

Auditor's Note – No appropriation of surplus after June 30, 2011 is to be reflected in the June 30, 2011 balance sheet as designated for subsequent year's expenditures. The department recommends footnote disclosure in the CAFR.

Under GASB No. 54, the reserved fund balance classification is further categorized as restricted, committed or assigned fund balance. Restricted fund balance will generally include amounts constrained for a specific purpose by external parties, constitutional provision, or enabling legislation, such as state or other government imposed fund balance restrictions. All other legal reserves/restrictions require departmental review and approval. The request for approval should state the amount, source, purpose and legal basis for the reserve/restriction (i.e., why the funds are not available for appropriation in the subsequent year) and the fiscal year in which it will be appropriated. School districts should submit requests to the Assistant Commissioner of Finance no later than September 30 if approval is required for the audit period under review.

Fund Balance Classifications – Reserved. Reserved fund balance is further categorized as “Restricted”, “Committed”, and/or “Assigned” on the *General Fund Budgetary Comparison Schedule, C-1*, and *Governmental Funds Balance Sheet (B-1)*

- The **reserve for encumbrances** is maintained in the district's general ledger and represents that amount of fund balance related to orders issued in the current year that will be honored in the subsequent year. In general, for other than construction projects, that liquidation must be made within 60 to 90 days of year-end to be a valid reserve at June 30. This should not include accounts payable, since those orders were charged as expenditures in the current year and should be included in the balance sheet as a liability. Separate lines are provided in the Audsum diskette for the reserve for encumbrances at June 30 for the general fund and capital projects fund. The department issued a Hotline on September 16, 2003 providing additional guidance on auditor reviews of encumbrances. Districts should not be encumbering goods and services that relate to the subsequent year. The Hotline is available on the department's website at: <http://www.state.nj.us/education/finance/fp/af/hotline.pdf>
- The reserve for encumbrances is not separately presented on the *Governmental Funds Balance Sheet* (Exhibit B-1). GASBS 54 provides that encumbrances are not considered to be an additional restriction on the fund balance where those funds are already restricted, committed, or assigned. Amounts encumbered for a specific purpose for which amounts have not been previously restricted, committed, or assigned, should be classified as either committed or assigned. (par. 24).
- On the fund balance recapitulation presented at the end of the *General Fund Budgetary Comparison Schedule* (Exhibit C-1), the reserve for encumbrances should be displayed as “Year-end encumbrances” and further categorized as “Committed” and/or “Assigned” fund balance depending on the nature and degree of restriction(s).
- The **capital reserve account** maintained in the general fund allows a district to accumulate funds for future capital projects. See page II-10.15 of this Audit Program for specific procedures affecting capital reserve accounting. A separate line is provided in the Audsum diskette for this reserve account. GASBS No. 54 requires the further categorization of the capital reserve account balance on the *Governmental Funds Balance Sheet* (Exhibit B-1) as restricted, depending on the nature and degree of restriction(s). The Department recommends reporting the capital reserve under “Restricted” fund balance due to the statutory and regulatory restrictions on withdrawals from capital reserve. The same categorization is applicable to the *General Fund Budgetary Comparison Schedule* (Exhibit C-1)