

**ASBO New York
2019 Financials Management
Accounting and Auditing Workshop
April 29, 2019**

**Fund Balance Management
And
Long Term Planning**

Presented By:

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Considerations in Managing Fund Balance

- ▶ Start projections in February and refine every month thereafter.
- ▶ Unassigned fund balance should be at or below 4% of next year's budget (RPTL 1318).
- ▶ Amount of fund balance appropriated for subsequent years taxes.
- ▶ Long term planning – Reserves.
- ▶ What about next year?

Communication: What to do With Fund Balance Projections?

- ▶ Share and review each month's fund balance projection with your Superintendent.
- ▶ Encourage your Superintendent to share the fund balance projections with your Board of Education.
- ▶ Provide an explanation of the projection.
- ▶ Significant expenses under/over budget.
- ▶ Significant revenues under/over budget.
- ▶ Unanticipated expenses and revenues.

Communication: Concerns about Fund Balance

- ▶ Share your concerns with your Superintendent verbally and in writing.
- ▶ Suggest getting the assistance of your consultants as soon as warning signs arise.
- ▶ Take immediate short-term and long-term steps to address the warning signs.

Strategies for Reducing Excess Fund Balance

- ▶ Establish or fund reserves with Board resolution.
- ▶ Review capital needs for establishing a voter approved capital reserve.
- ▶ Spend appropriations for non-recurring programs or services.
- ▶ Reduce assigned fund balance – appropriated for taxes.
- ▶ Reduce expenditure side of the budget similar to the reduction of assigned fund balance – appropriated for taxes.

Long-Term Planning

- ▶ Develop a reserve plan.
- ▶ Reallocate reserves.
- ▶ Monitor use of reserves – focusing on one time items.
- ▶ Develop a five year budget and reserve plan.

Communication: Present the Reserve Fund Plan in Public Session

- ▶ Have an annual reserve fund plan that is adopted through Board of Education resolution each Spring.
- ▶ Explain the reserve fund plan in a public presentation.
- ▶ Post the plan on your school district website.

References:

State and Financial Service Reserve Fund Chart

https://www.questar.org/wp-content/uploads/2017/08/Reserve_Funds_Chart-1.pdf

SED Reserve Fund Guidance Document

http://www.p12.nysed.gov/mgtserv/accounting/docs/reserve_funds.pdf

Communication: Create a Long Range Plan and Present It

- ▶ Create a long range financial plan using either the OSC

<https://www.osc.state.ny.us/localgov/pubs/lmg/multiyear.pdf>

<http://www.osc.state.ny.us/localgov/academy/modules/myfp/template.htm>

(The OSC can assist pre-populating the long range plan template for your district)

- ▶ Communicate your long range plan in October when your external audit is presented.
- ▶ Incorporate the use of reserves and appropriated fund balance in your long range plan.
- ▶ Update the plan at least annually. Consider updating it at budget adoption and again after closing the books.

Bond Ratings Considerations

Rating companies consider:

- ▶ Local economy.
- ▶ District finances including revenue sources, available fund balance and projected surpluses.
- ▶ District financial management including evidence of planning, Board of Education oversight over financial transactions and performance and Board of Education policies.
- ▶ Debt ratios.

S&P AAA Bond Rating Assigned in September 2018

Credit Profile

US\$49.115 mil sch dist seria;l bnds ser 2018 due 10/01/2035

Long Term Rating AAA/Stable New

Plainview-Old Bethpage Cent Sch Dist sch dist serial bnds

Long Term Rating AAA/Stable Affirmed

The rating reflects our opinion of the district's:

- Affluent local economy with access to jobs throughout the New York City metropolitan statistical area (MSA);
- Very strong finances and budgetary flexibility, coupled with our expectation budgetary performance will likely remain stable;
- Very little dependence on state or federal revenue; and
- Low direct debt on a market value basis.



The AAA bond rating fostered a very competitive bid on \$40.44M worth of bonds. The winning bid saved the district over \$1.3M through the life of the bond when compared to the estimated pre-sale debt service schedules.

S&P Global Ratings

RatingsDirect®

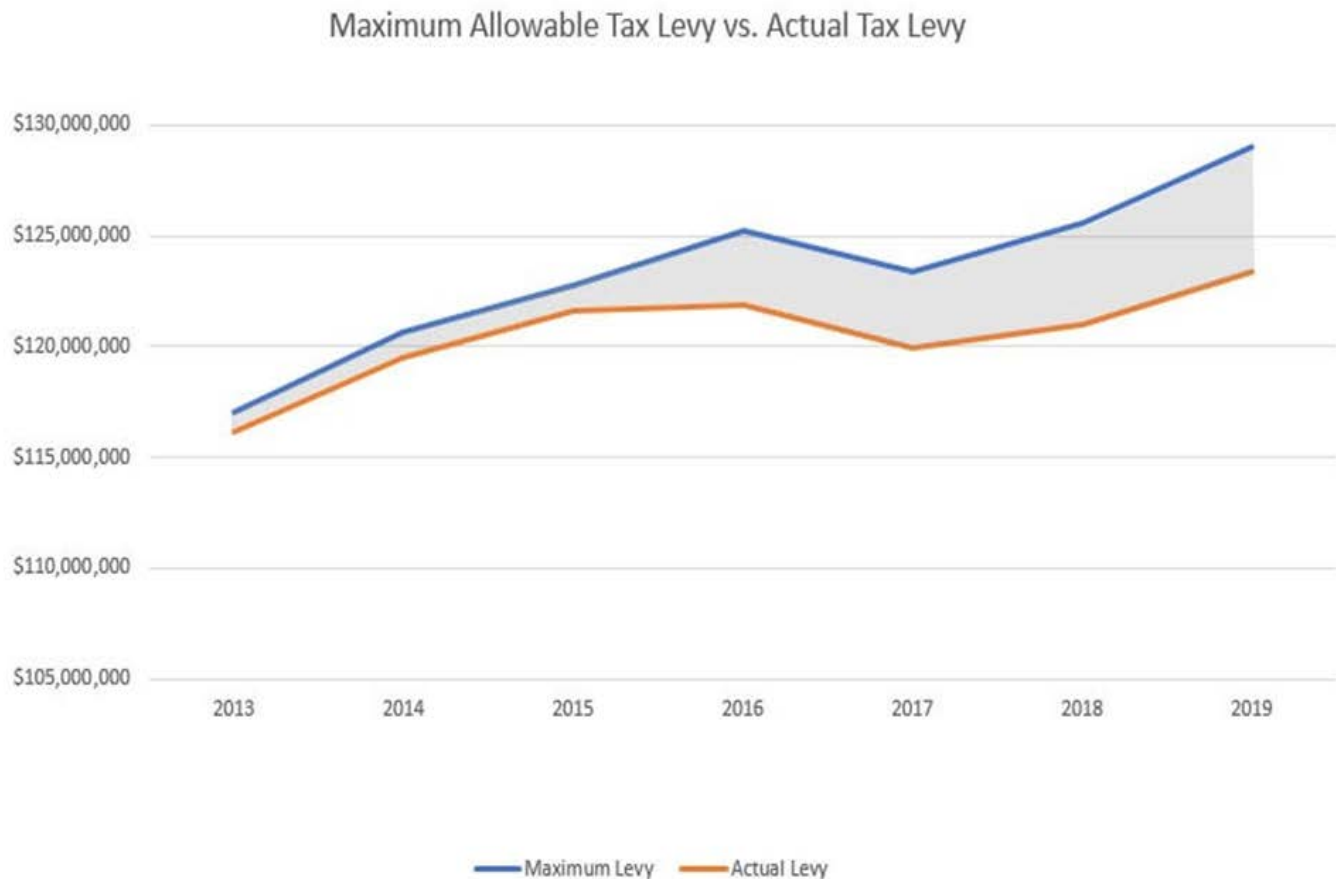
Summary:
Plainview-Old Bethpage Central School District, New York; General Obligation; School State Program

“Unclaimed Revenue”

Does your Board of Education understand the long-term impact of not applying the maximum levy under the cap on an annual basis?

- ▶ How does this impact the Board of Education’s ability to meet staffing goals?
- ▶ How does this dictate contract settlements?
- ▶ How does this effect future reserve planning and utilization?
- ▶ How are these issues discussed with your Superintendent and Board of Education?

Maximum Allowable Tax Levy vs. Actual Tax Levy



Grey area represents a permanent savings to residents of over \$19.98 million in property taxes

General Fund Considerations

- ▶ Did you levy the maximum per your tax levy limit?
- ▶ Are you appropriating reserves too quickly?
- ▶ Is your appropriated fund balance excessive?
- ▶ Are you monitoring out of District tuition and health billings?
- ▶ Do you have split properties in your District?
- ▶ Have you reviewed your PILOT agreements?

General Fund Considerations

- ▶ State aid is widely driven by the ST-3. Have you filed timely and accurately?
- ▶ Governors proposal for state aid can be different from what is input into the ST-3.
- ▶ Have you filed your final cost reports and SA-139? Building aid can be effected.
- ▶ Have you established a cut-off for encumbrances?

General Fund Considerations

- ▶ If you are self insured, have you accounted for unusual or large claims?
- ▶ Have you accounted for maternity leaves and FMLA in your projections?

General Fund Considerations

- ▶ Have you accrued for retirement incentives? Do you have a deadline for submitting for retirement?
- ▶ Are your employment contracts being negotiated or unsettled? Consult attorney for reasonable accrual.
- ▶ Have you budgeted for an inter fund transfer to the school lunch fund for unpaid meal charges in the school lunch fund?
- ▶ Have you established new reserves, such as the new TRS reserve?

TRS Reserve

- ▶ It is a sub-fund within the retirement contribution reserve.
- ▶ Effective date per the Bill is April 1, 2019.
- ▶ The sub-fund requires Board of Education action to establish.
- ▶ If the District does not already have a retirement contribution reserve, that must be established by Board of Education action along with the resolution for the TRS sub-fund.

TRS Reserve

- ▶ Annual appropriations cannot exceed 2% of salaries for members of TRS, as defined in Education Law 501, subdivision 4, for the preceding fiscal year.
- ▶ Maximum accumulation in the sub-fund is limited to 10% of the prior year salaries for members of TRS.
- ▶ Your reserve plan should be amended to set a reasonable TRS reserve level for future years.
- ▶ ASBO NY has a sample resolution for the creation of the reserve sub-fund. <https://www.asbonewyork.org/page/state-budget>.

Special Aid Fund Considerations

- ▶ Review Summer School Handicap receivables and write off those considered non-collectible.
- Statewide payments under 4408 will not exceed 70% of the state aid due for the sum of the approved tuition, maintenance and transportation expenses in the current year. School districts may not receive more than 45% of the annual statewide appropriation.

Special Aid Fund Considerations

- ▶ Are your grant managers spending down the F-Fund?
 - Have plans changed? Do FS-10A's need to be filed?
 - Are FS-25s being prepared?
- ▶ On expenditure side, accurately project the transfer to special aid fund (9901.95) for students in approved summer placements/Section 4408.
- ▶ “20%” of cost may not be 20%. Is your projection based on a total cost projection and is it reasonable when compared to past years?

School Lunch Fund Considerations

- ▶ Prepare profit and loss statements during the year.
- ▶ Do you have a balance of charged meals?
- ▶ Is fund balance over the 3 month expenditure level per federal guidelines?
- ▶ Are you charging salaries and benefits for employees who work in the food service program?

Capital Fund Considerations

- ▶ Are you tracking cumulative capital project expenditures and source of revenues by project?
- ▶ Are you current with closing out capital projects and filing final cost reports? This may impact building aid in the general fund.
- ▶ Unneeded authorizations will need to be transferred out of capital fund based on source of funds.

Debt Service Fund Considerations

- ▶ Are there unneeded authorizations or accumulated interest earnings from capital projects in the debt service fund balance?
- ▶ Determine the source of funding for the unneeded authorizations and determine a plan for transferring to general fund.

Best Practices

- ▶ Review fund balance projections starting in February.
- ▶ Compare current year budget to prior year actual expenditures and revenues.
- ▶ Prepare examinations of large variances of budget as compared to actual revenues and expenditures.
- ▶ Align budget coding with actual coding to minimize a large volume of budget transfers.

Best Practices

- ▶ Review adequacy of reserves and obtain approval of changes in reserves.
- ▶ Verify interfund receivables and payables are in balance and reimbursed timely.
- ▶ Explore the use of green building strategies.
- ▶ Consider refinancing current debt.
- ▶ Review appropriation status and revenue for all District funds.

Best Practices

- ▶ Prepare a five year fiscal plan for long term planning and update annually.
- ▶ Monitor budgets to ensure appropriations are not overspent.
- ▶ Develop balanced budgets for revenues and expenditures for all funds.
- ▶ Develop a trend analysis for actual revenues and expenditures over the past 3 to 5 years.

Best Practices

- ▶ Maximize revenues and find cost efficiencies.
- ▶ Maintain a capital asset preservation plan.
- ▶ Use reserve funds as part of fiscal planning.

Other Considerations

- ▶ Timing of Board approval to establish reserves.
- ▶ Re-establish Board approval of existing reserves.
- ▶ Consider Board approval for changes in reserves.
- ▶ Interest should stay with reserve.
- ▶ District should budget for the full expenditure.
- ▶ District should include as appropriated reserve in the revenue budget.

Other Considerations

- ▶ Reserves should be based on reasonable obligations or liabilities of the District.
- ▶ Generally, separate bank accounts not required but separate accounting must be maintained.
- ▶ Board may be guilty of misdemeanor if reserves are used for other purposes.
- ▶ Substantiate reserves for year-end audit.
- ▶ Prepare a five year fiscal plan for long term planning and update annually.

Findings in Recent OSC Audits

- ▶ The Board did not adopt a reserve policy.
- ▶ The District did not develop a written reserve fund policy that describes the maximum funding level and the planned use of the reserves.
- ▶ District officials did not prepare and submit a plan for reserves annually.
- ▶ District officials did not transparently budget to fund reserves, and instead passed consent resolutions at the end of each fiscal year to increase reserves.

Findings in Recent OSC Audits

- ▶ The District retained funds in the debt service fund which were not utilized for debt service payments.
- ▶ District officials improperly restricted funds in a debt service reserve in the debt service fund, which made it appear that unrestricted fund balance was within the statutory limit.
- ▶ Reserves were over funded or unneeded.
- ▶ Reserve funds were not utilized as intended or as budgeted.
- ▶ The District did not utilize available reserves for related expenditures.

Findings in Recent OSC Audits

- ▶ The Board did not adopt a comprehensive multi-year financial and capital plan.
- ▶ The Board did not adopt a fund balance policy.
- ▶ The Board relied on unrestricted fund balance to fund recurring expenditures, and completely exhausted the District's unrestricted fund balance.
- ▶ District officials did not perform budget transfers, which resulted in appropriations exceeding budgeted line items.
- ▶ District officials under estimated revenues.
- ▶ Adopted budgets overestimated appropriations.

Findings in Recent OSC Audits

- ▶ The District budgeted appropriated fund balance which was not utilized.
- ▶ The District's unrestricted fund balance exceeded the statutory limit.
- ▶ Despite budgetary surpluses and excess fund balance, the Board increased the tax levy.
- ▶ Despite significant amounts of accumulated fund balance, the Board annually increased the tax levy and did not take steps to reasonably fund reserves.

Findings in Recent OSC Audits

- ▶ District officials appropriated more fund balance than was available.
- ▶ Fund balance in the general fund decreased significantly during the year.
- ▶ The reported results of operations and fund balance in the general fund were inaccurate due to capital proceeds being transferred to, and accounted for in, the general fund, which should have been accounted for in the debt service fund.

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