

Accounting Bulletin #2003-01

Subject: Capital Reserve Funds

Effective Immediately

**Date: ~~June 9, 2003~~
Partial Text Revision April 2011**

This accounting bulletin is to provide clarification on the two types of Capital Reserve Funds available to school entities in Pennsylvania. The *Manual of Accounting and Financial Reporting for Pennsylvania Public Schools* (Manual) addresses Capital Reserve funds in Chapter 4. A Capital Reserve Fund is used to account for expenditures that are capital in nature, and both kinds discussed below require annual disclosure in the General Fund Budget (PDE-2028) submitted to the Department of Education (PDE).

The first type of Capital Reserve Fund is established in 24 PS 6-690 of the school code, and accounts for revenues resulting from the levy of a special tax by the school district. The usage of the money is limited to constructing a school building project that is approved by the PDE. Also, a board resolution detailing the millage, which may not exceed three mills in any one year, and a timeframe for the project is required to establish this type of fund. Furthermore, a 690 Capital Reserve Fund has a life of five years from the date the initial payment was made into the fund. If the intended project does not materialize, the money must go back to the General Fund in equal amounts over five years. Section 1850.1 authorizes Area Vocational Technical Schools to establish a Capital Reserve Fund with the same limitations, with the exception of the special tax levy.

The second type of Capital Reserve Fund available to School Districts is discussed in 53 PS 1432 of the municipal code. This type of fund may consist "(a) of moneys transferred during any fiscal year from appropriations made for any particular purpose which may not be needed" or "(b) of surplus moneys in the treasury of the municipality at the end of the fiscal year." Section 1434 further stipulates specific purposes on the allowable expenditures of these funds. The moneys in this type of fund may be expended "only for capital improvements and for replacement of and additions to public works and improvements, and for deferred maintenance thereof, and for the purchase or the replacement of school buses, and for **no other purpose.**"

The Comptroller's Office highly recommends that LEA personnel use discretion, as well as a consultation with the LEA solicitor, before establishing either of these funds.

Questions regarding this bulletin may be directed to the School Finance staff within the Office of Comptroller Operations at Ra-Schlfm@pa.gov