



ASSOCIATION
OF SCHOOL
BUSINESS OFFICIALS

RESERVES 101

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AGENDA

- Where are we now
- Appropriated Reserves
- Planning
- Summary of Reserves
- Purpose and Options for Unexpected Balances

Year End

- Will you have surplus
- Have you communicated your projections to the Board
- What is your plan
 - Keep in fund balance be over 4%
 - Move to flexible reserve
 - Deal with potential deficits in School Lunch program
 - Appropriate it all
 - Other

OSC Bulletin

- Resources to Manage School District Budgeting during the COVID-19 Crisis
<https://www.osc.state.ny.us/localgov/covid-19.htm>
- Acknowledges
 - Schools may have surplus
 - Schools may face significant budget shortfalls
- Managing Fund Balance Levels
 - Appropriating surplus fund balance
 - Evaluating current outstanding debt – partially or fully retire debt
 - Any needed one-time purchases
 - Assessing existing reserves levels and need for additional funding to meet future anticipated requirements

OSC Bulletin

- District officials should be mindful of the following:
 - Spending levels must be accurately gaged to ensure planned services are properly funded
 - Reserve funds should be considered as a source to fund appropriations related to the purpose of the reserve
 - Surplus fund balance should be considered as a source used to address both expected and unexpected revenue shortfalls, any unforeseen expenditures or to help ensure adequate cash flow

OSC Reserve Past Comments

- OSC Finding:

Unemployment Insurance Reserve – The District made payments to the NYS Unemployment Insurance Fund for the three-year period ending June 30, 2018, averaging \$30,017 per year. The reserve's balance of \$1.75 million is sufficient to cover 58 years of unemployment costs or 149 employees at the maximum benefit.¹²

- District Response:

We view reserves as a long-term financial tool. Some reserves provide a means to plan for large future expenditures when planning is an option. Others provide protection against large, unexpected expenses. Still others will soften the blow of significant year to year increases in expenses. We do not determine appropriate reserve levels by looking back at their use during a strong economy.

School Districts Reaction

- Be the voice of reason
 - Don't overreact
- Be as transparent as possible to document local decision on reserves
 - What does your reserve plan indicate
 - How have you communicated to Board/Audit Committee
 - Document budget discussion on reserves

Appropriated Reserves

- Part of the budget process
 - Individual reserves should be identified not a lump sum amount to be appropriated (we recommend outlining it in the budget news letter)
 - Mid year budget amendment
 - By resolution of the Board
 - Voter approved separate proposition

Appropriated Reserves

Recording in the Budget

Dr. 510 Estimated Revenues

Dr. 511 Appropriated Reserves

Dr. 599 Appropriated Fund Balance

Cr. 960 Appropriations

To record budget to reflect Estimated Revenues, Appropriated Reserves, Appropriated Fund Balance, and Appropriations

Appropriated Reserves

- Have you properly reflected your appropriated reserves in order to project fund balance
- When do you record the entry to reserves
 - July 1st
 - When expense is incurred
 - At the end of the year
 - Not at all if the District has budget surplus

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

Appropriated Reserves

Mid Year Reserve Adjustment

Budget entry

Dr. Appropriated reserves

Cr. Appropriations

To record amendment to budget for Board or voter approval of reserve fund

General Fund Entry's

Dr. Expenditures

Cr. Due to other funds or Cash

To record expenditure related to the Board approved reserve fund transactions.

Dr. Reserve fund

Cr. Fund balance

To record allocation (close expense) of reserve funds to fund balance

Year End Planning

- **Funding of Standard Reserve** (to be done in June)

Based on the recommendation of the Superintendent of Schools, we recommend the funding of the _____ reserve fund, as authorized by Section _____ of the _____ law, up to a maximum of \$_____ from unappropriated fund balance as of June 30, 20____.

- Note: Subsequent to year end, the Board of Education should be informed of the actual balances transferred to the reserves.

Year End Planning

- School Lunch Deficit/loss
 - Budget Amendment
 - Based on the recommendation of the Superintendent/Business Official the Board declares the deficit (or current year loss) incurred in the School Lunch Fund an ordinary contingent expenditure and amends the budget to increase interfund transfers to School Lunch in the amount of \$_____ to be funded from appropriated fund balance.
 - Budget Transfer
 - Based on the recommendation of the Superintendent/Business Official the Board declares the deficit (or current year loss) in the School Lunch Fund an ordinary contingent expenditure and authorizes a transfer from appropriations code _____ to interfund transfer to school lunch appropriations code _____ in the amount of \$_____.

SCHOOL DISTRICT RESERVES

Summary Listing of Authorized Reserve Funds

<u>Reserve Name</u>	<u>Law</u>	<u>Purpose</u>	<u>Voter Approval</u>
1. Capital	ED3651	Construction or Purchase of Equipment	Yes
2. Repair	GML 6-d	Non-recurring Repairs	Yes
3. Workers' Compensation	GML 6-j	Self-Funding	No
4. Unemployment Insurance	GML 6-m	Self-Funding	No
5. Tax Certiorari	ED 3651	Tax Certiorari Cases	No
6. Reserve for Debt Service	GML 6-l	Retire Debt	No
7. Insurance	GML 6-m	Self-Funded	No
8. Property Loss/Liability	ED 1709	Self-Funded	No
9. Retirement Contribution - ERS 10. Retirement Contribution - TRS	GML 6-r	Prefunding for future increases in ERS and TRS expense	No
10. Employee Benefit Accrued Liability	GML 6-p	Benefits due employees upon termination of services	No

Capital Reserves

- Creation of Reserve requires voter approval and proposition should include:
 - Purpose of reserve
 - Ultimate amount
 - Probable term
 - Source of funds
- Board must fund the reserve with a resolution (new legislation requirement)

Capital Reserves

- Voters must approve the expenditures from the reserve
 - Voters cannot vote to approve the use of funds that are not there!
 - Cannot approve using \$500,000 to support capital project if you only have \$450,000 in the reserve at the time of the vote
- Commissioner's Decision Number 15,219 – Voter authorization to expend monies must be received in the same year as the expenditures out of the reserve fund
 - Interfund transfer (supported by the appropriated reserve) to the project is considered the expenditure

School District Reserves

Repair Reserve

- In order to use these funds for “repairs” a public hearing is required. The Board may transfer all or part of this reserve to a “Capital Reserve” or “Tax Certiorari Reserve”.
- Voter approval required to fund reserve (OSC Opinion 81-401)

School District Reserves

Workers' Compensation Reserve

- If the District elects to use this reserve they should declare how much to be used at budget time and include an appropriation out of the reserve when developing the budget to help reduce the tax levy.
- If there is an unexpected assessment (cost) that the District is required to pay during the year, the Board can amend the budget and appropriate the reserve at that time.
- If it is determined this reserve is overfunded the Board may elect within 60 days after the close of the year to either transfer excess to other reserve funds or apply an amount as revenue to the next years budget.

School District Reserves

Unemployment Insurance Reserve

- The Board can appropriate funds at budget time.
- The Board can appropriate funds during the year if unemployment cost exceeds original estimate.
- The Board can use funds from this reserve as a revenue in the budget or authorize a transfer to other reserves. (within 60 days after the close of the year)

School District Reserves

Tax Certiorari Reserve

- Can be used to pay judgments and claims in tax certiorari proceedings. The amount in said reserve may not exceed the amount that might reasonably be deemed necessary to meet anticipated claims. Surplus funds must be returned to the General Fund on or before the fourth fiscal year (by the end of the third year).

Reserve for Debt

- Unused proceeds together with interest earnings from bonded projects must be reported in this reserve. When using this reserve the District may budget a revenue transfer into the General Fund

School District Reserves

Insurance Reserve

- To be used to pay for uninsured losses, claims, actions, or judgments (very similar to liability reserve). Funding can not exceed 5% of budget on an annual basis. If this reserve is no longer needed it can be transferred to another reserve (it does not say back to the General Fund).

Property Loss/Liability Reserve

- Used to pay for property loss and/or liability claims. Aggregate funding for this reserve cannot exceed 3% of the annual budget. It appears that the voters would need to authorize un-funding this reserve (there is no mention of transferring these funds to another reserve).

School District Reserves

Retirement Contribution Reserve

- Is intended to help offset the cost of payments to the Employees' Retirement System (ERS). The Board would budget for use of this reserve as part of the annual budget. The Board may authorize a transfer of a portion of these moneys to another reserve fund. The Board may also terminate this reserve if it is no longer needed.

School District Reserves

Teachers' Retirement Contribution Reserve – sub fund

- Is intended to help offset the costs of payments to the Teachers' Retirement System (TRS). The Board would budget for use of this reserve as part of the annual budget. The Board may authorize a transfer of a portion of these moneys to another reserve fund. The Board may also terminate this reserve if it is no longer needed.
- Must have ERS Reserve to Create TRS Reserve
- Restrictions of TRS reserve
 - Funding Capped at 2% of prior year TRS salaries
 - Overall Total cap of 10% of prior year TRS salaries
 - Use final reconciliation of TRS bill for cap calculation
- Funding
 - Can transfer from ERS reserve to TRS sub fund, can transfer from Repair, Capital, Tax Cert. reserve and Uncollected taxes reserve fund (small city schools)

School District Reserves

Employee Benefit Accrued Liability Reserve

- Used to pay any “accrued benefits” to employees upon termination of employment (maybe not incentives). Items included are accrued sick leave, holiday leave, and vacation leave (definitely not retiree health insurance). If it is determined that the fund is no longer needed the remaining money may be transferred to another reserve fund.

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 mandatory reserve for debt service.
- Retain proceeds for up to 10 years.
- Used for property tax reductions

Reserve Funds

Purpose and Options for
Unexpected Balances

Tax Certiorari Reserve

Purpose

Any School District may establish a reserve fund for the payment of judgements and claims in tax certiorari proceedings in accordance with article seven of the real property tax law, without approval of the qualified voters of the District, provided, however, that the total of the monies held in such reserve fund shall not exceed that amount which might reasonably be deemed necessary to meet anticipated judgements and claims arising out of such tax certiorari proceedings.

Options For Use of Unexpected Balances

➤ Education law: §3651

Funds reserved for tax certiorari judgements and claims pursuant to Education law, Section 3651 (1-a) that are not expended for the payment of judgments or claims arising out of tax certiorari proceedings for the tax roll in the year the moneys are deposited to the fund and/or that will not be reasonably required to pay any such judgement or claim, must be returned to the General Fund on or before the first day of the fourth fiscal year following the deposit of such moneys to the reserve fund.

- Board Approval

The Voters may authorize the transfer of all or any part of any reserve fund to any other reserve fund established pursuant to the Section §3651, however, the total of the monies held in such reserve fund shall not exceed that amount which might reasonably be deemed necessary to meet anticipated judgments and claims arising out of such tax certiorari proceedings.

- Board Approval

Workers' Compensation Reserve

Purpose

An expenditure shall be made from such fund only for the payment of compensation and benefits, medical, hospital, or other expense authorized by article two of the workers' compensation law and expenses of administering the self-insurance program for such school district.

Options For Use of Unexpected Balances

- [Comptroller's Local Government Management Guide: GML Section 6-J](#)

If the moneys in the fund exceed the amounts required to be paid for compensation, benefits and expenses, plus any additional amount required to pay all pending claims, the governing board, within 60 days of the close of such fiscal year, may elect to transfer all or part of the excess amount to certain other reserve funds or may apply all or part of the excess to the budget appropriation of the next succeeding fiscal year.

- Board
Approval

Unemployment Reserve

Purpose

An expenditure shall be made from such fund only as required by law to pay into the unemployment insurance fund an amount equivalent to the amount of benefits paid to claimants and charged to the account of such school district in accordance with the provisions of paragraph (e) of subdivision one of section five hundred eighty-one of the labor law.

Options For Use of Unexpected Balances

➤ Municipal Law: GML Section 6-m

If at the end of any fiscal year the moneys in such fund shall exceed the amounts required to be paid pursuant to subdivision four of this section plus any additional amount required to pay all pending claims, the School Board may within sixty days of the close of such fiscal year, elect to transfer said excess, or any part thereof, to any fund authorized by this article or section thirty-six hundred fifty-one of the education law; and/or apply said excess, or any part thereof to the budget appropriation of the next succeeding fiscal year.

- Board
Approval

Repair Reserve

Purpose

To pay for certain repairs to capital improvements or equipment. The type of repairs must not occur annually or at shorter intervals. Prior to the adoption of any other resolution, the School District must publish in the official newspaper a notice stating in substance that it is proposed to appropriate a specific amount and that a public hearing on such proposed appropriation will be held at a time and place stated therein.

Options For Use of Unexpected Balances

➤ Education Law: GML Section 6-d

The Voters may authorize the transfer of all or any part of this reserve fund to any other reserve fund established pursuant to the Section §3651.

- Board
Approval

Whenever the voters shall determine that the original purpose for which a reserve fund has been established is no longer desirable, the school authorities may liquidate, first, applying its proceeds to any outstanding bonded indebtedness and the balance to the annual tax levy §3651.

- Voter
Approval

Subject to a Public Hearing with 15 days notice, unexpended balances may also be transferred to a retirement contribution reserve fund, established pursuant to GML Section 6-r..

- Public
Hearing

Capital Reserve

Purpose

To finance all or part of the cost of construction, reconstruction, or acquisition of a specific capital improvement or specific item of equipment. The proposition shall specify the purpose for which the fund is established, the ultimate amount, the probable term, and the source from which the funds are to be obtained.

Options For Use of Unexpected Balances

➤ Education Law: §3651

The Voters may authorize the transfer of all or any part of this reserve fund to any other reserve fund established pursuant to the Section §3651.

- Board
Approval

Whenever the voters shall determine that the original purpose for which a reserve fund has been established is no longer desirable, the school authorities may liquidate, first, applying its proceeds to any outstanding bonded indebtedness and the balance to the annual tax levy §3651.

- Voter
Approval

Insurance Reserve

Purpose

1. To fund certain uninsured losses, claims, actions, or judgments for which the local government is authorized or required to purchase or maintain insurance.
2. 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 judgements.
3. Selected schools identified in the law may make expenditures in compliance with this section and article seventy-four of the education law from such reserve fund for any loss, claim, action or judgment for which the school districts are authorized or required to purchase or maintain insurance for the kinds of risks for which insurances in authorized pursuant to paragraph three of subsection (a) of section one thousand one hundred thirteen of the insurance law. (if self-funded for health insurance you can request approval to use this reserve for health insurance)

Options For Use of Unexpected Balances

- [Comptroller's Local Government Management Guide: GML Section 6-m](#)

If it is determined that the fund is no longer needed, the moneys remaining in the fund may be transferred to another reserve fund authorized by the General Municipal Law or, in the case of a School District, a reserve fund established under Education Law Section §3651, but only to the extent that the moneys in the fund exceed a sum sufficient to pay all liabilities incurred or accrued against the funds, as certified to the School Board by the fiscal and legal officers of the school prior to the discontinuance of the fund.

- Board
Approval

Liability Reserve

Purpose

To establish and maintain a program of reserves to cover property loss and liability claims.

Options For Use of Unexpected Balances

➤ Education Law: §1709 8-c

The balance of the reserve shall not exceed three percent, exclusive of any planned balance presently authorized, of the annual budget of the District to cover property loss and liability claims. Separate funds may be established for property loss and for liability claims and the separate identity of each fund may be maintained. Such reserve funds shall not be reduced to amounts less than the total of the amounts estimated to be necessary to cover incurred but unsettled claims or suits including expenses in connection therewith other than by payments for losses for which such amounts were established. Payments from such reserve funds shall not be made for purposes other than those for which such funds were established without authorization by Voter of the 1Electors of the District, except that such Board may authorize use of such funds other than amounts allocated for unsettled claims or suits including expenses in connection therewith to pay premiums for insurance policies purchased to insure subsequent losses in areas previously self-insured, in the event of dissolution of the self-insurance plan.

- Board
Approval
Or
- Voter
Approval

Employee Benefit Accrued Liability Reserve

Purpose

These monies can be used to pay for:

1. Unused sick leave, holiday leave, vacation leave, time allowance granted in lieu of overtime compensation and other forms of payment.
2. It may NOT be used to pay for incentives (i.e. not tied to accumulated sick leave).
3. It may NOT be used to pay for retiree health benefits (OPEB).

Options For Use of Unexpected Balances

➤ **Comptroller's Local Government Management Guide: GML Section 6-p**

If the School Board determines that such fund is no longer needed, any remaining monies may be transferred to any other reserve fund authorized by General Municipal Law or, a reserve fund established under Education law Section §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 School Board by the fiscal and legal officers of the school prior to the discontinuance of the fund.

- Board Approval

The Comptroller's Office has concluded that reducing the balance in this reserve is more restrictive than the language suggests. (Schools should review with legal counsel)

Retirement Contribution Reserve

Purpose

The Board of Education may establish a retirement contribution reserve fund for the purpose of financing retirement contributions.

Amounts may be paid into a retirement contribution reserve fund as follows:

1. Such amounts as may be provided by budgetary appropriation or raised by tax therefore;
2. Such revenues as are not required by law to be paid into any other fund or account.

Options For Use of Unexpected Balances

➤ Municipal Law: GML Section 6-r

The Board may authorize the transfer of a portion of the moneys in the retirement contribution reserve to a reserve fund established pursuant to Sections 6-c, 6-d, 6-e, 6-f, or 6-g of the General Municipal Law, or a reserve fund established pursuant to Section §3651 of the Education Law. Such a transfer is subject to a public hearing. If the Board determines that the retirement contribution reserve is no longer needed, the Board may terminate the fund by resolution. The resolution must transfer any monies remaining in such fund to other reserve funds established pursuant to Section §3651 of Education Law.

- Board Approval
Or
- Public Hearing

Teachers' Retirement Contribution Reserve (Sub-Fund)

Purpose

The Board of Education may establish a teacher retirement contribution reserve fund for the purpose of financing teacher retirement contributions. However, a Retirement Contribution Reserve must already be established.

Amounts may be paid into a teacher retirement contribution reserve fund as follows:

1. Such amounts as may be provided by budgetary appropriation or raised by tax therefore;
2. Such revenues as are not required by law to be paid into any other fund or account.

Restrictions of TRS reserve are as follows:

1. Funding is capped at 2% of the prior year TRS salaries
2. Overall total cap of 10% of the prior year TRS salaries

Options For Use of Unexpected Balances

➤ Municipal Law: GML Section 6-r

The Board may authorize the transfer of a portion of the moneys in the teachers retirement contribution reserve to a reserve fund established pursuant to Sections 6-c, 6-d, 6-e, 6-f, 6-g, 6-r (retirement contribution reserve) of the General Municipal Law, or a reserve fund established pursuant to Section §3651 of the Education Law. Such a transfer is subject to a public hearing. If the Board determines that the retirement contribution reserve is no longer needed, the Board may terminate the fund by resolution. The resolution must transfer any monies remaining in such fund to other reserve funds established pursuant to Section §3651 of Education Law.

- Board Approval
- Or
- Public Hearing

Questions



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This and past presentations can be found at
<https://mengelmetzgerbarr.com/Who-We-Serve/Governmental-Entities>