

Duanesburg Central School District
Reserve Fund Report and Analysis
2018-2019 Year-End Summary Report – Final
Board of Education Review/Approval 12/10/19

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Overview

The New York State Comptroller's guidance on the Reserve Fund describes the importance of Reserve Funds for good financial management.

“Saving for future projects, acquisitions, and other allowable purposes is an important planning consideration for local governments and school districts. Reserve funds provide a mechanism for legally saving money to finance all or part of future infrastructure, equipment, and other requirements. Reserve funds can also provide a degree of financial stability by reducing reliance on indebtedness to finance capital projects and acquisitions. In uncertain economic times, reserve funds can also provide officials with a welcomed budgetary option that can help mitigate the need to cut services or to raise taxes. In good times, money not needed for current purposes can often be set aside in reserves for future use.”

The establishment and funding of reserves is an important consideration in the maintenance of a sound financial plan for any school district. Strict adherence to state laws is required to ensure reserves are both legal and appropriate. Adequately funded reserves are vital to the long-term health and stability of the school district.

The Duanesburg Central School District believes that the judicious use of reserves reduces long-term borrowing costs, smooths large fluctuations in tax rates, and minimizes the possibility of mid-year budget cuts which could have a direct impact on students. We believe it is in the best interest of students, staff, and taxpayers to prudently establish and use reserves to weather the financial storms and uncertainties that can occur throughout a school year.

Since New York State law mandates that expenditures can be no greater than the budget approved by the voters in May each year, Duanesburg Central School District budgets conservatively to ensure that unanticipated expenditures do not result in mid-year cuts that could have an immediate impact on students and/or staff. This practice has allowed the District to weather revenue reductions, state aid holdbacks, increases in expenditures such as transportation or Special Education, and other negative adjustments without impacting instructional programs. However, conservative budgeting can also result in budget surpluses at year-end. The Board of Education reviews budget surpluses via the annual Fund Balance Report and determines the best use of these surpluses including transfers to voter or Board approved reserves, or to a reduction in the ensuing year tax levy.

Legally established reserves can provide many benefits to the school district and to its taxpayers. However, these reserves can also cause confusion when not utilized and/or their purpose is not clearly understood by the community.

Reserves

As stated, the Board is responsible for appropriately managing the financial affairs of the District. Reserves may be established by the Board in accordance with applicable laws. Money set aside in reserves must be used in compliance with statutory provisions which determine how reserves are established and how they may be funded, expended, and/or discontinued. Generally, school districts are not limited as to how much money can be held in reserves. However, reserve balances must be reasonable.

Funding reserves at greater than reasonable levels contributes to real property tax levies that are higher than necessary because the excessive reserve balances are not being used to fund operations. The Board is responsible for developing a formal plan for the use of its reserves, including anticipated use and need of reserve funds and how and when disbursements should be made. By maintaining excessive and/or

unnecessary reserves, the Board and District officials may miss opportunities to lower the property tax burden and/or funds from being used to meet District needs.

Best Practices for Reserves

1. Familiarize yourself, the administrative team and the Board of Education as to the purpose and rules of Reserves Funds. Attached are Reserve Funds available to school districts and BOCES. But not all school districts or BOCES can establish each of the listed funds. For example, the big five school districts, school districts with more than 125,000 inhabitants, cannot use the Insurance Reserve Fund, Employee Benefit Accrued Liability Reserve Fund or the Retirement Contribution Reserve Fund. Only a BOCES can use the Career Education Instructional Equipment Reserve Fund.
2. Share the New York State Comptroller's guidance document with interested parties. The document can be found at the link noted below in the resource section.
3. Review your district's reserve funds annually to assure that the funding level is appropriate based on the prescribed purpose of the Reserve Fund. Share an update with the Superintendent and Board of Education.
4. When establishing a Reserve Fund, document the reasons and the dollar amount. Keep a record of discussion with the Board of Education and any Board action. Keep the documentation in the business office.
5. Share information with your external auditor during the school year as you make changes to Reserve Funds.
6. If the district changes the level of funding in a reserve fund, document the reasons, inform the Board of Education and keep a copy of the resolution in the business office.

Resources

- New York State Office of State Comptroller guidance document: This document outlines all of the Reserves available to municipalities and school districts.
 - <http://osc.state.ny.us/localgov/pubs/lgm/reservefunds.pdf>
- New York State Office of State Comptroller Local Government and School Accountability Accounting Releases: The state may create new reserves or clarify requirements related to a reserve. This information is released in a bulletin. Bulletins can be found at this link:
 - <http://osc.state.ny.us/localgov/pubs/releases/pastreleases.htm>

The following is a report/analysis of the End of Year status and internal controls over Reserve Funds at Duanesburg Central School District:

Summary of Reserve Funds for Budget Year

The district funded the Capital Reserve fund and created a TRS Reserve Fund at the end of the fiscal year. There was no usage of Reserve funds in the 2018-19 general budget.

Reserve for Encumbrances (Also known as Fund Balance)

Funding Goal - Each year the reserve amount is equal to the outstanding purchase order obligations to be satisfied in the following school year.

Purpose – This reserve allows outstanding encumbrances remaining at the end of a school year to be carried over to the next school year.

Funding Methods – The funding is realized from revenue gleaned from the prior school year.

Use of Reserve – The reserve is used to liquidate purchase orders and requisitions from prior school years.

Monitoring of Reserve – The reserve will be monitored by the Superintendent and Business Official.

Caution – This reserve exists only for so long as there exists an encumbrance (eg. P.O.) to match the funds in the reserve.

Tax Certiorari Reserve

This fund is no longer carrying a balance as established by BOE. No judgements or claims existing at this time.

Employees Benefit Accrued Liability Reserve (EBLAR)

Funding Goal – Not to exceed actuarial projections prepared by State Aid Planning.

Funding Level – The current amount of the fund is \$33,123 (Fixed per guidance promulgated by the New York State Comptroller’s Office). If the District determines that such an account is no longer needed or is overfunded, monies may be transferred to a reserve fund established under Education Law §3651, but only to the extent that the monies in the employee benefit accrued liability reserve fund exceed a sum sufficient to pay all liabilities incurred or accrued against the employee benefit accrued liability fund, as certified to the governing board by the fiscal and legal officers of the local government prior to the discontinuance of the fund. Consequently, the Business Official and Superintendent, working in concert with the external auditor and the board of education, will transfer excess EBLAR reserve funds to the Retirement Contribution (ERS) or unemployment reserves pending BOE approval.

Purpose – The purpose of this fund is to pay accrued benefits due to employees upon termination of service for vacation, sick, leave, personal leave, etc.

Funding Methods – The source from which the funds will be obtained can include all of the following: unappropriated fund balance from the general fund as determined by the Board of Education, interest income related to the investment of monies in the fund, and any other additional monies thereafter authorized by the voters of the District.

Use of Reserve – This reserve is used to pay for employee compensated absences upon termination of employment from the school district. Recent amendments to General Municipal Law allows for use of the reserve as a revenue to cover the amount equivalent to a district’s remaining gap elimination adjustment or the dollar value of excess funding remaining in the fund as determined by the Comptroller.

Monitoring of Reserve – The reserve is monitored by the Superintendent and Business Official.

Employee Retirement Contribution (ERS) Reserve Fund

Funding Goal – A minimum funding level equivalent to the value of five consecutive years as of the close of the current year.

Funding Level – The current funding level is \$1,045,483.

Purpose - This reserve is used to pay for district expenses to the NYS Employee’s Retirement System only.

Funding Methods – Funds are placed in this reserve from excess fund balance.

Use of Reserve – Funds are to be appropriated against ERS billings for the current budget year.

Monitoring of Reserve – This reserve is monitored by the Superintendent and Business Official.

Teacher Retirement Contribution (TRS) Reserve Fund (Sub Fund)

Funding Goal – Annual contribution cannot exceed 2% of the total compensation or salaries of all teachers employed by the district who are members of TRS paid during the immediately preceding fiscal year. A maximum level of funding will not exceed 10% of the total compensation or salaries of all teachers employed by the district who are members of TRS paid during the immediate preceding fiscal year.

Funding Level – The current funding level is \$99,565

Purpose - This reserve is used to pay for district expenses to the NYS Teacher’s Retirement System only.

Funding Methods – Funds are placed in this reserve from excess fund balance.

Use of Reserve – In the event of TRS budget shortfalls funds are to be appropriated against TRS billings for the current budget year.

Monitoring of Reserve – This reserve is monitored by the Superintendent and Business Official.

Unemployment Insurance Reserve

Funding Goal – Currently, reserve balance represents approximately 2.46% of the 2018-19 budgeted salaries.

Funding Level – This reserve is funded at \$180,233.

Purpose – This reserve can be used to pay the cost of reimbursement to the New York State Unemployment Insurance Fund for unemployment benefit payments to claimants.

Funding Methods – This reserve may be established by a board resolution and funded by budgetary appropriations or other funds as may be legally appropriated.

Use of Reserve – In accordance with the law, this reserve may be used at the discretion of the Superintendent and Business Official specifically to offset expenses tied to unemployment insurance claims related to employee attrition.

Monitoring of Reserve – This reserve is monitored by the Superintendent and Business Official.

Property Loss Reserve

Funding Goal – An amount that is deemed adequate to offset any minor property loss that occurs.

Funding Level – This reserve is funded at \$62,159.

Purpose – This reserve is available to cover property loss and liability claims.

Funding Methods – This may be funded by budgetary appropriations or other funds such as excess fund balance. The total amount of the appropriated reserve cannot exceed 3% of the annual budget.

Use of Reserve – In accordance with law, this reserve may be used without referendum to offset expenses related to property loss.

Monitoring of Reserve – This reserve is monitored by the Superintendent and Business Official.

Workers' Compensation

Funding Goal – An amount that is deemed adequate to offset the costs of workers' compensation benefits for the District.

Funding Level – This reserve will be funded as deemed appropriate.

Purpose – This reserve is to pay compensation and benefits, medical, hospital or other expenses authorized by Article 2 of the Workers' Compensation Law and to pay the expenses of administering a self-insurance program.

Funding Methods – This reserve will be funded from excess fund balance or by budgetary appropriations.

Use of Reserve – This reserve will be used for pay for workers' compensation benefits.

Monitoring of Reserve – This reserve is monitored by the Superintendent and Business Official

The District has a balance of \$75,000 in this reserve as of June 30, 2019. In fiscal year 2018-19 our expenses did not exceed our budget. The reserve remained with approximately one year of expenses. As Workers' compensation expenses can rise or fall sharply from year to year we feel the budgeted level is sufficient at this time to meet current year's needs. In the instance where claims may rise/fall sharply again, an analysis will be made on the reasonableness of the balance of the reserve.

Insurance

Funding Goal – An amount that is deemed adequate to offset costs of uninsured losses, claims, actions, or judgments.

Funding Level – This reserve will be funded as deemed appropriate.

Purpose – This reserve is to fund certain uninsured losses, claims, actions, or judgments for which the local government is authorized or required to purchase or maintain insurance, with a number of exceptions. An insurance reserve fund may also be used to pay for expert or professional services in connection with the investigation, adjustment, or settlement of claims, actions, or judgments.

Funding Methods – This reserve will be funded from excess fund balance or by budgetary appropriations.

Use of Reserve – This reserve will be used to pay for uninsured losses, claims, actions or judgments.

Monitoring of Reserve – The reserve is monitored by the Superintendent and Business Official

The District has a balance of \$733,000 in this reserve as of June 30, 2019.

Capital Reserve

Funding Goal – To be used in future Capital Project work through the use of fund balance which will reduce the need for district borrowing.

Funding Level – This reserve's current funding amounts to \$2,852,163.

Purpose – This reserve is available to cover property loss and liability claims.

Funding Methods – This may be funded by budgetary appropriations or other funds such as excess fund balance. The current total amount of the appropriated reserve cannot exceed \$6,000,000 as set by voters in May 2018.

Use of Reserve – In accordance with law, this reserve may be used upon a voter approval with specified purpose related to capital work.

Monitoring of Reserve – This reserve is monitored by the Superintendent and Business Official.

Duanesburg Central School District: Statutory Reserve Fund Analysis Report - attached