital reserve permitted in 7. above.
- e. The Board of Education shall establish a separate account in the general fund for bookkeeping purposes only in order to account for increases to and withdrawals from the capital reserve account and its balance. The Board of Education shall record a capital reserve account on the annual audit's general fund balance sheet as follows:
- (1) Debit: Capital Reserve Account; and
  - (2) Credit: Reserved Fund Balance--Capital Reserve Account.

11. Funds in capital reserve accounts in existence prior to July 18, 2000 are subject to the Educational Facilities Construction and Financing Act (EFCFA), P.L. 2000, c. 72, and N.J.A.C. 6A:23A-14, and the Board of Education shall only use such funds for the original purpose for which the funds were deposited.
  - a. If the original purpose is outside the scope of the Board's approved LRFP, the Board of Education shall account for such funds separately in the capital reserve fund and appropriate the funds as revenue for such purposes in the annual budget certified for taxes. The Board of Education shall restore to the capital reserve account for use pursuant to N.J.A.C. 6A:23A-14 any unexpended capital outlay appropriations up to the amount of such capital reserve funds appropriated. Expenditures shall be charged first to unrestricted capital outlay fund sources with capital reserve account appropriations expended last. The Board of Education shall not deposit any additional funds into the capital reserve account pursuant to 3. through 6. above for such pre-July 18, 2000 purposes.
  - b. If the original purpose is within the scope of the school district's approved LRFP, the Board of Education shall make withdrawals pursuant to 8. above, except that if voter, Board of School Estimate or Capital Project Review Board, as appropriate, approval of excess costs or another capital project was obtained when the funds were deposited into the capital reserve account, the Board, by such approval, shall be deemed to have satisfied the requirement for approval of excess costs or other capital projects in 8.b. above.

**B. Maintenance Reserve Account**

1. The Board of Education shall establish, by resolution, a maintenance reserve account to be used to implement required maintenance of the school district's facilities. The Board of Education is prohibited from using such funds for routine or capital maintenance.

2. The Board of Education shall establish and maintain the maintenance reserve account in accordance with GAAP, and such account shall be subject to annual audit pursuant to N.J.S.A. 18A:23-1 et seq.
3. The Board of Education or Board of School Estimate, as appropriate, may increase the balance in the maintenance reserve account by appropriating funds in the annual general fund budget certified for taxes.
4. The Board of Education or Board of School Estimate, as appropriate, may by resolution withdraw such funds from the maintenance reserve account and appropriate into the required maintenance account lines at budget time or any time during the year for use on required maintenance activities for a school facility as reported in the comprehensive maintenance plan pursuant to N.J.A.C. 6A:26A-4.
  - a. Funds withdrawn from the maintenance reserve account are restricted to required maintenance appropriations. The Board of Education or Board of School Estimate, as appropriate, shall not transfer such funds to any other line-item account.
5. In any year that maintenance reserve account funds are withdrawn, the Board of Education shall restore any unexpended required maintenance appropriations, up to the amount of maintenance reserve account funds withdrawn, to the maintenance reserve account at year-end.
6. The Board of Education shall, by resolution, transfer to the general fund on an annual basis any interest earned on the investments in the maintenance reserve account. Such interest may be transferred on a more frequent basis at the discretion of the Board of Education.
7. The Board of Education shall ensure that the maintenance reserve account balance does not, at any time, exceed four percent of the replacement cost of the school district's school facilities for the current year. If the account exceeds this maximum amount at June 30, the Board of Education shall reserve and designate such excess in the subsequent year's budget.

C. Supplementation of Capital Reserve and Maintenance Reserve Accounts

1. The Board of Education or Board of School Estimate, as appropriate, may supplement a capital reserve account through a transfer by Board resolution of any unanticipated revenue and/or unexpended line-item appropriation amounts anticipated at year end for withdrawal in subsequent school years. Any such transfer resolution shall be adopted by the Board no earlier than June 1 and no later than June 30 of the respective school year.
2. The Board of Education or Board of School Estimate, as appropriate, may supplement a maintenance reserve account through a transfer by Board resolution of any unanticipated revenue and/or unexpended line-item appropriation amounts anticipated at year end, for withdrawal in subsequent school years. Any such transfer resolution shall be adopted by the Board no earlier than June 1 and no later than June 30 of the respective school year.

D. Establishment of Other Reserve Accounts

1. The Board of Education or a Board of School Estimate, as appropriate, may through the adoption of a Board resolution establish the following reserve accounts:
  - a. Current Expense Emergency Reserve Account.
    - (1) The funds in the reserve shall be used to finance unanticipated general fund current expense costs required for T&E. For the purpose of the emergency reserve account "unanticipated" shall mean reasonably unforeseeable and shall not include additional costs caused by poor planning or error.
    - (2) The account shall not exceed \$250,000 or one percent of the school district's general fund budget as certified for taxes up to a maximum of \$1,000,000, whichever is greater.

- (3) The Board of Education may appropriate funds to establish or supplement the reserve in the school district's annual budget or through a transfer by Board resolution of any unanticipated revenue and/or unexpended line-item appropriation amounts anticipated at year end. Any such transfer resolution shall be adopted by the Board no earlier than June 1 and no later than June 30 of the respective school year.
  - (4) Withdrawals from the reserve shall require the approval of the Commissioner unless the withdrawal is necessary to meet an increase in total health care costs in excess of four percent, for which the district did not receive an automatic adjustment for health care costs pursuant to N.J.A.C. 6A:23A-11.4. Total health care costs include medical insurance and prescription drug insurance costs.
- b. Debt service reserve account in the debt service fund for proceeds from the sale of school district property. For the purposes of the debt service reserve account "property" shall mean land, buildings, and other property that was incidental to the sale of land or a building. The funds in the reserve shall be used by the district first to reduce the outstanding principal amount at the earliest call date or to annually reduce the debt service principal payments. The funds may be used for any outstanding debt obligation or debt obligations of the school district. The reserve shall be liquidated within the lesser of five years from its inception or the remaining term on the obligations. Any remaining balance shall be used for tax relief.
  - c. Tuition adjustment reserve account in the general fund for up to ten percent of the estimated tuition cost in the contract year for an anticipated tuition adjustment in the third year following the contract year. In such case, the Board of Education shall:

- (1) Establish the tuition adjustment reserve account at June 30 by Board resolution;
- (2) Make full appropriation of the reserve for the tuition adjustment in the third year following the contract year;
- (3) Exclude from the cap calculation the budgeted fund balance and appropriation of the tuition adjustment reserve in the third year following the contract year for such tuition adjustments; and
- (4) Transfer to the general fund, by Board resolution, any interest earned on the investments in a tuition adjustment reserve account on an annual basis. Such transfer may be made on a more frequent basis at the discretion of the Board of Education.

E. Reserve Accounts Recorded in Accordance with GAAP

1. All reserve accounts shall be recorded in accordance with GAAP and subject to annual audit. Any capital gains or interest earned shall become part of the reserve account. A separate bank account is not required; however, a separate identity for each reserve account shall be maintained.