

**Suffolk Schools Superintendents  
Association  
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Reserve Planning and  
Managing Fund Balance  
During the COVID-19 Pandemic

# Presented By:

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# 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

- ▶ 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.

# 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?

# Planning for Next Year In Light of Potential State Aid Cuts

- ▶ Appropriate and utilize reserves in 2020-2021 to fund expenditures.
- ▶ Fund current reserves in 2019-2020 for future use.
- ▶ Exceed the 4% limit on unassigned fund balance in 2019-2020 for future use (not in compliance with RPTL 1318).
- ▶ Classify fund balance as appropriated for a specific purpose in 2019-2020 (Not in compliance with RPTL 1318).



# Proposed Legislation Addressing COVID-9

- ▶ Bill Number A10492
- ▶ Status: Passed Senate May 28, 2020 and returned to Assembly May 28, 2020.
- ▶ Addresses the COVID-19 related financial burden put on school districts by providing financial and budgetary flexibility.
- ▶ Extends the rollover period for bond anticipation notes issued in calendar year 2015 through 2021 to extend to seven years from the original date of issue, as opposed to the current five year requirement.

# Proposed Legislation Addressing COVID-9

- ▶ Authorizes school districts to spend or temporarily transfer moneys in capital reserve funds for COVID - 19 related expenditures, without the referendum requirement.
- ▶ Authorizes school districts to temporarily transfer funds from any reserve fund to pay for operating costs attributable to COVID-19. Funds need to be transferred back into reserve over a period of not more than five years, with at least twenty percent transferred each year with interest.

# Proposed Legislation Addressing COVID-9

- ▶ Authorizes the repayment of inter-fund advances made for COVID-19 related expenditures by the end of the next succeeding fiscal year or later, instead of the end of the current year.

# Effects of COVID-19

- ▶ Mid Year State Aid Cuts?
- ▶ CARES Act Stimulus Funds
- ▶ Flexibility in Federal Grant Requirements – Includes:
  - Allowability of certain COVID-19 related costs. Including technology, for certain grants
  - Need to submit budget changes necessitated by COVID-19
  - Carryover process extended for certain education grants



# COVID-19 Federal Aid

- Coronavirus Relief Fund – 7.5 billion total for school districts and eligible local governments. New York State was allocated \$5.1 billion. Funding should be used to cover COVID-19 expenditures incurred from March 1, 2020 to December 30, 2020. Funds were disbursed in late April 2020 to the State.
- Education Stabilization Fund – New York State received \$1.2 billion. These funds will be used to offset the Pandemic Adjustment on the State Aid runs for 2020-2021.



# COVID-19 Federal Aid

- FEMA Disaster Relief Fund – school districts must apply for these funds.
- Child Nutrition Programs – additional funding to ensure children receive meals while school is not in session, and is effective through September 30, 2021.

# COVID-19 Grants

## FEMA Grants – Document Expenditures!

- ▶ Fact Sheet (eligible expenses)

<https://www.fema.gov/news-release/2020/03/19/coronavirus-covid-19-pandemic-eligible-emergency-protective-measures>

- ▶ Simplified Process: <https://www.fema.gov/news-release/2020/03/23/coronavirus-covid-19-pandemic-public-assistance-simplified-application>

- ▶ Recipients should work through their FEMA regional points of contacts.

<https://www.fema.gov/fema-regional-contacts>

# COVID-19 Grants

## Child Nutrition Grants

- ▶ Meals to You - provides crucial nutrition to eligible children who may otherwise be unable to access federal nutrition programs while schools are closed due to COVID-19.
  - <http://www.cn.nysed.gov/content/guidance-utilizing-emergency-meals-you-while-schools-are-closed-due-covid-19>
- ▶ Voices for Healthy Kids - helping those most under-resourced better gain access to health care, healthy food, and income support and stability during the crisis.
  - <https://voicesforhealthykids.org/campaign-resources/grants>
- ▶ GENYOUth - grants of up to \$3,000 per school to supply resources for meal distribution and delivery efforts.
  - <https://covid-19.genyouthnow.org/>





# OSC Accounting Bulletin – CARES Act Information

- ▶ Issued June 2020
- ▶ CARES Act funds are primarily focused on assisting school districts with funding unanticipated expenditures incurred due to COVID-19 and not intended to bridge budget gaps due to a reduction in state aid.
- ▶ Education Stabilization Funds should be recorded in new Revenue Code A4286 – Federal Aid, CARES Act Education Stabilization Fund.



# OSC Accounting Bulletin – CARES Act Information

- ▶ COVID-19 related expenditures should be tracked and recorded using existing expenditure codes.
- ▶ Options for tracking COVID-19 related expenditures include:
  - Expanding the object of the expenditure code by adding additional digits.
  - Run a date filter on expenditures during a specific time period.
  - Use a separate spreadsheet to track expenditures.



# OSC Accounting Bulletin – CARES Act Information

- ▶ Appropriation status reports should be monitored on a monthly basis at a minimum to identify any overspent budget codes.
- ▶ Budget transfers or budget amendments should be approved and recorded at the time of overspending as opposed to the end of the 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.

# 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.



# Long Range Planning

- ▶ A 5-year financial and capital plan with reasonable assumptions.
- ▶ Tutorial:  
<https://www.osc.state.ny.us/localgov/academy/modules/myfp/index.htm>
- ▶ Template:  
<https://www.osc.state.ny.us/localgov/academy/modules/myfp/template.htm>
- ▶ 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 had no justification for excess funding levels of reserves.
- ▶ Districts exceeded 4% unassigned fund balance limit when OSC added excesses in tax cert and debt service fund.
  - Excess tax certioari reserves without support or annual review
  - Debt service fund reserves not supported by debt issues.
- ▶ Board did not adopt an adequate fund balance policy (did not address funding levels, use of reserves or replenishment).

# Findings in Recent OSC Audits

- ▶ District officials consistently overestimated expenditures in the adopted budgets.
- ▶ District appropriated fund balance that was not needed to fund future budgets.
- ▶ Board appropriated significant amounts of reserves in the annual budgets resulting in a negative unassigned fund balance.
- ▶ District officials inappropriately transferred funds from reserves and transfers were not approved by voters as required.

# Potential School Board Reaction to OSC Findings

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

# Don't 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 1<sup>st</sup> day of the fourth fiscal year after deposit.
- ▶ Accounted for in the General Fund (A864).

# Reserve for 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.



# Reserve for 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 budget)

# 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 Gov't Mgt. Guide –Reserves
- ▶ Questar BOCES State Aid Planning
- ▶ NYSED Reference Manual

# Contact Information

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