SECTION II – SPECIFIC COMPLIANCE
FUND 30 – CAPITAL PROJECTS FUND

Capital Projects Fund – (this section applicable to charter schools and renaissance school projects. Note that school district guidance follows this section.)

Accounting procedures related to capital projects are included in Chapter 11 of the GAAP Technical Systems Manual and the capital project fund accounting guidance issued by the department during October 2001 and posted on the department's website at:
http://www.state.nj.us/education/finance/fp/af/crg/capital.pdf
http://www.state.nj.us/education/finance/fp/af/crg/eda.pdf

No transfer may be made under *N.J.S.A.* 18A:22-8.2 (c) from appropriations or surplus accounts for items classified as general fund except to other items so classified or to the capital projects fund to supplement the proceeds from lease purchase agreements.

Transfers from appropriations or surplus accounts may be made within the general fund. When specifically approved by the Commissioner, charter schools/renaissance school projects may transfer surplus from the general fund to the capital projects fund to supplement the proceeds from a lease purchase agreement upon application to and a formal finding by the Commissioner that the transfer is in the best interests of both the students and the charter school/renaissance school project after consideration of alternative correction actions.

Capital Projects Fund – (The remainder of this section applies only to school districts)

Accounting procedures related to capital projects are included in Chapter 11 of the GAAP Technical Systems Manual and the capital project fund accounting guidance issued by the department during October 2001 and posted on the department's website at:
http://www.state.nj.us/education/finance/fp/af/crg/capital.pdf
http://www.state.nj.us/education/finance/fp/af/crg/eda.pdf

Bond and Note Authorizations

Bonds and notes authorized by the voters (Type II) or the Board of School Estimate (Type I) are reported at the face amount as "Other Financing Sources" in the capital projects fund in the year of issuance/sale (GASBS 37, par. 16). Debt issuance costs paid out of proceeds should be reported as expenditures (GASBS 34, par. 87). Bond debt is reported as a liability on the district-wide *Statement of Net Position.*

Bond Anticipation Notes

Funds received from the sale of bond anticipation notes (BANs) are not considered "Other Financing Sources" but are reported as a liability in the capital projects funds. Refer to Chapter 13 of the *GAAP Technical Systems Manual* for further guidance on BANs.

General Borrowing Authority

The following discussion of statutory authority for boards of education to borrow funds is not intended to be comprehensive, but to provide district personnel and auditors an overview of statutes and regulations relating to borrowing authority for districts. A district board of education should consult with the board solicitor for interpretation of the law given the particular district's circumstances. Also refer to the Local

Bond Law (*N.J.S.A.* 40A:2-1 et seq.) for further guidance when approvals by the Local Finance Board are required. District boards of education do not have statutory authority to borrow in anticipation of Schools Development Authority (SDA) grants, nor to borrow from banks or other lending agencies to finance acquisitions beyond those areas listed below. Regional school districts should refer also to *N.J.S.A.* 18A:13-26 et seq.

N.J.S.A. 18A:20-4.2. Powers of boards concerning real property [Lease Purchase Agreements]

- (f) The board of education may acquire with approval of the Commissioner, the voters or board of school estimate as applicable, improvements or additions to school buildings through lease purchase agreements not in excess of five years. A district may, without separate approval, also acquire equipment through a lease purchase agreement not in excess of five years, or in the case of an agreement entered into for the acquisition of school buses not in excess of 10 years, provided that the amount of each installment payment is included in the budget submitted to the voters or board of school estimate, as appropriate. Lease purchase agreement refers to any agreement which gives the board of education as lessee the option of purchasing the leased equipment or improvements or additions to existing school buildings during or upon termination of the lease, with credit toward the purchase price of all or part of rental payments which have been made by the board of education in accordance with the lease.

- (h) The board of education may acquire through sale and lease-back of textbooks and non-consumable instructional materials provided that the sale price and principal amount of the lease-back do not exceed the fair market value of the textbooks and instructional materials and that the interest rate applied in the lease-back is consistent with prevailing market rates or is less.

N.J.A.C. 6A:26-10.1 et seq. Lease Purchase Agreements

- Provides additional regulation on use, approval, contents of agreements of five years or less and of ground leases, procedures for refinance or defeasance of lease purchase agreements.

N.J.S.A. 18A:22-25 (Type I) or *N.J.S.A.*18A:22-44.1 (Type II). Borrowing against appropriation on notes

- The board of education may borrow after July 1 and before January 1 a sum not exceeding one half of the amount appropriated for the current expenses of the schools, repair and maintenance of a school facility (capital outlay) [Tax Anticipation Notes].

N.J.S.A. 18A:22-42. Borrowing upon notes in anticipation of taxes (Type II)

- Boards of education may borrow in anticipation of taxes to be raised, levied and collected for budgeted expenditures, the amount authorized, notes maturing not later than December 31 of the year in which such taxes shall be raised.

N.J.S.A. 18A:22-44.2 Borrowing when state school aid payments not made until subsequent school budget year

District boards of education have the ability to enter into short term loans with the bank of their choice, if needed, due to the delay in the June State school aid payments. All borrowing under this legislation requires Commissioner approval and will be granted upon written application and demonstration of need by the board of education.

N.J.S.A. 18A:24-1 et seq. Loans, Bonds and Other Obligations

- Provides authorization in general for school district bonds and temporary notes and prescribes maturities, methods of payment, limitations, requirements of form and execution of bonds, sale and use of proceeds, and requirements when refunding.

N.J.S.A. 18A:24-2. Borrowing on tuition due from another district

- Districts may borrow an amount not exceeding 80 percent of the amount due for tuition from another school district.

N.J.S.A. 18A:24-3. Borrowing in anticipation of issuance of bonds [BANs]

- By board resolution, a district which has been authorized to issue bonds may authorize the issuance of temporary notes or loan bonds as money is required for the projects for which the permanent bonds are authorized.

N.J.S.A. 18A:24-5. Purposes and maturities for which bonds may be issued

- Provides for the various maturities of bonds depending on the particular purpose with the maximum being 40 years.

N.J.S.A. 18A:24-61.1 et seq. Funding or refunding bonds at or prior to maturity

- Bonds issued by a district may be funded or refunded prior to maturity. Although there is no minimum period of time for the maturity schedule, *N.J.S.A.* 18A:24-61.8 establishes the maximum period of 40 years. The amount of refunding bonds is determined by the governing body of the municipality, county or board of education, as applicable, and unless meeting the requirements of N.J.A.C. 5:30-2.5 must be approved by the Local Finance Board. The Local Finance Board in virtually all cases requires that the final maturity date of any refunding bond issue not exceed the final maturity date of the bonds being refunded. Effective June 4, 2012, N.J.A.C. 5:30-2.5 permits a school district meeting all of the conditions therein specified to authorize and issue refunding bonds to refund long term debt without prior approval of the Local Finance Board, where the issuance of those refunding bonds realizes debt service savings on the outstanding obligations.

N.J.S.A. 18A:24-61.2. Refunding bond exclusions from net school debt

- Refunding bonds may be authorized and issued for the purpose of refunding the cost of retiring the present value of the unfunded accrued liability due and owing for early retirement incentive benefits granted by the board of education pursuant to P.L.1991, c.231 and P.L.1993, c.163.

- The cost or expense of issuing refunding bonds including printing, advertising, accounting, and financial, legal or other expense in connection therewith may be added to the issue.

- The issuance must be preceded by a "refunding bond ordinance" adopted by the board of education of the school district.

N.J.S.A. 18A:20-4.2, (*N.J.S.A.* 18A:7G-1 et al.) Acquisition, improvement, lease, etc. of property for school purposes; authority of board of education

- Financing a capital project may be by issuance of certificates of participation for a lease purchase agreement greater than five years only if approved by the Commissioner of Education and the Local Finance Board in the Divisions of Community Affairs prior to EFCFA (July 18, 2000).

N.J.S.A. 18A:18A-4.6 (c)

- Implementation of energy savings improvement program (ESIP) by a board of education permits the financing of an (ESIP) through the issuance of energy savings obligations. Energy savings obligations may be funded through appropriations for utility services in the annual budget of the board and may be issued as refunding bonds pursuant to N.J.S.A 18A:24-61.1 et seq. Obligations may also include the issuance of bond anticipation notes. All such bonds and notes must mature within the periods authorized for such energy savings obligations. Energy savings obligations may be issued either through the board of education or another public agency authorized to undertake financing on behalf of the board. Energy savings obligations may be funded through appropriations for utility services in the annual budget of the board. The Division of Local Government Services issued LFN 2009-11, *Implementing an Energy Savings Improvement Program P.L. 2009, c.4*, which contains guidance for debt issuance and is available at:
  http://www.nj.gov/dca/divisions/dlgs/resources/local_fin_notices.html

There are dedicated budget and accounting lines for payments against energy savings improvement program appropriations/contracts:

- Line 17000, account number 11-000-262-444, “Lease Purchase Payments - Energy Savings Improvement Program”
- Line 17010, account number 11-000-262-837, “Interest - Energy Savings Improvement Program Bonds”

Bond Sales and Capital Projects Fund Activities

All proceeds related to the sale of bonds are recorded in the capital projects fund. The board cannot use a premium in excess of the bond authorization or the accrued interest for capital purposes since the board is limited by the amount voted or certified. Receipts from premiums in excess of the authorization are transferred to the general fund or debt service fund. Receipts from accrued interest are transferred to the debt service fund.

Because of statutory limitations, interest earned on the investment of unexpended cash balances in the capital projects fund must be transferred by board of education resolution to either the debt service fund or the general fund at the discretion of the board of education. Interest earned cannot be used for the referendum project(s) unless expressly authorized, with the amount, in the referendum (*N.J.A.C.* 6A:26-4.2(e). Any amounts not transferred at June 30 must be recorded as an interfund receivable/payable. Other important issues related to the general fiscal administration of the capital projects fund are discussed in Policy Bulletin 200-13 dated October 1996. Guidance is also found in *N.J.A.C.* 6A:26-4. The proper accounting procedures related to capital projects are included in Chapter 11 of the *GAAP Technical Systems Manual*.

Capital Project Approval under Educational Facilities Construction Financing Act (EFCFA)

Under EFCFA, effective July 18, 2000, districts may not advance a school facilities project for which it is seeking state support or another capital project (as defined in *N.J.A.C.* 6A:26-1.1), until the school district has an approved LRFP and has received specific project approval of the school facilities or other capital project. Only school facilities projects approved as an emergent school facilities project under *N.J.A.C.* 6A:26-3.16 may proceed without an approved LRFP. Districts which have begun a school facilities project or other capital project after the passage of EFCFA, should have available for auditors a copy of the DOE final determination letter (approval of the LRFP) and a copy of the school facilities or other capital project approval letter. *N.J.A.C.* 6A:26-4.8, permits districts to advertise for bids before the school facilities project or other capital project has received approval from the department, but may still not award contracts until approvals are final.

Districts not required to use school-based budgeting must obtain voter approval or board of school estimate approval for the local amount of the capital project (pursuant to *N.J.A.C.* 6A:26-3.7 and 3.12) or use capital reserve pursuant to *N.J.A.C.* 6A:23A-14.1 and *N.J.S.A.* 18A:7F-41. Districts may transfer funds by board resolution to the line items in the capital outlay fund to fund an "other" capital project which would otherwise be eligible for State support. Districts need to request a determination by the Facilities Office of whether the project is eligible when requesting approval of a project in their LRFP, if they intend to withdraw from capital reserve without voter approval.

Pursuant to *N.J.A.C.* 6A:26-3.7(e) and (g), the bond referendum (or board resolution for Type I or Type II districts having a board of school estimate) must identify the final eligible costs of the project, as determined by the Commissioner of Education, the total costs, state share or state debt service percentage, the local share and the amounts that are in addition to the facilities efficiency standards. If the district is using a combination of school bonds and other financing sources, the referendum question must also include the portion of the local support to be raised through other revenue sources, listing separately each source and the amount from that source. This includes capital reserve, interest earned on bond proceeds as well as gifts, grants, private sources and/or municipal surplus.

Unexpended Bond Proceeds

A capital project is considered completed for the purposes of determining unexpended bond proceeds when the project has received its certificate of completion from the contractor; all retainage has been liquidated; and a permanent certificate of occupancy has been received, if applicable (*N.J.A.C.* 6A:26-4.6(a)).

Pre-EFCFA

Any proceeds of school bonds issued by the district for a school facilities project prior to the effective date of EFCFA, and that received no funding under EFCFA except for retroactive funding received pursuant to *N.J.A.C.* 6A:26-13.1(b), or issued by the district for another capital project (as defined under *N.J.A.C.* 6A:26-1.2), which remain unspent upon completion of the capital project, shall be disposed of by the district in accordance with *N.J.S.A.* 18A:24-47 et seq.

1. Unexpended balances may remain in the capital projects fund for six years after the time of issuance or sale of bonds.
2. Within six years of issuance or sale, if a new purpose(s) for the unexpended balances is determined, the board of school estimate, capital projects review board, or voters may approve the change in purpose by resolution or ballot question. The resolution or ballot question for the new purpose shall receive Commissioner approval if the bonds mature beyond the period prescribed for the new purpose(s) by *N.J.S.A.* 18A:24-5.
3. If no new purpose for the unexpended balances is determined within the six years from issuance or sale, the board of education may transfer the funds to either the general fund or debt service fund by board resolution. To meet the criteria for no new purpose, the district's budgeted appropriations and actual expenditures for the year of the transfer may not reflect capital outlay spending.
4. After six years of issuance or sale, unexpended balances must be transferred to either the general fund or the debt service fund by board resolution.

EFCFA

1. Pursuant to *N.J.A.C.* 6A:26-4.6(c), any proceeds of school bonds (or other revenue sources transferred to the capital projects fund pursuant to *N.J.A.C.* 6A:26-4.1) issued by the district for the purpose of funding a non-SDA constructed school facilities project after the enactment of EFCFA which remain unspent upon completion of the school facilities project (and/or other capital project whose funding was authorized by bonds) shall be used by the district to reduce the outstanding principal amount at the earliest call date or annually reduce the debt service principal payments.

2. If the unexpended proceeds are used to annually make debt service principal payments, the proceeds must remain in the capital projects fund and be appropriated in each subsequent year's budget certified for taxes to reduce the debt service principal payment in full each year until the proceeds are exhausted.

Unexpended Project Funds - Other Funding Sources

1. Upon completion by the SDA of a school facilities project, any local share required to be returned to the district pursuant to *N.J.S.A.* 18A:7G-5(p) and *N.J.A.C.* 6A:26-3.7(h), shall be used by the district to reduce the outstanding principal amount of any school bonds issued by the district for said local share. The principal amount shall be reduced at the earliest call date or annually through the reduction of the debt service principal payments in accordance with *N.J.A.C.* 6A:26-4.6(c).
2. If school bonds were not issued for said local share or the principal amount has been fully repaid, the local share returned shall be recorded as revenue in the district's general fund.
3. Any unexpended transferred capital outlay and/or capital reserve funds remaining after completion of the school facilities project must be returned to the capital reserve account or anticipated as part of the designated general fund balance of the subsequent school year's budget or reserved and designated in the second subsequent year's budget. Refer to Section II-10.16 for further discussion.

Schools Development Authority (SDA) Grants under EFCFA

All grants received from the SDA pursuant to *N.J.S.A.* 18A:7G-15 for the state share of approved school facilities projects, except for grants received for retroactive funding under *N.J.A.C.* 6A:26-13.1(c) for completed projects that did not issue short term notes, are recorded by project in the capital projects fund along with the corresponding local share. Pursuant to *N.J.A.C.* 6A:26-3.8(a)(3) and 6A:26-9.1(g), local share budgeted in capital outlay or withdrawn from capital reserve must be transferred to the capital projects fund upon execution of the grant agreement with SDA. Local share may <u>not</u> be transferred prior to execution of the grant agreement. Districts may award contracts only after the SDA grant is signed and executed. Revenue for the state share cannot be recorded until the agreement is signed and executed (*N.J.A.C.* 6A:23A-16.10(c)). The corresponding local share is transferred to the capital projects fund only when the agreement is signed. Auditors may send requests for confirmation of SDA account receivable balances to the district's analyst at SDA.

P.L.2015, c.257, effective January 19, 2016, amended N.J.S.A.18A:7F to provide the Commissioner with the authority, in consultation with the New Jersey Schools Development Authority, to approve the capital outlay budget of SDA districts to include the construction of capital project(s). Prior to the effective date above, school facilities projects included in the annual capital outlay budget of an SDA district is subject to a $500,000 per project maximum. The Commissioner's approval may also contain specific conditions including, but not limited to, a requirement that the district follow the design requirements and materials and system standards established by the development authority.

<u>General Rules for SDA Grant Recording:</u>

The department published accounting guidance for capital reserve that was distributed to districts and copied to the public school accountants on October 19, 2001. The passage of P.L. 2004, c.73 (S1701) supersedes that guidance by eliminating the previous EFCFA authority for districts to make transfers to capital reserve at any time during the year. District staff and auditors should refer to the regulations, *N.J.A.C.* 6A:23A-14.1. Refer to Section II-10 for highlights of the accounting guidance that are still applicable.

Generally Accepted Accounting Principles require that capital grants or shared revenues restricted for capital acquisitions or construction (other than those associated with enterprise and internal service funds) be accounted for in a capital projects fund (Fund 30). SDA grants are capital grants. The following is a summary of procedures to be followed for SDA Grants.

1. If a non-referendum project receives an SDA grant, per regulations, the grant must be accounted for in Fund 30 and the transfer of local funding sources (capital reserve, capital outlay) to Fund 30 should occur upon execution of grant agreement. (*N.J.A.C.* 6A:26-4.3(a) and (b)).

2. If the capital project is approved via referendum question, upon voter approval of the referendum, which should have included all other local funding sources (e.g. capital reserve, surplus), any local sources identified in the question should be transferred to Fund 30. Upon issuance of the bonds, bond proceeds must be recorded, along with the local funding sources, and SDA grant in Fund 30. (*N.J.A.C.* 6A:26-4.1(d)).

Over-expenditures

A number of situations have been reported to the department where local school districts over-expended a capital projects fund authorization and in some cases used unauthorized methods to fund the overexpenditure. In managing capital projects, the Business Administrator must certify the availability of funds before the board can award contracts and/or a change order on a capital project that increases the cost of the project. (*N.J.A.C.* 6A:26-4.9(a)(3)). In no instance can approval of change orders increase the cost of the project above the bond referendum approved amount.

Overexpending a capital project authorization has serious consequences. Under the New Jersey Code of Criminal Justice, it is a crime for a public official or employee to knowingly disburse, order, or vote for the disbursement of moneys or incur obligations in excess of appropriations or <u>an amount limited by law</u> (See *N.J.A.C.* 6A:26-4.5 and Division of Finance Policy Bulletin 200-11 issued July 1991). The department will notify the Office of the Inspector General and may notify the Director, Division of Criminal Justice if an over-expenditure/deficit is detected in a capital project. A district over-expending the capital projects fund may also be subject to a reduction in its state aid and other actions pursuant to *N.J.A.C.* 6A:23A-16.10 and *N.J.A.C.* 6A:26-14.1 et seq. if applicable.

In the event that local school districts over-expended capital projects funds or otherwise violated the procedures described by *N.J.A.C.* 6A:23A-16.10 and Division of Finance Policy Bulletin 200-13 issued October 1992, auditors must include appropriate comments and recommendations and the amount in the Auditor's Management Report.

Rebatable Arbitrage

The interest paid on debt issued for public purposes by school districts is not generally subject to federal taxation. Accordingly, purchasers of securities are prepared to accept a lower rate of interest on tax-exempt debt than they would on taxable debt of similar quality and duration. "Arbitrage" occurs when a school district profits from this spread in interest rates by investing funds borrowed at the lower tax-exempt rate of interest in higher yielding, taxable securities.

There are certain exceptions that allow arbitrage earnings and they are defined in the IRS Code Sec. 148. A school district may not be required to remit arbitrage rebate payments until several years into the future, but it still must recognize a liability for rebatable arbitrage as soon as it is both probable and measurable that a liability has been incurred. In calculating the amount of the liability, it should be noted that "excess" earnings of one year may be offset totally or in part by lesser earnings in a subsequent year. Therefore, the liability recognized for the year should be only that portion of the estimated future payment that is attributable to earnings of the current period. Typically, arbitrage rebate payments must be made to the federal government every five years and within 60 days of final maturity.

Guidance issued in the GFOA "Blue Book" – GASBS 34 Edition (p. 66) states that "Rebatable arbitrage should not be treated as a reduction of investment revenues in governmental funds: it should instead be treated in the same way as any other claim or judgment."

> *Auditor's Note* – At the close of construction, both the liability for rebatable arbitrage and related assets typically are removed from the capital projects fund and reported instead in the debt service fund.

Secondary Market Disclosures

All school districts should consult with their bond counsel to determine the information disclosures required in accordance with Securities and Exchange Rules, as well as the filing due date and the municipal and state information repository addresses.

Lease Purchase Agreements

Background:
Under EFCFA effective July 18, 2000, districts were no longer enter into lease purchase agreements of more than five years duration for the acquisition of a site and building; the acquisition of a site for the construction of new school facilities; or to make additions, alterations renovations and improvements to existing buildings. Lease purchase agreements in excess of five years duration entered into prior to July 18, 2000 were permitted to continue in effect through the term of the agreement (*N.J.A.C.* 6A:26-10.8). Districts may reference the 2001-02 Audit Program for specific details relating to pre-EFCFA lease purchase agreements (greater than five years) involving certificates of participation (COPS), such as accounting, disclosure requirements, and advance refunding of the agreements.

Current:
Under EFCFA, a district may acquire improvements or additions to school facilities through lease purchase agreements of five years or less provided that the lease-purchase agreement provides for the funding in full to the district upon commencement of construction of the school facilities project. A district may utilize a lease purchase agreement of five years or less to fund the local support of a school facilities project. The Commissioner will only approve a lease purchase of five years or less which does not include excess costs as defined under *N.J.A.C.* 6A:26-1.1. A lease-purchase agreement of five years or less for improvements or additions to school facilities project that includes excess costs or to another capital project must be approved by the voters, board of school estimate, or capital project review board. Under EFCFA, a district may also acquire equipment through a lease-purchase of five years or less but such acquisition does not require Commissioner or voter approval. Lease-purchase agreement payments for five years or less are to be recorded as an expenditure of the general fund. Districts and auditors should reference *N.J.A.C.* 6A:26-10.1 et seq. for lease-purchase agreements or approval procedures to refinance a lease-purchase agreement.

> Accounting and Reporting Requirements: The Codification Section L20.103 states that "subject to the accounting and financial reporting distinctions of governmental funds, the criteria of FASB Statement No. 13, *Accounting for Leases*, as amended and interpreted, should be the guidelines for accounting and financial reporting for lease agreements...".

N.J.S.A. 18A:18A-4.6 et seq. permits the financing of an energy savings improvement program (ESIP) through a lease-purchase agreement the duration of which may not exceed 15 years, except that the duration of a lease purchase agreement for a combined heat and power or cogeneration project shall not exceed 20 years. Ownership of the energy savings equipment or improved facilities shall pass to the board of education when all lease payments have been made.

Financial Reporting

Auditors are advised to review the status of each project reported in the capital projects fund. Projects that are complete (e.g. certificates of occupancy have been issued; contractor's retainage has been paid, etc.) must be closed out and removed from the capital projects fund balance. Refer to the appropriate regulations and to the guidance on pages II-10.29, and II-30.5 of this Audit Program for statutory and regulatory reference for the available transfer options for unexpended bond proceeds (*N.J.A.C.* 6A:26-4.6(c); unexpended transfers from capital reserve (*N.J.A.C.* 1A:23A-14.1(j)3); and unexpended transfers from capital outlay (*N.J.A.C*. 6A:23A-14.1(h)5).

The year-end financial reporting for capital projects included in the CAFR as Other Supplementary Information (Exhibit F-1 and Exhibit F-2 series) shows a summary by projects (F-1) and each project on a separate schedule (F-2 series) and a summary with line item detail (F-2). Districts should have adequate detail records to prepare these schedules. *N.J.A.C.* 6A:26-3.8(a)(3) requires that all grants and the corresponding local share are to be accounted for separately by project in the capital projects fund in accordance with *N.J.A.C.* 6A:26-4.1. Appendix A of the *NJ Uniform Minimum Chart of Accounts* provides that for the capital projects fund (Fund 30), the program and function codes are the same as in capital outlay (fund 12) of the general fund. Projects using only capital outlay (general fund) are not reported in the capital projects fund.

The F-1 schedule summarizes each project by total expenditures (prior and current year separately) and unexpended balance and does not show the functional classification of expenditures as in the F-2 series. This schedule should agree to the GAAP capital fund balance in the governmental funds statement (B-2).

The detail Schedules of Project Revenues, Expenditures, and Project Balance (F-2 series) include for each project managed by the district, the (current and prior cumulative) sources of funds, line item expenditures, and a column for authorized cost. Additional project information includes the initial date of the grant agreement (if applicable), bond information and percent completion. Sample schedules are on the NJDOE website http:www.nj.gov/njded/finance/fp/cafr/. These were prepared recognizing the SDA grant revenue in full in the year the grant agreement was signed, to illustrate the full amount of funds available for the project. Under GAAP, for an "expenditure driven" or "reimbursement-type" grant revenue is not recognized until the recipient has met the provider's requirements by incurring costs in accordance with the provider's program. These schedules are intended to provide the reader with information about the status of each project by reporting the full amount of funds authorized.

The Summary F-2 Schedule represents the combined revenue sources and expenditures from the F-2 detail schedules, and the total capital projects balance. The F-2 Summary Schedule supports the information entered into AUDSUM for the capital projects fund **and should include the full amount of any SDA grant revenue**. Presentation of a reconciliation of the projects' balance to GAAP capital project fund balance is optional. Generally, only the SDA grant revenue will be a reconciling item.

Additional items related to the F-2 schedules include:

- If the grant was reduced after being recorded in full (e.g., the project was completed for lower cost), the reversal of an SDA receivable will be shown as negative revenue.

- Transfers of local share within referendum projects permitted pursuant to *N.J.A.C.* 6A:26-4.2(b) are reported on the bond proceeds and transfers line (Revenue and Other Financing Sources).

- Encumbrances are not included in expenditures in this schedule.

- Transfers to the debt service fund upon completion of a project should be reported under the Expenditures and Other Financing Uses section.

- Transfers back to the general fund of unexpended local share originally budgeted in capital outlay should be reported under the Expenditures and other Financing Uses section.

- Percentage completion may be as of the most recent architect's certification prior to the June 30 year end. Note the date if not June 30.

- Interest earnings, if not specifically stated in the referendum as a funding source, is not included in the detail schedules, but should be included in the summary schedule.

F-2

Anytown School District
Capital Projects Fund
Summary Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budgetary Basis
For the Year Ended June 30, 2016

Revenues and Other Financing Sources		
State Sources – SDA Grant	$	2,625,000
Bond proceeds and transfers		3,250,000
Contribution from private source		-
Transfer from capital reserve		337,500
Transfer from capital outlay		437,500
Total revenues		6,650,000
Expenditures and Other Financing Uses		
Purchased professional and technical services		94,251
Land and Improvements		-
Construction services		5,728,749
Equipment purchases		-
Total expenditures		5,823,000
Excess (deficiency) of revenues over (under) expenditures		827,000
Fund balance – beginning		37,500
Fund balance – ending	$	864,500

F-2a

Anytown School District
Capital Projects Fund
Schedule of Project Revenues, Expenditures, Project Balance, and Project Status – Budgetary Basis
Addition to Elementary School
From Inception and for the Year Ended June 30, 2016

	Prior Periods	Current Year	Totals	Revised Authorized Cost
Revenues and Other Financing Sources				
State sources – SDA Grant	$ -	$ 2,625,000	$ 2,625,000	$ 2,625,000
Bond proceeds and transfers	-	3,250,000	3,250,000	3,250,000
Contribution from private sources	-	-	-	-
Transfer from capital reserve	-	337,500	337,500	337,500
Transfer from capital outlay	-	437,500	437,500	437,500
Total revenues	-	6,650,000	6,650,000	6,650,000
Expenditures and Other Financing Uses				
Purchased professional and technical services	-	89,141	89,141	89,141
Land and improvements	-	-	-	-
Construction services	-	5,696,359	5,696,359	6,560,859
Equipment purchases	-	-	-	-
Total expenditures	-	5,785,500	5,785,500	6,650,000
Excess (deficiency) or revenues over (under) expenditures	$ -	$ 864,500	$ 864,500	$ -

Additional project information:

Project Number	011-05-0468
Grant Date/Letter of Notification	7/15/2007
Bond Authorization (Referendum) Date	3/1/2007
Bonds Authorized	$3,250,000
Bonds Issued	$3,250,000
Original Authorized Cost	$6,250,000
Additional Authorized Cost	$ 400,000
Revised Authorized Cost	$6,650,000
Percentage Increase over Original Authorized Cost	6.40%
Percentage completion	89%
Original target completion date	Jan-12
Revised target completion date	Aug-16

F-2b

Anytown School District
Capital Projects Fund
Schedule of Project Revenues, Expenditures, Project Balance, and Project Status – Budgetary Basis
Rehabilitation & Upgrade of Elementary School
From Inception and for the Year Ended June 30, 2016

	Prior Periods	Current Year	Totals	Revised Authorized Cost
Revenues and Other Financing Sources				
State sources – SDA Grant	$ 175,000	$ -	$ 175,000	$ 175,000
Bond proceeds and transfers	-	-	-	-
Contribution from private sources	100,000	-	100,000	100,000
Transfer from capital reserve	-	-	-	-
Transfer from capital outlay	162,500	-	162,500	162,500
Total revenues	437,500	-	437,500	437,500
Expenditures and Other Financing Uses				
Purchased professional and technical services	21,900	5,110	27,010	27,010
Land and improvements	-	-	-	-
Construction services	378,100	32,390	410,490	410,490
Equipment purchases	-	-	-	-
Total expenditures	$ 400,000	$ 37,500	$ 437,500	$ 437,500
Excess (deficiency) or revenues over (under) expenditures	37,500	(37,500)	-	-

Additional project information:

Project Number	010-04-0231
Grant Date/Letter of Notification	07/02/2007
Bond Authorization (Referendum) Date	NA
Bonds Authorized	NA
Bonds Issued	NA
Original Authorized Cost	$437,500
Additional Authorized Cost	$0
Revised Authorized Cost	$437,500
Percentage Increase over Original Authorized Cost	0.00%
Percentage completion	100%
Original target completion date	Sep-10
Revised target completion date	Jul-16

SECTION II – SPECIFIC COMPLIANCE
FUND 40 DEBT SERVICE FUND
[THIS SECTION DOES NOT APPLY TO CHARTER SCHOOLS or RENAISSANCE SCHOOL PROJECTS]

District Taxes

District taxes must be recorded in the fund for which they were voted (Type II) or were certified by the Board of School Estimate (Type I). Debt Service requirements in Type II districts are certified directly by the secretary. In Type I districts the school debt service is part of the municipal budget and not reflected in the Type I school district's CAFR. Additional amounts certified to the county board of taxation after the issuance of tax bills by the municipality will be shown as an adjustment on the district's subsequent year's certificate and report of school taxes. These adjustments are generally the result of additional certifications for unanticipated debt service expenditures and should be reported as revenue via the accrual of a tax levy receivable.

The auditor should comment on any uncollected taxes as of June 30 (other than the special accruals referred to above), and make a recommendation that the board of education request the remittance of the balance from the municipality.

SDA Assessment

For the 2015-16 school year debt service costs on School Development Authority (SDA) funding were assessed to districts. The amount of the assessment for each district was included in the 2015-16 state aid printouts released during the budget cycle. These costs will be paid by withholding from the district's state aid payments. The districts were instructed to record this amount as an expense in their 2015-16 budget on line 76210 account 12-000-400-896, entitled "Assessment for Debt Service on SDA Funding."

Debt Service Aid

Districts were notified of debt service state aid for the 2015-16 budget in February 2015 and provided with the state aid printouts DS 9 and DS 10.

The entry to establish the accounts receivable and recognize the deferred revenue for an increase in Type II debt service aid is shown below. No entry is required to revise the debt service budget since all debt service revenue changes are deferred until 2015-16.

Debt Service Fund
Dr. Intergovernmental Accounts Receivable – State (A/C 40-141)
    Cr. Deferred Revenues (A/C 40-481)

Reporting

N.J.S.A. 18A:7-F-8 requires that districts file an annual report regarding facilities payments to the Commissioner. The report shall include the amount of interest bearing school debt, if any, of the municipality or district then remaining unpaid, together with the rate of interest payable thereon, the date or dates on which the bonds or other evidences of indebtedness were issued, and the date or dates upon which they fall due. In the case of a Type I school district, the board secretary shall secure the schedule of outstanding obligations from the clerk of the municipality.

Transfers

In accordance with *N.J.S.A.* 18A:22-8.2, no transfer may be made under this section from appropriations or surplus accounts for interest and debt redemption charges or items classified as general fund expenses except to other items so classified, or to the capital projects fund to supplement the proceeds from a bond authorization or lease purchase agreement upon application to and a formal finding by the Commissioner that the transfer is in the best interests of both the students and taxpayers of the district.

N.J.S.A. 18A:7G-31(c) authorizes a district board of education, by board resolution, to transfer capital reserve funds to the debt service fund for the purpose of offsetting principal and interest payments for bonded projects which are included in the district's long-range facilities plan.

N.J.S.A. 18A:7F-41c(2) gives districts the authority to establish a debt service reserve account in the debt service fund for proceeds from the sale of district property. Districts and auditors should refer to *N.J.A.C.* 6A:23A-14.4(a)2 for further clarification on this reserve.

Rebatable Arbitrage

Refer to Section II-30 for guidance on reporting rebatable arbitrage.

SECTION II – SPECIFIC COMPLIANCE
FUND 50 - PERMANENT FUNDS (This Section is Applicable to School Districts, Charter Schools, and Renaissance School Projects)

The permanent fund is used to report resources that are legally restricted so that only the earnings they generate, and not the resources themselves, may be used to support the district's/charter school's/renaissance school project's programs.

Examples of resources accounted for and reported in a permanent fund include:

- The district/charter school/renaissance school project has received a large bequest from the estate of a wealthy benefactor. The corpus of the donation cannot be spent, but instead is required to be invested to provide earnings that are restricted for a special use identified by the benefactor, e.g., maintenance of the libraries.

- A local resident has donated investments with the stipulation that only the earnings of the investments may be used to purchase musical instruments for the schools.

A permanent fund does not include private-purpose trust funds, which are used to report situations in which the district/charter school/renaissance school project is required to use the principal or earnings for the benefit of those outside the district/charter school/renaissance school project (individuals, private organizations, or other governments), not for district/charter school/renaissance school project purposes. See Section II-80 for treatment of trust funds in the fiduciary fund section of the financial statements.

GASB Statement No. 54 requires that permanent fund principal be reported in the nonspendable fund balance category and additional accumulated balances in the restricted fund balance category.

THIS PAGE INTENTIONALLY LEFT BLANK