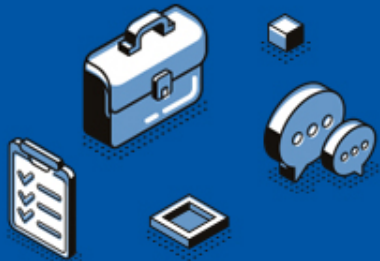


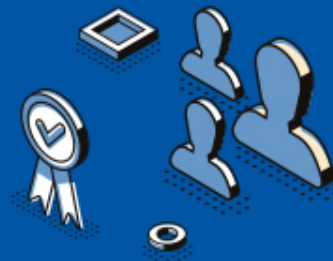


ASSOCIATION
OF SCHOOL
BUSINESS OFFICIALS



SBO BOOTCAMP

Fund Balance & Reserves



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Agenda

- WHERE ARE WE NOW
- FUND BALANCE MANAGEMENT

Where are we now?

- Significant level of fund balance growth last year due to COVID closures
- Federal stimulus funds for next few years
- Districts could see some surpluses as a result of federal stimulus
- Foundation Aid – fully funding over time
- Inflation – what will your budget look like
- Staff shortages
- What can Districts do to better position themselves for the future if reserves are adequately funded
 - Prudent funding and use of reserves

Potential School Board Reaction/OSC comments

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

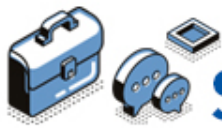
Don't Overreact

- 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

Central School District

* If the school district spent their entire budget and received the exact revenues they budgeted then they would have eroded fund balance equal to the appropriated fund balance and reserves

	<u>2017-18</u>	<u>2017-18</u>	
	Original		
	Budget		
	<u>(from news letter)</u>	<u>Actual</u>	<u>Variance</u>
Voter Approved Expense Budget -	<u>\$ 42,155,734</u>	<u>\$ 42,155,734</u>	<u>\$ -</u>
Revenues to Support Budget -			
Property taxes (includes pilot)	\$ 25,285,092	\$ 25,285,092	\$ -
State and federal aid	12,756,119	12,756,119	-
Other revenues	1,481,000	1,481,000	-
Transfers from debt service	180,000	180,000	-
Subtotal	<u>\$ 39,702,211</u>	<u>\$ 39,702,211</u>	<u>\$ -</u>
Appropriated fund balance	\$ 1,000,000		
Appropriated reserves	<u>1,453,523</u>		
Subtotal	<u>\$ 2,453,523</u>		
Total Revenues to Support Budget	<u>\$ 42,155,734</u>		
DIFFERENCE	<u>\$ -</u>	<u>\$ (2,453,523) (A)</u>	
Fund Balance Analysis -			
July 1, 2017	\$ 19,573,885		
Expenditures exceeded revenues	<u>(2,453,523) (A)</u>		
June 30, 2018	<u>\$ 17,120,362</u>		



SBO BOOTCAMP

Central School District

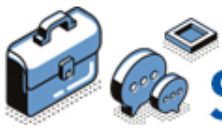
	<u>2017-18</u>	<u>2017-18</u>	
	Original		
	Budget		
	<u>(from news letter)</u>	<u>Actual</u>	<u>Variance</u>
Voter Approved Expense Budget -	<u>\$ 42,155,734</u>	<u>\$ 40,614,187</u>	<u>\$ 1,541,547</u>
Revenues to Support Budget -			
Property taxes (including pilot)	\$ 25,285,092	\$ 25,328,358	\$ 43,266
State and federal aid	12,756,119	13,081,966	325,847
Other revenues	1,481,000	1,808,426	327,426
Transfers from debt service	180,000	180,619	619
Subtotal	<u>\$ 39,702,211</u>	<u>\$ 40,399,369</u>	<u>\$ 697,158</u>
Appropriated fund balance	\$ 1,000,000		
Appropriated reserves	<u>1,453,523</u>		
Subtotal	<u>\$ 2,453,523</u>		
Total Revenues to Support Budget	<u>\$ 42,155,734</u>		
DIFFERENCE	<u>\$ -</u>	<u>\$ (214,818) (A)</u>	
Fund Balance Analysis -			
July 1, 2017	\$ 19,573,885		
Expenditures exceeded revenues	<u>(214,818) (A)</u>		
June 30, 2018	<u>\$ 19,359,067</u>		

Considerations In Managing Fund Balance

- Unassigned fund balance should be at or below 4% of next year's budget
- Amount of fund balance appropriated for subsequent years taxes
- Long term planning – reserves
- Tax levy/Tax cap
- What about next year? Need to stress this why?

Fund Balance

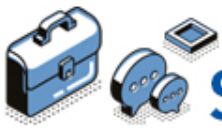
- Projection of fund balance helps Boards make informed decisions
 - Program
 - Reserves
 - Appropriated fund balance and reserves
 - Tax levy/Tax cap override
- Risk of poor projections
 - Loss of trust
 - Superintendent
 - Board
 - Community
 - Unions
- Question
 - Does your Board of Education understand why they get the Appropriations Status Report and Revenue Status Report



Calculating Fund Balance Method #1

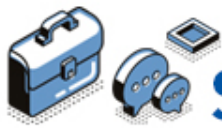
- Step 1
 - Total fund balance as of 7/1/xx
 - Plus: actual (projected) revenues xx-xy
 - Less: actual (projected) expenditures xx-xy
 - = ending fund balance at 6/30/xy
 - This represents the TOTAL projected fund balance

- Step 2 – Take total projected fund balance and break out by classification
 - Total projected fund balance
 - Less: non-spendable fund balance
 - Less: restricted fund balance (planned balance of reserves approved by the Board) (includes year end funding into reserves)
 - Less: assigned fund balance (appropriated fund balance, encumbrances if not included in projected expense)
 - = unassigned fund balance (should be less than or = to 4% of ensuing year budget)



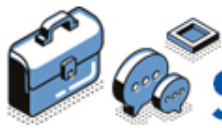
Calculating Fund Balance Method #2

- Step 1
 - Total fund balance as of 7/1/xx
 - Plus/minus: variance between budgeted revenues and actual revenues xx-xy
 - Plus/minus: variance between budgeted expenditures and actual expenditures xx-xy
 - Minus: the amount of assigned fund balance used to balance the 20xy budget
 - Minus: encumbrance balance at 6/30/xx
 - Plus: encumbrance balance at 6/30/xy
 - = Ending fund balance as of 6/30/xy
- Step 2 – Take total projected fund balance and break out by classification
 - Same as Method #1
- Other items to consider
 - School lunch deficit
 - Long term receivables with special aid fund



Calculating Fund Balance Method #2

Total Fund Balance at 7/1/21	\$	2,400,000.00
Plus (minus) revenue surplus		680,000.00
Plus (minus) expenditure surplus		590,000.00
Less: prior year encumbrances		(150,000.00)
Plus: current year encumbrances		175,000.00
Projected ending fund balance at 6/30/22	\$	3,695,000.00
Less: nonspendable fund balance		(425,000.00)
Less: restricted fund balances (projected balance at 6/30/22)		
capital reserve		(800,000.00)
ERS reserve		(200,000.00)
EBALR		(150,000.00)
Liability reserve		(50,000.00)
Less: assigned appropriated fund balance		(50,000.00)
Less: assigned encumbrances		(175,000.00)
Less: 4% of ensuing year budget	\$	(1,200,000.00)
Amount over 4%	\$	645,000.00



Sample Fund Balance Calculation

			These numbers always need to reflect year end balances on financials		
A806	16-17 nonspendable	450,000.00			
A914	encumbrances	1,650,199.00			
A917	appropriated FB - cap	0.00			
A914	appropriated FB	269,601.00			
A917	undesignated FB	<u>2,875,257.27</u>			
Total Fund Balance			5,245,057.27		
plus:					
revenues 5.31.18		67,288,802.20			
foster care / special ed tuition		130,000.00			
forecast revenues		<u>1,250,000.00</u>			
Total Revenues			68,668,802.20		
TOTAL FUND BALANCE & REVENUES				<u>73,913,859.47</u>	
expenditures	budget	actual 5.31.18	Projected YE encumbrances	forecast	over/short
100's (Payroll Codes)	32,641,139.48	27,697,853.56	0.00	3,500,000.00	1,443,285.92
200's (Equipment)	1,927,954.39	1,311,594.83	450,189.57	120,000.00	46,169.99
400's (Contractual)	10,648,033.80	8,790,918.20	394,704.15	850,000.00	612,411.45
500's (Supplies)	1,396,733.67	871,445.80	308,778.23	50,000.00	166,509.64
600's (Debt Service-Prin)	4,556,463.76	4,461,462.76	0.00	0.00	95,001.00
700's (Debt Service-Int)	942,706.88	912,706.88	0.00	0.00	30,000.00
800's (All Benefits/ERS/TRS)	17,522,128.18	15,276,994.48	1,669.00	1,550,000.00	693,464.70
900's (Interfund Trans)	<u>2,290,741.00</u>	<u>2,263,161.82</u>	<u>0.00</u>	<u>0.00</u>	<u>27,579.18</u>
Total Expense	71,925,901.16	61,586,138.33	1,155,340.95	6,070,000.00	3,114,421.88
Prior Year Restricted Encumbrances					68,811,479.28
			beginning fund balance/revenue less expenses		<u>5,102,380.19</u>
other fund balance adjustments					
Tax Certiorari Reserve				24,690.93	
Workers Compensation Reserve				49,000.00	
Insurance Reserve				5,000.00	
Retirement Contribution Reserve				250,000.00	
capital reserve (included in transfers above)				232,000.00	
Unemployment Insurance				5,000.00	
Interest allocated to other reserves				(7,000.00)	
					<u>558,690.93</u>
			adjusted fund balance		<u>5,661,071.12</u>
Less adjustments items not reflected above					
Appropriated FB	755,000.00				
Non Spendable fund balance	425,000.00				
4% FB	2,957,056.36				
Estimated Payroll Accrual	280,000.00				
Retirement Incentive Payout 17-18	500,000.00				
		4,917,056.36			
Less Total Adjustments:				4,917,056.36	
fund balance to be allocated into reserves				<u>744,014.76</u>	

Calculating the 4% Fund Balance Limit

SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION:

2021-22 voter approved expenditure budget \$ 29,431,522

Unrestricted fund balance:

Assigned fund balance	\$ 526,247
Unassigned fund balance	1,177,261
Total Unrestricted fund balance	<u>\$ 1,703,508</u>

Less adjustments:

Appropriated fund balance	\$ 285,000
Encumbrances included in assigned fund balance	241,247
Total adjustments	<u>\$ 526,247</u>

General fund fund balance subject to Section 1318 of
Real Property Tax Law

1,177,261

ACTUAL PERCENTAGE

4.00%

Calculating the 4% Limit

- Committed + Assigned + Unassigned
- Less:
 - Appropriated fund balance
 - Amount reserved for insurance recovery
 - Amounts reserved for tax reduction
 - Encumbrances included in committed and assigned fund balance

Keys to Projections

- Revenues
 - State aid – reconcile using state aid reconciliation worksheets provided by Questar
 - Review BOCES aid information on BOCES website to ensure it is in agreement (consider contacting BOCES to confirm)
 - Understand impact of year end receivables
 - Complete analytical comparison of projected revenue to prior year actual and understand differences
 - Review balance sheet to ensure prior year receivables have been properly accounted for or written off

Keys to Projections

■ Expenditures

○ Salaries – generally encumbered by the system

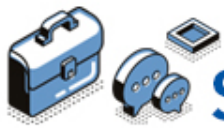
- Need to understand hourly employees
- What are you charging to AARPA and CRRSA
 - Have you accounted for both salary and benefits

○ Benefits

- SS and Medicare will need to be modified based on any salary adjustments
- ERS – review b/s to make sure prior year accrual has been cleaned up, project April, May, and June liability and expense
- TRS – review b/s to make sure prior year liability is cleaned up. Project year end accrual based on employee contribution and salaries subject to TRS time rates
 - ✓ In many instances both the ERS and TRS are calculated by the system
 - ✓ You still need to make sure the rates used by the system are correct
- Health Insurance – project out remaining months, self funded plans have a more difficult challenge

Keys to Projections

- Expenditures (Continued)
 - Debt service – principal and interest
 - Be aware of refunding
 - BOCES expenditures
 - Supplemental payments
 - Based on current contract (liquated encumbrances to actual contract amount)
 - Review estimated contractual expense (monthly warrants)
 - Encumbrances
 - Review and liquidate old/blanket PO's
 - Adjust utility encumbrances based on adjusted projections based on average monthly
 - Review handicapped tuition encumbrances (you should know who is being served and their cost)
 - Compensated absences and incentive payments



Keys to Projections

Budget <u>Code</u>	<u>Description</u>	Original <u>budget</u>	Amended <u>budget</u>	5.31.18 <u>Actual</u>	<u>Encumbered</u>	<u>Variance</u>
1620.4	Utilities	138,000	140,000	65,000	75,000	-
1621.4	Maintenance	250,000	255,000	120,000	85,000	50,000
2250.472	Tuitions	150,000	150,000	75,000	75,000	-
2250.49	BOCES	800,000	800,000	795,000	5,000	-
9010.8	ERS	350,000	350,000	200,000	120,000	30,000
9020.8	TRS	680,000	680,000	-	-	680,000
9731.7	Principal	900,000	900,000	450,000	-	450,000
9731.7	Interest	350,000	350,000	150,000	-	200,000

Analytical Comparison

Budget <u>Code</u>	<u>Description</u>	<u>Actual</u>	<u>Projection</u>	Projected <u>actual</u>	Prior year <u>actual</u>	Year over Year <u>variance</u>
1620.4	Utilities	138,000	40,000	178,000	170,000	8,000
1621.4	Maintenance	250,000	15,000	265,000	200,000	65,000
2250.472	Tuitions	150,000	25,000	175,000	325,000	(150,000)
2250.49	BOCES	800,000	85,000	885,000	880,000	5,000
				-		
9010.8	ERS	350,000	-	350,000	345,000	5,000
9020.8	TRS	680,000	75,000	755,000	850,000	(95,000)
				-		
9731.7	Principal	900,000	-	900,000	900,000	-
9731.7	Interest	350,000	-	350,000	355,000	(5,000)

Analytical Comparison

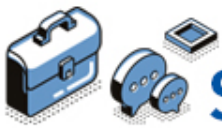
Budget <u>Code</u>	<u>Description</u>	<u>Budget</u>	Projected <u>actual</u>	Prior year <u>actual</u>	Year to Year <u>variance</u>
1001	Taxes	895,000	900,000	890,000	10,000
1081	Pilot	395,000	250,000	400,000	(150,000)
2230	Tuitions	145,000	30,000	150,000	(120,000)
2401	Interest	95	101	95	6
2770	Miscellaneous	45,000	175,000	150,000	25,000
3101-3263	State aid	800,000	885,000	880,000	5,000
4601	Federal aid	40,000	45,000	50,000	(5,000)
5031	Transfers	100,000	-	65,000	(65,000)

Keys to Projections

- Expenditures (Continued)
 - Reserve transactions
 - Project amounts to be allocated from reserves to support expenditures
 - ✓ Estimated expenses up to appropriated amount in xx budget
 - ✓ Reflect any liquidated or other mid year reserve transactions
 - Allocate interest to reserve
 - Complete analytical based on prior year actual to current year projected expenditures understanding large variances
 - Complete an analytical of budget to projected actual understanding large variance

Projection Variances

- At the end of the year your projections were off... What now?
- Your projection was 4% variance while your actual variance ended up being 10%
 - Must understand the key variances and why you did not identify it in your projections
 - Individuals involved
 - Need to make sure those outside the business office understand the importance of the projections
- After each projection is completed you should save the projection for comparison to year end in order to enhance your future projections and allow for comparability each year



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

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
- After each projection is completed you should save that projection for comparison to year end in order to enhance your future projections and allow for comparability each year

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

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

Changes to Law

- New Legislation
 - » Property Tax Report Card changes
 - » Schedule of reserve funds which include:
 - Name of reserve
 - Description of its purpose
 - Balance at the close of the third quarter
 - Estimated balance at June 30
 - Brief statement for use in next fiscal year
 - » Reserve funds **MUST** be funded by resolution of the Board
 - » Portal update:
 - Annual report on the operation and conditions of Reserve Funds

Best Practice- Appropriating Reserves

- Best practice for reserve appropriated as part of budget process
 - When expense is incurred
 - Or if intent was to liquidate reserve then July 1
- Mid year resolution
 - After “board authorization” and expense incurred
 - If liquidation or transfer to another reserve
 - After board approval
- The district should consider incorporating their strategy into their reserve plan to eliminate any potential questions as to the timing of the transactions



Questions



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