

# REGULATION

## PATERSON SCHOOL DISTRICT

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Capital Reserve Account

### R 6740 CAPITAL RESERVE ACCOUNT

The Board adopted a resolution at the October 11, 2000 Board meeting establishing a Capital Reserve Account, a copy of which has been filed with the County Superintendent of Schools. Funds in the Capital Reserve Account will only be used to implement capital projects in the district's Long-Range Facilities Plan (LRFP) required pursuant to N.J.S.A. 18A:7G-4(a) and N.J.A.C. 6A:26.2.1 et seq. and may not be used for current expenses pursuant to N.J.S.A. 18A:22-8.2.

#### A. Appropriations and Transfers to the Capital Reserve Account

1. The Board may appropriate funds in the district's annual budget to meet the needs of its LRFP not met by State support. The district's spending growth limitation as established pursuant to N.J.S.A. 18A:7F-5 will be adjusted by the amount of funds appropriated in the annual budget year to the Capital Reserve Account. Funds appropriated into the Capital Reserve Account in the annual budget certified for taxes will not become part of the prebudget year net budget for purposes of calculating the spending growth limitation of the subsequent year pursuant to N.J.S.A. 18A:7F-1 et seq.;
2. The Board may satisfy the withdrawal approval requirements set forth in Section C. below when funds are deposited into the Capital Reserve Account in the annual budget in accordance with N.J.S.A. 18A:7G-4(a) and N.J.A.C. 6A:26.2.1 et seq. using the designated line item and supporting documentation;
3. Upon submission of the district's LRFP to the Department of Education the Board may deposit funds into the Capital Reserve Account at any time by Board resolution. This may be completed through the transfer of undesignated, unreserved general fund balance or through the transfer of excess undesignated, unreserved general fund balance that is anticipated in the budget certified for taxes. No transfer of undesignated, unreserved fund balance shall be made by subject to the provisions of N.J.A.C. 6:19-2.5(b);
4. Audited excess undesignated, unreserved general fund balance shall not be deposited into a Capital Reserve Account and shall be reserved and designated in the subsequent year's budget pursuant to N.J.A.C. 6:19-2.5(c).



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### B. Amount of Funds in Capital Reserve Account

1. The amount of money in the Capital Reserve Account shall not exceed the amount needed to implement the capital projects in a district's LRFP not met by State support.
  - a. The amount under B.1. above shall be adjusted annually in the district's Quality Assurance Annual Report (QAAR) pursuant to N.J.A.C. 6:8-2.1.
  - b. If the amount in the capital reserve exceeds the amount under B.1. above, the district must withdraw the excess and reserve and designate it in the subsequent year's budget.
  - c. As part of the district's annual audit mandated by N.J.S.A. 18A:23-1, the district's independent auditors will, pursuant to procedures developed by the Commissioner, verify the amount in the Capital Reserve Account at any time during the year does not exceed the amount under B.1. above. All excess amounts in the Capital Reserve Account identified in the annual audit shall be reserved and designated in the subsequent year's budget.

### C. Withdrawing Funds from Capital Reserve Account

1. Funds may be withdrawn from the Capital Reserve Account at any time in accordance with the following:
  - a. By Board resolution 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:26-9.1 et seq.;
  - b. By Board resolution to the capital projects fund pursuant to N.J.A.C. 6A:26-4.1 et seq., after receiving voter review Board approval, as applicable, of the Capital Reserve use and specific amount in an approved referenda or resolution pursuant to N.J.A.C. 6A:26-3.7.
  - c. By Board resolution after receiving voter approval, as applicable, to the line items in the capital outlay major account/fund to fund excess costs of a school facilities project and to fund the local funding for other capital projects as determined in accordance with these regulations.



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- (1) Voter approval may be obtained through the original budget certified for taxes, which shall include a statement of purpose in the advertised budget or through a special appropriation process.
  - (2) The statement of purpose or special question shall include the capital project's total costs, final eligible costs and amount requested for withdrawal for excess costs. It shall also include a statement of purpose for the capital project, or portion thereof, which the excess costs will fund.
  - (3) If requesting a withdrawal for multiple capital projects, the statement of purpose or special question shall separately include the required information identified in c(1) and c(2) above for each such capital project.
  - (4) Amounts approved by the voters must be used exclusively for the purpose or purposes contained in the associated statement or question.
  - (5) The district must maintain a separate accounting of expenditures for each withdrawal from capital reserve for excess costs or other capital projects. Approved amounts which remain unexpended or unencumbered at the end of the school year shall be returned to the Capital Reserve Account or anticipated as part of the designated general fund balance of the subsequent school year budget or reserved and designated in the second subsequent school year budget.
- d. By Board resolution and after receiving Commissioner approval in accordance with N.J.A.C. 6A:26-3.13, and voter approval pursuant to N.J.A.C. 6A:26-9.1(c)(2) and 6A:26-9.1(e), to the line items in the capital outlay major account/fund for the purchase of land.



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- e. 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 district's LRF.
2. Notwithstanding 1.a. through 1.e. above, the district may apply at any time to the Commissioner for approval to withdraw funds from its Capital Reserve Account. A district may make a withdrawal pursuant to this subsection only upon receipt of written approval of the Commissioner. To obtain Commissioner approval, a district shall establish, to the satisfaction of the Commissioner, that an emergent condition exists necessitating an immediate withdrawal of Capital Reserve Account funds.
- D. Capital Reserve Account Administration and Accounting
1. The Capital Reserve Account shall be established and held in accordance with Generally Accepted Accounting Principles and is subject to annual audit pursuant to N.J.S.A. 18A:23-1 et seq.
  2. 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 in accordance with C.1.a. above.
  3. Funds withdrawn for the local share of a school facilities project not using school bonds or loan bonds for all or part of the local share which received a grant pursuant to N.J.S.A. 18A:7G-15 shall be transferred to the capital projects fund and accounted for separately with the corresponding grant. Any unexpended transferred capital reserve funds remaining after completion of such school facilities projects must be reserved and designated in the subsequent year's budget.
  4. The Capital Reserve Account shall be increased by the earnings attributable to the investment of the account's assets pursuant to N.J.S.A. 18A:21-3.



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- a. Anticipated investment income must be included in the original annual general fund budget certified for taxes as miscellaneous income;
  - b. Investment earnings shall be included in the maximum amount of capital reserve permitted in B. above.
5. A separate account shall be established in the general fund for bookkeeping purposes only in order to account for increases to and withdrawal from the Capital Reserve Account and its balance. The Capital Reserve Account shall be reflected on the annual audit's balance sheet in the general fund as follows:
- a. Debit: Capital Reserve Account; and
  - b. Credit: Reserved Fund Balance--Capital Reserve Account.
- E. Capital Reserve Account Funds Prior to July 18, 2000 (if applicable)
1. Funds in Capital Reserve Accounts in existence prior to July 18, 2000 are subject to Educational Facilities Construction and Financing Act (EFCFA) and N.J.A.C. 6A:26-9.1 et seq., and must be utilized for the original purpose for which the funds were deposited.
  2. If the original purpose is outside the scope of the district's approved LRFP, such funds shall be accounted for separately in the capital reserve fund and must be appropriated as revenue for such purposes in the annual budget certified for taxes. No additional funds shall be deposited into the Capital Reserve Account pursuant to A. above for such pre-July 18, 2000 purposes.
  3. If the original purpose is within the scope of the district's approved LRFP, withdrawals shall be made pursuant to C. above except that if voter approval of excess costs or an other capital project was obtained when the funds were deposited into the Capital Reserve Account, such approval shall satisfy the requirement for approval of excess costs or other capital projects in C.1.b. above.

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