

- Activity 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, it is practical to do so, given the requirements for recording interest.
- Interest earned on the money as it is spent down is an increase in the capital reserve asset account.

The Capital Reserve account is reported in the *Balance Sheet* (Exhibit B-1) of the governmental funds statements as both an asset (Capital Reserve Account) and Reserved Fund Balance - Capital Reserve Account. In the district-wide *Statement of Net Assets* (Exhibit A-1) the balance of this account is reported in the net assets section as “Restricted for Other Purposes” in the governmental activities column.

*Auditor’s Note* – The June 30, 2006 Balance Sheet should reflect the actual balance at June 30, 2006 and not increases/withdrawals included in the 2006-07 budget. The department recommends footnote disclosure in the Comprehensive Annual Financial Report.

## Excess Surplus

### Overview

Auditors are required to perform the calculation of excess surplus at June 30th in accordance with *N.J.S.A. 18A:7F-7*, as amended by P.L. 2004, c.73 (S1701), for all regular and county vocational school districts. The audited excess surplus calculation is not applicable to Education Service Commissions (ESCs). Special services school districts are subject to an excess surplus calculation in accordance with *N.J.S.A. 18A:46-31*, as amended. This calculation will be performed by the department during the tuition rate certification process. Do not perform the excess surplus calculation or report excess surplus for a special services school district.

This calculation is required to be documented in the Auditor’s Management Report. P.L. 2004, c.73 (S1701) changed the percentage used for regular non-vocational districts from 6% to 3% at June 30, 2004 and from 3% to 2% at June 30, 2005 and thereafter, and the minimum changed from \$75,000 to \$100,000. The calculation for county vocational districts is still at 6% but the minimum was changed to \$100,000.

*Auditor’s Note* - Abbott school districts should refer to the *Abbott Addendum* for detailed instructions on how to complete the excess surplus calculations.

Excess surplus is a budget related calculation using the general fund expenditures for the fiscal year and fund balance as reported in the *Budgetary Comparison Schedule – General Fund* (Exhibit C-1) for the fiscal year. **There is only one excess surplus calculation using budgetary amounts.** The reserve for excess surplus is included in the recapitulation of fund balance presented at the end of the Exhibit C-1 schedule. These amounts are reported on the modified accrual basis with the exception of a state legally mandated revenue recognition policy that is in conflict with GASB 33. See the example on the last page of this chapter.

Amounts included in the 2006-07 certified budget (reserved fund balance – excess surplus designated for subsequent year’s expenditure) and any additional amounts reserved for appropriation in the 2007-08