



ASSOCIATION
OF SCHOOL
BUSINESS OFFICIALS

Financial Management Accounting and Auditing Workshops May 2, 2023 and May 11, 2023

Reserve Planning and Managing Fund Balance

Presented By:

Marianne E. Van Duyne, C.P.A.

Managing Partner

Christopher Schneider, C.P.A.

Senior Manager

R.S. Abrams & Co., LLP.

Richard Cunningham

Interim Assistant Superintendent for Business

Massapequa School District

President

Driftwind Consulting

What is Fund Balance?

- Fund Balance is the total accumulation of operating surpluses and deficits since the beginning of a school district's existence.

Why is Fund Balance so Important?

- Provides a cushion for unforeseen expenditures or revenue shortfalls.
- Helps to ensure adequate cash flow.
- Assists in the computation of school district's tax levy.
- Reduces borrowing and interest costs.
- Improves credit rating.
- Funds unbudgeted contingent expenses.
- Funds state aid shortfalls.

How Much Fund Balance?

- GFOA recommends, at a minimum, unrestricted fund balance should be no less than two months of operating revenues or expenditures. (~15%).
- School district's unassigned fund balance limited to 4% of next year's budget (RPTL 1318).
- If you add any non spendable, encumbrances and appropriated fund balances, most districts will be under the GFOA recommendation.

What can a School District do to Manage Fund Balance?

- Fund Balance Policy
- Monitor Fund Balance
- Long-term Planning

Fund Balance Policy

Your BoE policy manual should have a fund balance policy. You can get sample fund balance policies from NYSSBA, Erie 1 BOCES or from the QUESTAR State Aid Planning Fund Balance and Reserves guidebook.

Section	6000: Business Operations
Title	Fund Balance and Reserve Funds
Code	6245
Status	Active
Adopted	January 6, 2020

Fund balance measures the net financial resources available to finance expenditures within current or future periods. The Board of Education recognizes that the maintenance of a fund balance is essential to the preservation of the financial integrity of the school district and is fiscally advantageous for both the district and the taxpayer.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, Fund Balance reporting and Governmental Fund Type Definitions (GASB 54). The objective of this Statement 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied.

Fund Balance Classifications (pursuant to GASB Statement 54)

Fund balance amounts will be reported by the District according to the following classifications:

- **Nonspendable** – consists of assets that are inherently nonspendable in the current period either because of their form or because they must be maintained intact, including prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale, and principal of endowments.
- **Restricted** – consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation. Because the State regulates the establishment, funding and use of school district reserves, generally, reserves will be classified as restricted fund balance.
- **Committed** – consists of amounts that are subject to a purpose constraint imposed by a formal action of the government's highest level of decision-making authority before the end of the fiscal year, and that require the same level of formal action to remove the constraint. The New York State Office of the State Comptroller at the present time believes that in New York State school districts will not have any committed fund balance.
- **Assigned** – consists of amounts that are subject to a purpose constraint that represents an intended use established by the board or by their designated official. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. Assigned Fund Balance generally includes encumbrances and appropriated fund balance.
- **Unassigned** – the residual classification for the government's general fund, and could report a surplus or deficit. In funds other than the general fund, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

General Policy

Fund balance measures the net financial resources available to finance expenditures within current or future periods. The district's Unassigned General Fund Fund Balance will be maintained to provide the district with financial stability and a margin of safety to fund unanticipated contingent expenditures that may occur unexpectedly during the fiscal year. The Unassigned General Fund Fund Balance used for these purposes may only be appropriated by resolution of the Board of Education unless voter approval is required.

Any portion of Fund Balance may be applied or transferred for a specific purpose either by voter approval if required by law or by formal action of the Board of Education if voter approval is not required. Amendments or modifications to the applied or transferred fund balance must also be approved by formal action of the Board of Education.

The Board of Education shall delegate the authority to assign fund balance, for encumbrance purposes, to the Assistant Superintendent for Business or Assistant Business Administrator. In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications (e.g., expenditures related to reserves) the expenditure is to be spent first from the restricted fund balance to the extent appropriated by either budget vote or board approved budget revision and then from the unrestricted fund balance. Expenditures incurred in the unrestricted fund balances shall be applied first to the assigned fund balance to the extent that there is an assignment and then to the unassigned fund balance.

Adoption date: January 6, 2020

Sample Fund Balance Policy

Section	6000: Business Operations
Title	Fund Balance and Reserve Funds
Code	6245
Status	Active
Adopted	January 6, 2020

Fund balance measures the net financial resources available to finance expenditures within current or future periods. The Board of Education recognizes that the maintenance of a fund balance is essential to the preservation of the financial integrity of the school district and is fiscally advantageous for both the district and the taxpayer.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, Fund Balance reporting and Governmental Fund Type Definitions (GASB 54). The objective of this Statement 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied.

Fund Balance Classifications (pursuant to GASB Statement 54)

Fund balance amounts will be reported by the District according to the following classifications:

- **Nonspendable** – consists of assets that are inherently nonspendable in the current period either because of their form or because they must be maintained intact, including prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale, and principal of endowments.
- **Restricted** – consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation. Because the State regulates the establishment, funding and use of school district reserves, generally, reserves will be classified as restricted fund balance.
- **Committed** – consists of amounts that are subject to a purpose constraint imposed by a formal action of the government's highest level of decision-making authority before the end of the fiscal year, and that require the same level of formal action to remove the constraint. The New York State Office of the State Comptroller at the present time believes that in New York State school districts will not have any committed fund balance.
- **Assigned** – consists of amounts that are subject to a purpose constraint that represents an intended use established by the board or by their designated official. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. Assigned Fund Balance generally includes encumbrances and appropriated fund balance.
- **Unassigned** – the residual classification for the government's general fund, and could report a surplus or deficit. In funds other than the general fund, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

General Policy

Fund balance measures the net financial resources available to finance expenditures within current or future periods. The district's Unassigned General Fund Fund Balance will be maintained to provide the district with financial stability and a margin of safety to fund unanticipated contingent expenditures that may occur unexpectedly during the fiscal year. The Unassigned General Fund Fund Balance used for these purposes may only be appropriated by resolution of the Board of Education unless voter approval is required.

Any portion of Fund Balance may be applied or transferred for a specific purpose either by voter approval if required by law or by formal action of the Board of Education if voter approval is not required. Amendments or modifications to the applied or transferred fund balance must also be approved by formal action of the Board of Education.

The Board of Education shall delegate the authority to assign fund balance, for encumbrance purposes, to the Assistant Superintendent for Business or Assistant Business Administrator. In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications (e.g., expenditures related to reserves) the expenditure is to be spent first from the restricted fund balance to the extent appropriated by either budget vote or board approved budget revision and then from the unrestricted fund balance. Expenditures incurred in the unrestricted fund balances shall be applied first to the assigned fund balance to the extent that there is an assignment and then to the unassigned fund balance.

Adoption date: January 6, 2020

Fund Balance and Reserve Plan

- Objective and rationale for establishing reserve funds.
- Address optimal funding levels of reserves.
- Address funding method.
- Conditions necessary for use.
- How and when reserve funds should be replenished.
- Review with the BOE annually.

Fund Balance and Reserve Plan

The fund balance and reserve plan should be accepted by the BOE *annually*.

Examples:

- [Plainview-Old Bethpage Plan](#)
- [Plainview-Old Bethpage Presentation](#)

Districts are required to post the aforementioned plans on your district website if the BOE accepts them as part of your Board adopted multiyear financial plan. If a multiyear financial plan is not Board adopted, posting is a best practice.

Considerations in Managing Fund Balance

- 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.
- When to reduce the reliance on appropriated fund balance and appropriated reserves.
- Reserves - Budget to maintain reserves per fund balance policy.
- What about next year?

Why are Fund Balance Projections So Important?

- Reduces fluctuations of the school district's tax rate if planned properly.
- Assists in funding for reserves timely.
- Start projections in February and refine every month thereafter.
- Key elements include encumbering, estimated revenues and year-end accruals.

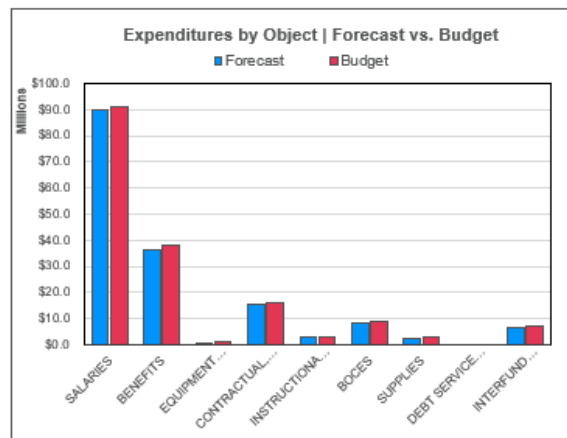
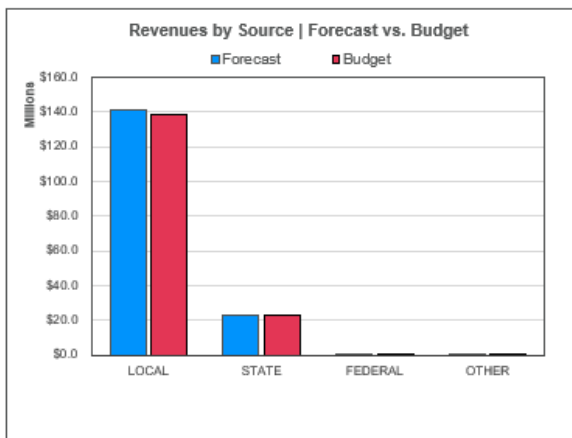
Fund Balance Projection

General | Financial Forecast

For the Period Ending December 31, 2021

	Prior YTD	Current YTD	Add: Anticipated Revenues / Expenses	Annual Forecast	Annual Budget	Variance Favorable / (Unfavorable)
REVENUES						
Local	\$5,985,777	\$56,960,489	\$83,846,583	\$140,807,071	\$138,010,297	\$2,796,774
State	4,456,253	3,184,843	20,050,733	23,235,576	22,951,164	284,412
Federal	14,929	57,453	9,879	67,332	20,000	47,332
Other	0	0	60,000	60,000	60,000	0
TOTAL REVENUE	\$10,456,959	\$60,202,785	\$103,967,194	\$164,169,979	\$161,041,461	\$3,128,518
EXPENDITURES						
Salaries	\$24,747,014	\$23,789,156	\$65,975,024	\$89,764,179	\$91,254,414	\$1,490,235
Benefits	8,435,297	8,401,311	27,832,589	36,233,900	37,951,101	1,717,201
Equipment and Capital Outlay	195,255	325,685	547,424	873,109	1,180,679	307,570
Contractual, Supplies and Other	3,714,477	4,850,349	10,881,883	15,732,231	15,923,382	191,150
Instructional Supplies	751,436	656,110	2,050,939	2,707,048	3,237,105	530,057
Books	1,948,939	2,275,434	5,982,932	8,258,367	8,647,350	388,983
Supplies	1,153,835	738,020	1,491,877	2,229,897	2,988,842	758,945
Debt Service Principal & Interest	0	0	0	0	0	0
Interfund Transfers	0	6,598,175	0	6,598,175	6,889,282	291,107
TOTAL EXPENDITURES	\$40,952,252	\$47,634,239	\$114,762,668	\$162,396,907	\$168,072,155	\$5,675,248
SURPLUS / (DEFICIT)	(\$30,495,293)	\$12,568,546	(\$10,795,474)	\$1,773,072	(\$7,030,694)	\$8,803,766
ENDING FUND BALANCE	\$3,024,759	\$46,381,510		\$35,586,036	\$26,782,270	\$8,803,766

4% of the 2022-23 budget is \$6,929,380. \$1.8M can be appropriated to reserves.



Fund Balance Projection

	TOTAL	A915 Unappropriated	Unassigned	
			A916 Tax Reduction Reserve	A917 Unappropriated
Opening balance	30,586,619.22	418,543.45	-	6,725,687.21
Revenues	165,429,140.00			165,429,140.00
Expenditures	(162,189,608.00)			(162,189,608.00)
Change in encumbrances		600,000.00		(600,000.00)
Change in appropriated FB				-
Reserves app for PY				-
Interest allocation				(47,195.81)
Reserves app for CY				(2,296,119.00)
Unused app res				-
Unused reserve - close out				-
Transfers Out-May 2022 Prop #2				4,300,000.00
Transfers in			2,856,909.00	(2,856,909.00)
Closing balance	33,826,151.22	1,018,543.45	2,856,909.00	8,464,995.40

4% of the 2023-24 budget is \$6,929,380. \$1.5M can be appropriated to reserves.

What About 2024-2025?

- 2023–2024 is the last year of the Foundation Aid phase in.
- 2023–2024 will be the last year to use CRRSA Funds.
 - Need to obligate funds by September 30, 2023.
- 2024–2025 will be the last year to use ARPA Funds.
 - Need to obligate funds by September 30, 2024 (any new ARP-ESSER funded construction projects must be submitted to NYSED by October 1, 2023).
- For the aforementioned COVID monies, funds must be liquidated within 120 calendar days after the end of the performance period.
- Both ERS and TRS employer contribution rates are likely to increase due to market underperformance.
- Most districts are experiencing a trend of increasing special education costs.

Thinking Ahead

- What choices will be made to contain expenditure growth?
- Will the revenue side of the budget need an infusion of reserves and/or fund balance to support expenditures in future years?
- Does the District have a multi-year plan to guide the use of reserves and fund balance?
- Will the District become susceptible to fiscal stress by drawing down reserves and fund balance too quickly?

2021-2022 OSC Fiscal Stress Monitoring System Results

- OSC found 14 or 2.1% of 672 school districts to be in some level of stress. (3.4% for 2020-2021).
- One school district was in significant stress, five were in moderate stress and eight were susceptible to stress.
- Primary indicators of fiscal stress are: low liquidity, overreliance on short term debt, operating deficits and low fund balance.

Fiscal Stress Monitoring

<http://wwe1.osc.state.ny.us/localgov/fiscalmonitoring/fsms.cfm>

Office of the NEW YORK
STATE COMPTROLLER
NYS Comptroller Thomas P. DiNapoli

Home / Local Government / Fiscal Stress Monitoring System

Fiscal Stress Monitoring System®

Search Tool

Reset Filters Download All Data

Fiscal Year Ending	Class	Local Government/ School District Name	County	Stress Designation	Region	Fiscal Scores			Environmental Score	Self-Assessment Tool (.xls)
						Current Year	1 Year Prior	2 Years Prior		
2021	School	Addison	Steuben	No Designation	Southern Tier	3.3	0.0	0.0	8.3	Download
2021	School	Adirondack	Oneida	No Designation	Mohawk Valley	0.0	16.7	13.3	23.3	Download
2021	School	Afton	Chenango	No Designation	Southern Tier	0.0	0.0	-	10.0	Download
2021	School	Akron	Erie	No Designation	Western New York	0.0	0.0	0.0	5.0	Download
2021	School	Albany	Albany	No Designation	Capital District	6.7	21.7	38.3	31.7	Download
2021	School	Albion	Orleans	No Designation	Finger Lakes	0.0	0.0	0.0	18.3	Download

County: [REDACTED]

Enter data here and scroll down to see the projected fiscal stress scores.

Projection

Fiscal Stress Financial Indicator Data Inputs				Data			Current Fiscal Year	Next Fiscal Year
Financial Indicators	Components	Account Code(s)	Fund(s)	2020	2021	2022	2023	2024
1	Unassigned Fund	916 & 917	General Fund	12,290,429	11,369,711	10,651,819		
2	Total Fund Balance	8029		46,303,230	43,283,776	43,675,382		
1, 2, 3, 5	Gross Expenditures			192,748,342	207,025,177	208,890,347		
5	Monthly Expenditures (Gross Expenditures ÷ 12)			16,062,362	17,252,098	17,407,529		
3	Gross Revenues			201,460,071	204,734,598	209,281,949		
4	Cash and Investments	200-223, 450 & 451		20,112,433	20,304,060	19,166,785		
5		200, 201, 450 & 451		20,112,433	20,304,060	19,166,785		
4	Current Liabilities	600-626, 631-668		11,889,630	13,121,006	13,433,696		
6	Short-Term Cash-Flow Debt	Revenue Anticipation Notes, Tax Anticipation Notes, Budget Notes, and Deficiency Notes Only	All Funds	10,600,000	11,400,000	12,000,000		

Financial Indicators	Fiscal Stress Financial Indicators	Public Scores			Projected Scores (Based on Data Elements)	
		2020	2021	2022	2023	2024
1	Unassigned Fund Balance as a Percentage (%) of Gross Expenditures	0	0	0		
2	Total Fund Balance as a Percentage (%) of Gross Expenditures	0	0	0		
3	Operating Deficits	6.67	6.67	6.67		
4	Cash Ratio - Cash and Investments as a Percentage (%) of Current Liab	0	0	0		
5	Cash as a Percentage (%) of Monthly Gross Expenditures	0	0	0		
6	% Change in Short-Term Cash-Flow Debt Issuance	0	6.67	3.33		

Total Points*	6.7	13.3	10.0	0.0	0.0
Score Classification	No Designation	No Designation	No Designation	No Designation	No Designation

Revenue and Expenditure Definitions

Gross Revenues = Revenues and Other Sources (Transfer Activity)
 Gross Expenditures = Expenditures and Other Uses (Transfer Activity) - 9950.9 (Transfers to Capital Projects Fund)

Classification Point Range (out of 100 total pts)

Significant 65 - 100
 Moderate 45 - 64.9
 Susceptible 25 - 44.9
 No Designation 0 - 24.9

County: [REDACTED]

Use the projection columns to estimate the future fiscal stress designation.

Enter data here and scroll down to see the projected fiscal stress scores.

Fiscal Stress Financial Indicator Data Inputs				Data			Current Fiscal Year	Next Fiscal Year
Financial Indicators	Components	Account Code(s)	Fund(s)	2020	2021	2022	2023	2024
1	Unassigned Fund	916 & 917	General Fund	12,290,429	11,369,711	10,651,819	9,951,819	9,251,819
2	Total Fund Balance	8029		46,303,230	43,283,776	43,675,382	42,475,382	41,225,382
1, 2, 3, 5	Gross Expenditures			192,748,342	207,025,177	208,890,347	211,590,347	214,350,347
5	Monthly Expenditures (Gross Expenditures ÷ 12)			16,062,362	17,252,098	17,407,529	17,632,529	17,862,529
3	Gross Revenues			201,460,071	204,734,598	209,281,949	211,374,768	213,488,516
4	Cash and Investments	200-223, 450 & 451		20,112,433	20,304,060	19,166,785	20,000,000	20,000,000
5		200, 201, 450 & 451		20,112,433	20,304,060	19,166,785	20,000,000	20,000,000
4	Current Liabilities	600-626, 631-668	11,889,630	13,121,006	13,433,696	13,887,741	14,437,741	
6	Short-Term Cash-Flow Debt	Revenue Anticipation Notes, Tax Anticipation Notes, Budget Notes, and Deficiency Notes Only	All Funds	10,600,000	11,400,000	12,000,000	12,500,000	13,000,000

Financial Indicators	Fiscal Stress Financial Indicators	Public Scores			Projected Scores (Based on Data Elements)	
		2020	2021	2022	2023	2024
1	Unassigned Fund Balance as a Percentage (%) of Gross Expenditures	0	0	0	0	0
2	Total Fund Balance as a Percentage (%) of Gross Expenditures	0	0	0	0	0
3	Operating Deficits	6.67	6.67	6.67	6.67	0
4	Cash Ratio - Cash and Investments as a Percentage (%) of Current Liab	0	0	0	0	0
5	Cash as a Percentage (%) of Monthly Gross Expenditures	0	0	0	0	0
6	% Change in Short-Term Cash-Flow Debt Issuance	0	6.67	3.33	3.33	3.33

Total Points*	6.7	13.3	10.0	10.0	3.3
Score Classification	No Designation	No Designation	No Designation	No Designation	No Designation

Revenue and Expenditure Definitions

Gross Revenues = Revenues and Other Sources (Transfer Activity)

Gross Expenditures = Expenditures and Other Uses (Transfer Activity) - 9950.9 (Transfers to Capital Projects Fund)

Classification	Point Range out of 100 total pts)
Significant	65 - 100
Moderate	45 - 64.9
Susceptible	25 - 44.9
No Designation	0 - 24.9

What are Warning Signs of Fiscal Stress?

- Significant or recurring operating deficits.
- Negative, low or declining fund balance.
- Strained cash flow and increased borrowing.
- Spending down reserves too quickly.
- Overspent budgetary appropriations.
- Unencumbered balance of less than 2% of budget.
- Current ratio less than 2 to 1 (state average is 2.85).

Strategies for Eliminating Fiscal Stress

- Freeze spending.
- Maximize revenues and find cost efficiencies.
- Review current staffing needs and class sizes.

What are Warning Signs of an Excessively Large Fund Balance?

- Unencumbered balance greater than 5% of budget.
- Large unanticipated revenues not included in the budget.
- Current reserves at maximum levels.
- Large operating surplus.
- TAN borrowing necessary in prior years is no longer needed.

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.

Capital Planning and Fund Balance

- Districts should develop a long-range capital plan to assess budgetary impacts of debt service, building aid and to look for opportunities to fund capital projects.
- Capital reserves can be established and be funded over time to address needs.
- A transfer to capital code can be included in the general fund budget to fund projects and can increase or decrease annually in the budget to fund capital needs.

Capital Planning and Debt Service

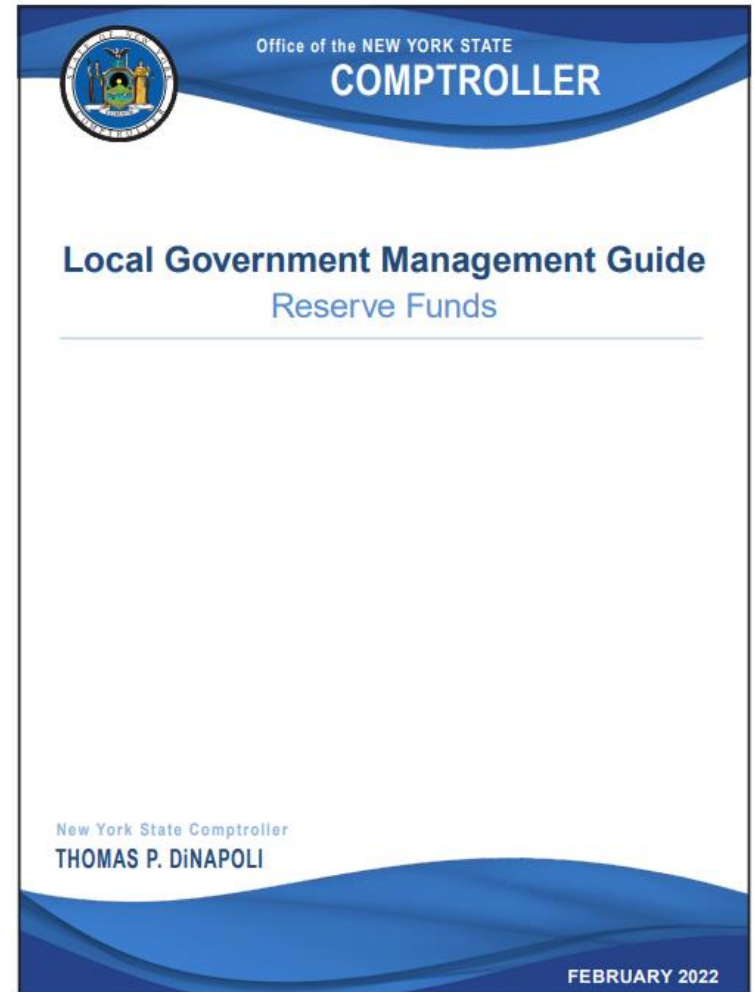
- Most capital projects generate state aid.
- When reviewing the budgetary impacts of debt service, also review projected state aid.
- Work with your fiscal advisor to synchronize debt service payments with the receipt of state aid.
- An increase in the local share (debt service less building aid) will negatively impact fund balance.

Capital Planning Tools

- [OSC Local Government Management Guide: Multiyear Capital Planning](#)
 - Additional OSC Resources:
<https://www.osc.state.ny.us/local-government/resources/planning-resources>
- Forecast5
- DebtBook

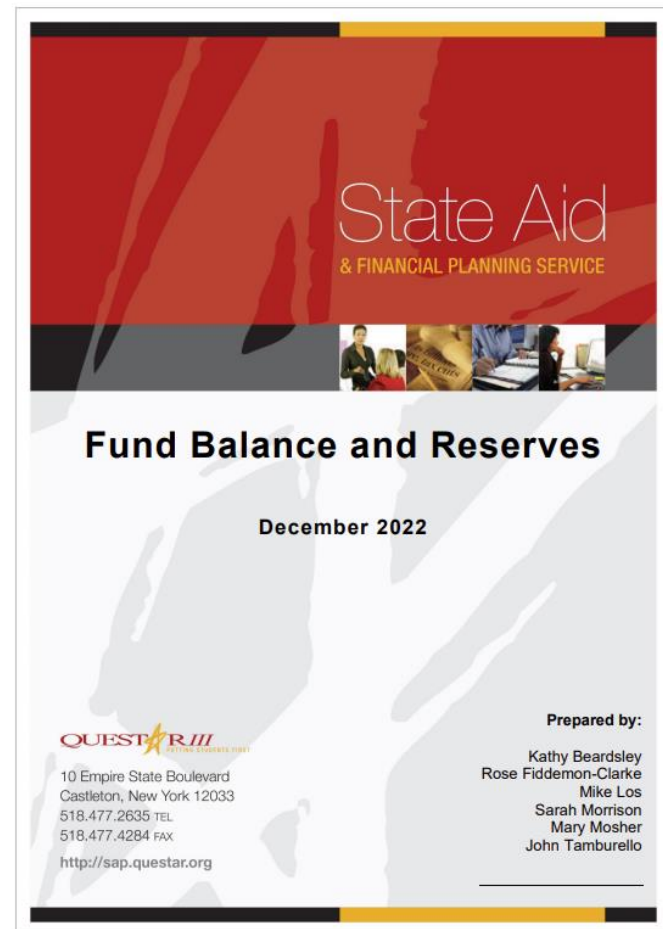
Updated Reserve Funds Guide from OSC

<https://www.osc.state.ny.us/files/local-government/publications/pdf/reserve-funds.pdf>

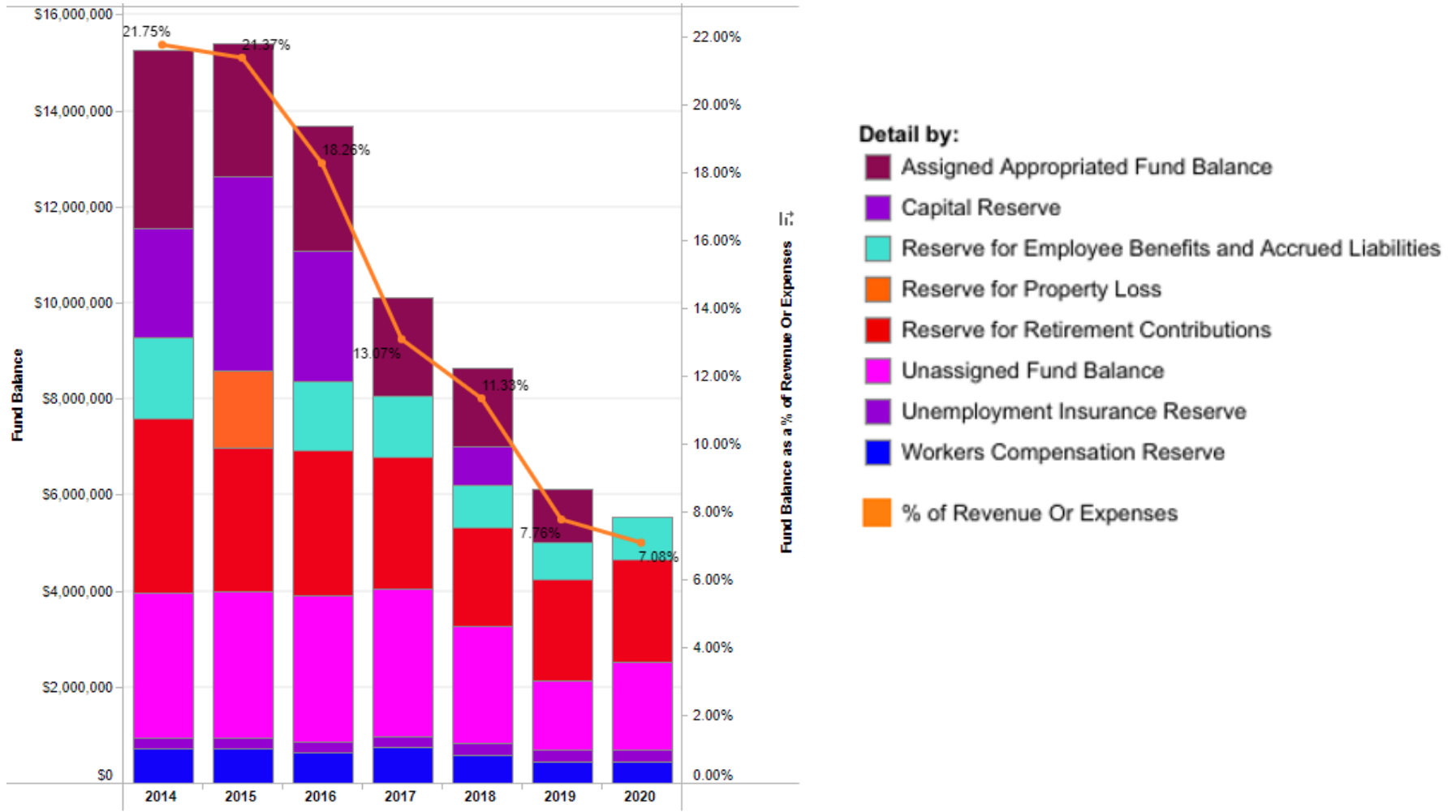


Updated Reserve Funds Guide from QUESTAR State Aid & Financial Planning Service

<https://www.questar.org/wp-content/uploads/2022/12/Fund-Balance-Reserves-12-2022-Final.pdf>



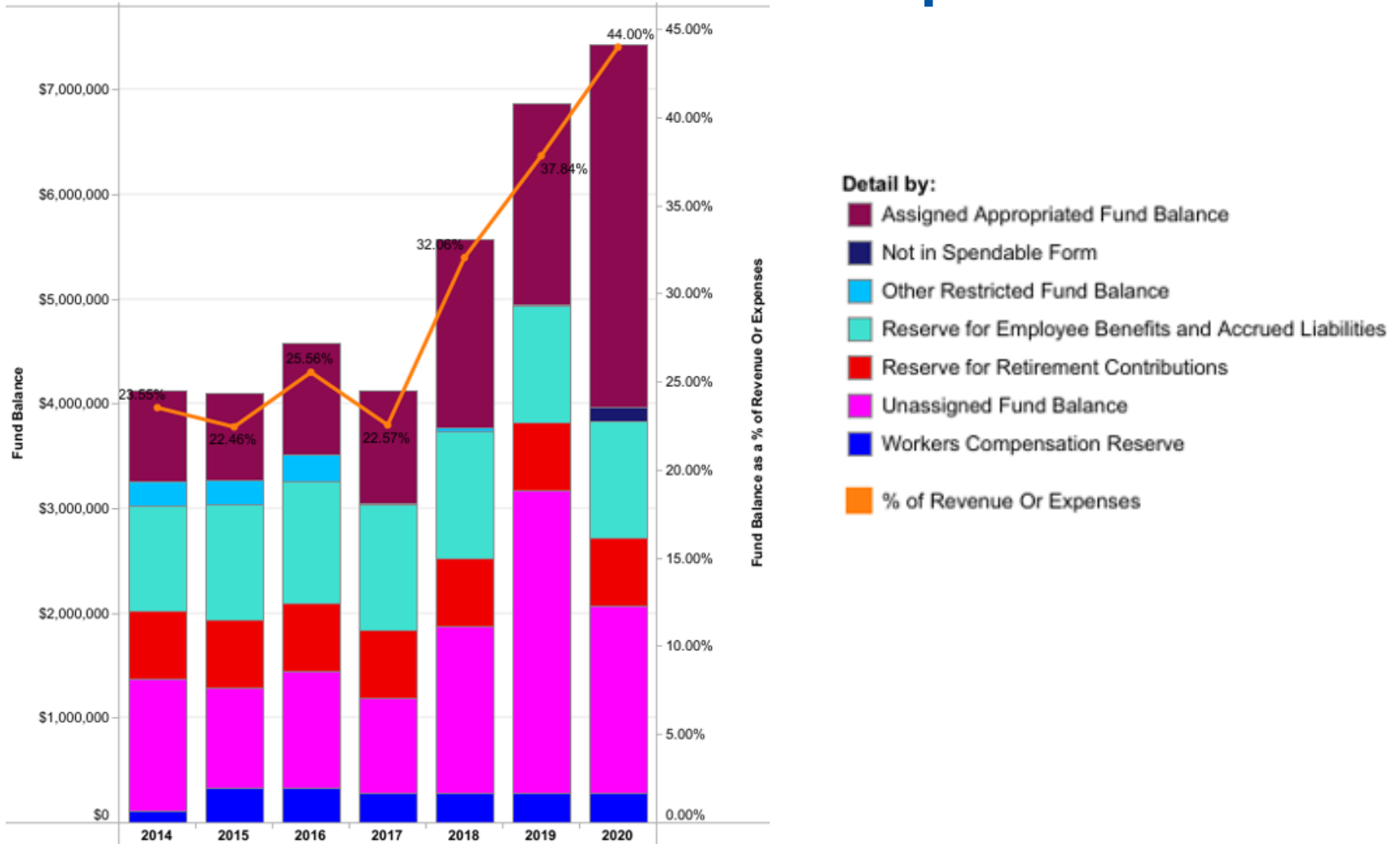
A District in Fiscal Stress



Strategies to Rebuild Financial Position

- Use of capital reserve impacted total fund balance which is a normal transaction.
- Reduced the use of assigned appropriated fund balance and eventually eliminated appropriated fund balance in 2020.
- Reduced the use of employee benefit accrued liability reserve (EBALR).
- Developing a balanced budget helped begin to rebuild unassigned fund balance.

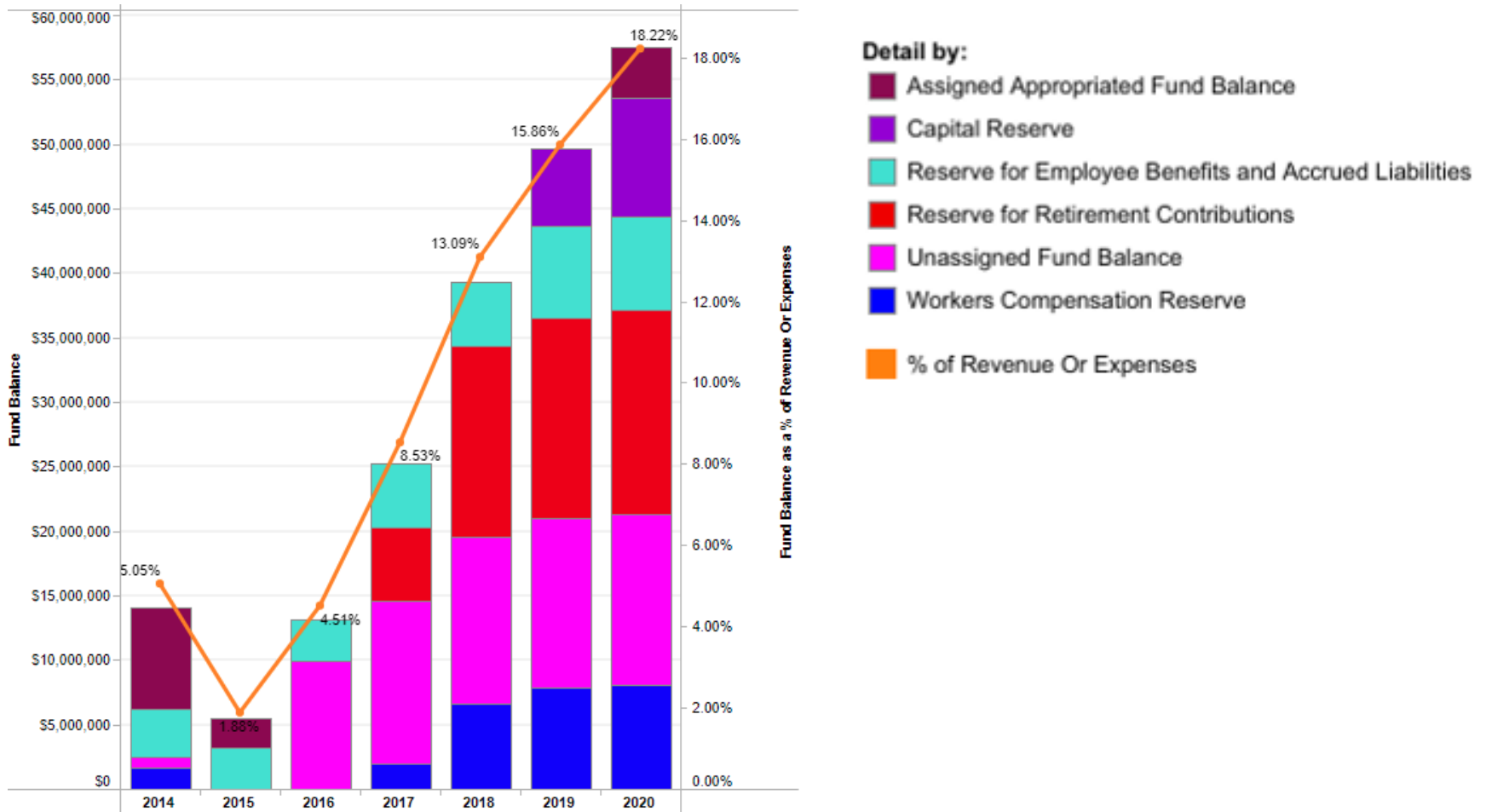
A District with Options



Strategies to consider to put fund balance to work

- Establish a Capital Reserve.
- Establish a Repair Reserve.
- If there are CVA claims, consider an Insurance Reserve Fund supported by the size of potential claims.
- Moderate tax levy growth.

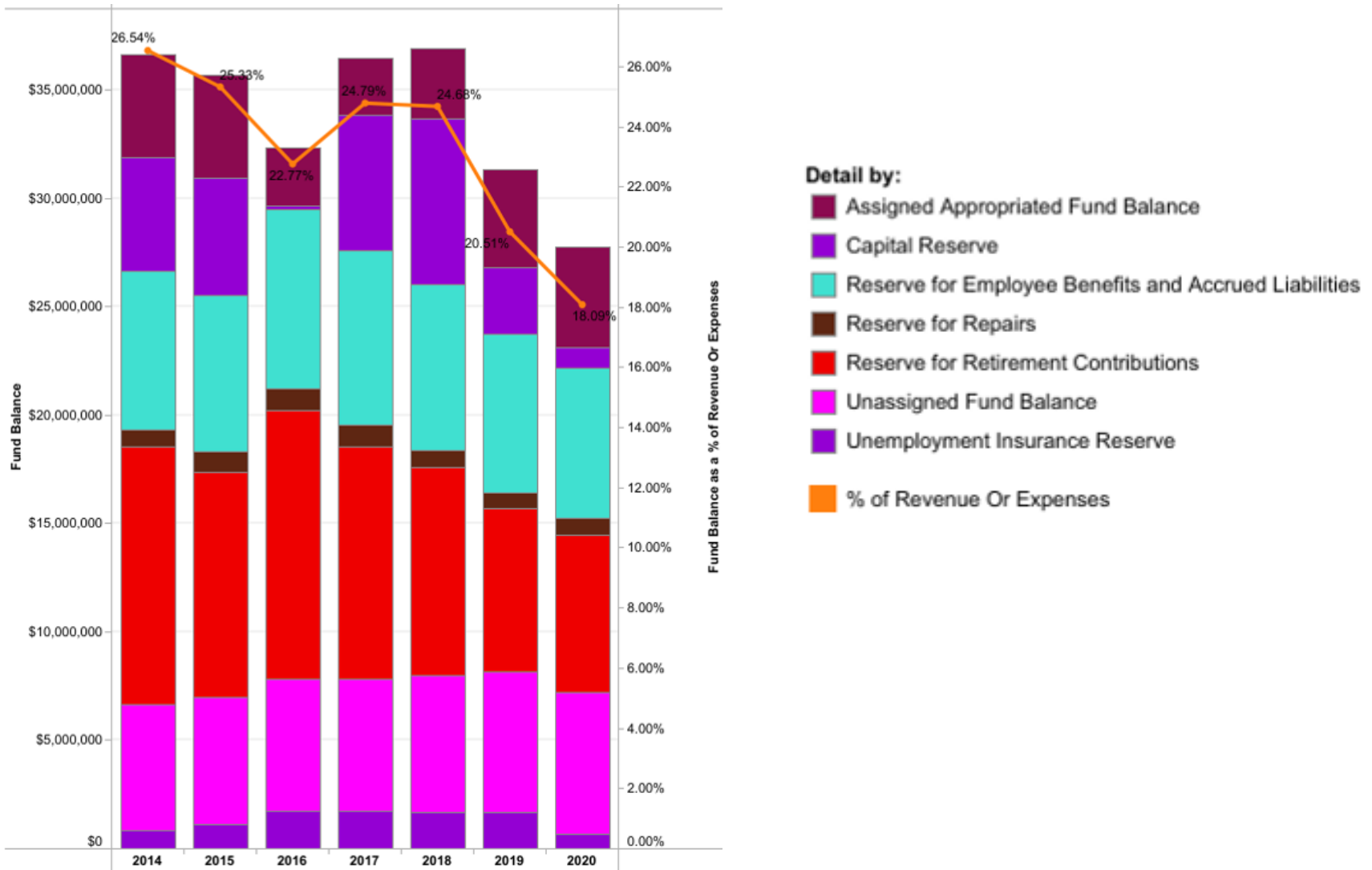
On the Rebound



What's next?

- Start putting the reserves to work!
- Consider establishing a repair reserve.
- Be mindful that total reserves and fund balance are approaching 20% of expenditures.
- Develop a multi-year plan for the use the reserves and set reserve funding targets.

Putting Resources to Work



Moving forward

- Set reserve funding targets and share with the BOE and the community.
- Develop a multi-year plan for the use of reserves and funding targets.
- Take steps to reverse the decline of total reserves and fund balance to below 20% of expenses.

Long Range Planning

- A 5-year financial and capital plan with reasonable assumptions.
- Tutorial: From “The Academy of New York State’s Local Officials”
<https://www.osc.state.ny.us/localgov/academy/modules/myfp/index.htm>
- Template: <https://www.osc.state.ny.us/local-government/resources/planning-resources>
- A documented reserve plan per Fund Balance Policy.
- A documented plan for fund balance.
 - When to reduce the reliance on appropriated fund balance and appropriated reserves.

Findings in Recent OSC Audits

- District officials have not adopted fund balance and reserve policies.
- District officials did not have or have not properly utilized their multiyear financial plans to assist with financial decisions.
- The Board of Education did not appropriately manage the District's fund balance, overstated budgeted appropriations and improperly backdated encumbrances.
- The Board of Education improperly established and funded reserve accounts.
- Budgeted expenditures were overestimated.

Findings in Recent OSC Audits

- District officials have not developed a comprehensive multiyear financial plan.
- The District did not use the debt reserve to fund debt service payments as required.
- The District has not adopted a comprehensive written reserve fund policy.
- The surplus fund balance exceeded the 4 percent statutory limit per Real Property Tax Law §1318.

Potential School Board Reaction to OSC Findings

- Spend down reserves.
- Close budget gap by reducing budget surpluses.
- More realistic revenue budget.

Do Not Overreact

- You must act as the voice of reason.
- Once you move in a deficit budget how do you stop.
- Districts who have been cited for excess fund balance and reserves are now on the fiscal stress list.

Other Considerations

- District should include an appropriated reserve in the revenue budget.
- Budget use of reserves and evaluate replenishing at year-end.
- Timing of Board approval to establish and replenish reserves.
- Reserves should be based on reasonable obligations or liabilities of the District.

Other Considerations

- Generally, separate bank accounts not required but separate accounting must be maintained.
- Interest should stay with reserve.
- Board may be guilty of misdemeanor if reserves are used for other purposes.
- Substantiate reserves for year-end audit.

Authorized Reserve Funds

- Capital Reserve (ED 3651)
- Repair Reserve (GML 6-d)
- Workers Compensation Reserve (GML 6-j)
- Unemployment Reserve (GML 6-m)
- Tax Reduction Reserve (ED 1709) (ED 1604)
- Debt Service Reserve (GML 6-l)
- Insurance Recovery Reserve (ED 1718(2))

Authorized Reserve Funds

- Insurance Reserve (GML 6-n)
- Property Loss and Liability Reserve (ED 1709)
- Tax Certiorari Reserve (ED 3651)
- Reserve for Employee Benefit Accrued Liability Reserve (GML 6-p)
- Retirement Contribution Reserve (GML 6-r)

Capital Reserve (ED Law 3651)

- Used to pay for cost of expenses for which bonds may be issued.
- Creation requires voter approval including purpose, ultimate amount, probable term and source of funds.
- Expenditure must be for a specific purpose and further authorized by the voters.
- Accounted for in General Fund (A878).

Capital Reserve (ED Law 3651)

- Commissioner's Decision Number 15,219 – Voter authorization to expend monies must be received in same year as the expenditure out of the reserve fund.
- Capital reserve is intended as a mechanism to reserve and accumulate funds over time for a future project. Not as a vehicle to finance a current project.
- When obtaining voter approval to expend the funds, the capital reserve must already have at least that amount available.

Repair Reserve (GML 6-d)

- Repairs to capital improvements or equipment not recurring annually.
- Established with Board of Education resolution.
- Voter approval required to fund reserve (OSC Opinion 81-401).
- Expenditures require a public hearing (5 day notice), except in emergencies.

Repair Reserve (GML 6-d)

- If no hearing, the amount expended must be repaid over next two fiscal years.
- Accounted for in General Fund (A882).
- Unneeded balance may be transferred to a reserve fund pursuant to Section 3651 of Education Law (capital reserve, tax certiorari reserve) or retirement contribution reserve.

Workers Compensation Reserve (GML 6-j)

- Used to pay workers compensation benefits and expenses for administering a self-insurance program.
- Funded by budgetary appropriations or other funds that may be legally appropriated (i.e. surplus funds).
- Established with Board of Education resolution.

Workers Compensation Reserve (GML 6-j)

- Excess amounts may be transferred to certain other reserves or applied to next years budget (within 60 days of the end of fiscal year).
- Accounted for in the General Fund (A814).
- Board may terminate if no longer self-insured.

Unemployment Reserve (GML 6-m)

- Cost of reimbursement to state unemployment insurance fund.
- Established with Board of Education resolution.
- Funded by budgetary appropriations or other funds that may be legally appropriated.
- Excess amounts maybe transferred to certain reserves or applied to next years budget (within 60 days of the end of fiscal year).
- Accounted for in the General Fund (A815).

Tax Reduction Reserve ED Law 1604 (36) & 1709 (37)

- Gradually use the proceeds of the sale of school district real property where proceeds are not required to be placed in a mandatory reserve for debt service.
- Retain proceeds for up to 10 years.
- Used for property tax reductions.
- Accounted for in the General Fund (A864).

Debt Service Reserve (GML 6-1)

- Purpose of retiring outstanding obligations upon the sale of district property or capital improvement.
- Accounted for in the Debt Service Fund (V884) or General Fund (A884).
- Terminates once outstanding obligations are repaid.
- Proceeds of sale in excess of debt may be expended for any other lawful district purpose.

Insurance Recovery Reserve ED law 1718 (2)

- Used to account for unexpended proceeds of insurance recoveries.
- Held pending action of the Board on disposition.
- Reserve not used if insurance recovery is expended in the same fiscal year.
- Accounted for in the General Fund (A887).

Insurance Reserve (GML- 6n)

- Used to pay liability, casualty and other types of losses.
- Established with Board of Education resolution.
- Funded by budgetary appropriations or such other funds as may be legally appropriated.
- No limit, however annual contribution may not exceed the greater of \$33,000 or 5% of budget.

Insurance Reserve (GML-6n)

- Accounted for in the General Fund (A863).
- If Board of Education terminated, excess funds may be transferred to certain reserve funds authorized by GML or ED Law 3651.

Property Loss and Liability Reserve (ED Law 1709 (8)(c))

- Used to pay for property loss and liability claims incurred.
- May not exceed 3% of annual budget or \$15,000, whichever is greater.
- Established with Board of Education(BOE) resolution.
- BOE may use excess funds to purchase insurance policies to cover losses from previously being self insured.
- Accounted for in the General Fund (A861 and A862).

Tax Certiorari Reserve ED Law 3651 (1a)

- Used to pay judgments and claims in tax certiorari proceedings.
- Established with Board of Education resolution.
- Monies not expended for tax certiorari proceedings must be returned to General Fund before 1st day of the fourth fiscal year after deposit.
- Accounted for in the General Fund (A864).

Employee Benefit Accrued Liability Reserve (GML 6p)

- Used to pay accrued employee benefit due to an employee upon termination of employees' services.
- This reserve is not used to fund employee retirement incentives.
- Established with Board of Education resolution.
- Funded by budgetary appropriation funds that may be legally appropriated or other reserves authorized in GML.

Employee Benefit Accrued Liability Reserve (GML 6p)

- Board of Education terminates if balance is in excess of obligations, funds may be transferred to any other reserve authorized by GML.
- Accounted for in the General Fund (A830).

Retirement Contribution Reserve (GML 6r)

- Used for the purpose of financing employee retirement contributions.
- Established with Board of Education resolution.
- Funded by budgetary appropriation or other funds that may be legally appropriated, transfer from tax certiorari, capital or repair reserves.
- Within sixty days of the end of the fiscal year, Chief Fiscal Officer shall report on the operation and condition of the fund to the BOE.

Retirement Contribution Reserve (GML 6r)

➤ TRS Sub Fund

- Annual appropriations cannot exceed 2% of salaries of TRS members, defined in Ed Law 501 subdivision 4, for preceding fiscal year.
- Maximum accumulation in sub-fund limited to limited to 10% of prior year TRS salaries
- ASBO NY has a sample resolution for the creation of the reserve sub-fund.

[https://www.asbonewyork.org/page/state budget.](https://www.asbonewyork.org/page/state%20budget)

Retirement Contribution Reserve (GML 6r)

- No limit.
- Transfers to or from other reserve funds require a public hearing with 15 day notice.
- Accounted for in the General Fund (A827).

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.

Sources

- SED Budget Handbook
- NYSSBA School Law Book
- OSC Local Government Management Guide – Reserves
- Questar BOCES State Aid Planning
- Questar BOCES Fund Balance and Reserves Guidebook
- NYSED Reference Manual

Contact Information

Marianne E. Van Duyne, C.P.A.
R.S. Abrams & Co., LLP
mvanduyne@rsabrams.com

Christopher Schneider, C.P.A.
R.S. Abrams & Co., LLP
cschneider@rsabrams.com

Richard Cunningham
Massapequa Union Free School District
rcunningham@msd.k12.ny.us
RichCunningham13@gmail.com