

**Onteora Central School District**  
Fund Balance and Reserve Plan

**Created June 2019**

## Overview

The establishment and funding of reserves is an important consideration in the maintenance of a sound financial plan for a school district. While strict adherence to state law 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. This concept is recognized by the NYS Comptroller:

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.

(Office of the New York State Comptroller – Local Government Management Guide – Reserve Funds, Pg. 1)

The Onteora Central School District believes that the judicious use of reserves greatly reduces long term borrowing costs, and smooth's large fluctuations in the tax rate. It believes it is in the best interest of both students and taxpayers to prudently establish and use reserves to weather the financial storms and uncertainties that will occur.

Two purposes for establishing reserves include:

- 1) Saving money for a large, one-time future expenditure.  
For example: A capital reserve for the replacement of a roof.
- 2) Reserves which are intended to protect the district against a large, currently unknown risk.  
For example, a taxpayer challenging a past assessment.

Legally established reserves can provide many benefits to the school district and to its taxpayers. However, these reserves can also cause confusion when their purpose is not clearly understood by the community. The purpose of this document is to detail the reserves Onteora has in place and to detail the district's plan for use and maintenance of these reserves. While excess funds to add to reserves is not likely for the year ending June 30, 2019, in the event that it does occur, we are requesting the board allow the district to add to the Reserves as listed in the following pages.

Interest rate spread to the reserves is based on average interest rates received by the district during the school year. The District receives varying interest rates on its accounts depending on the financial institution. For the 18-19 school year the District will credit the reserves with an interest rate of .25%. Reserve balances below do not include accrued interest and any accrued interest is not built-in to the maximum allowable balances.

## **EMPLOYEE BENEFIT ACCRUED LIABILITY (A867)**

Authority: The governing board of a school district, by resolution, may establish a reserve for the purpose of funding the monetary value of accrued but unused sick leave, personal leave, vacation time and any other forms of payment of accrued but unliquidated time earned by employees. Establishing the reserve does not require voter approval. Expenditures may only be made for allowed cash payments earned by employees due upon termination of employment (GML, sec 6-p).

Balance June 30, 2018                      \$1,469,819.25

Ideal Balance: Total amount of outstanding obligation.

Discussion: This reserve is for contractual entitlements that are to be paid directly to the employee upon termination. It does not include post-retirement health benefits under GASB45. There is currently no funding mechanism for the obligations that school districts face with paying for retiree health insurance obligations.

Districts are allowed, however, to hold in reserve those post-retirement benefits that are based on compensated absences, such as sick leave. The contracts for the various bargaining units spell out the payments available to employees upon retirement. The liability for these days can be held in the reserve. The district recommends funding the EBLR. This liability is calculated after the end of the fiscal year based on the available time for existing staff.

*Recommendation: If money is available at the end of the year, request an additional amount up to the maximum allowable be added to this reserve. If the reserve is overfunded, request additional monies are transferred out.*

### **UNEMPLOYMENT INSURANCE RESERVE (A815)**

Authority: This reserve is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants. The reserve may be established by Board action and funded by budgetary appropriations or other funds as may be legally appropriated (GML, sec.6-m).

Balance June 30, 2018                      \$ 668,623.63

Ideal Balance: Approximately 3% at \$674,611.

Discussion: District practice has been to fund claims out of the General Fund when possible. Maintaining a reserve, however, allows the district to weather any unusual increases in unemployment claims.

*Recommendation: To keep this reserve at the current level.*

### **RETIREMENT CONTRIBUTION RESERVE (A827)**

Authority: The governing board of a school district, by resolution, may establish a reserve for the purpose of financing retirement contributions made to the NY State and Local Employees' Retirement System (ERS). Establishing or expending the reserve does not require voter approval. Expenditures may only be made pursuant to a board resolution and must be used to finance retirement contributions. (GML sec. 6-r)

Balance June 30, 2018                      \$3,566,944.69

Ideal Balance: The contribution rates for ERS have declined for the last few years. Given the volatile nature of ERS the ideal balance would be 5 years of average ERS liabilities which would be approx. \$3,601,655.

*Recommendation: To keep this reserve at the current level.*



## **ASSIGNED APPROPRIATED FUND BALANCE (A910)**

Purpose: Planned reduction in fund balance to reduce the property tax levy necessary to support the current budget.

Budgeted 15-16	\$2,950,000
Budgeted 16-17	\$3,385,000
Budgeted 17-18	\$3,385,000
Budgeted 18-19	\$3,265,620
Budgeted 19-20	\$3,265,620

Ideal Balance: The designation of fund balance represents a “one shot” revenue that cannot be anticipated to be available in the ensuing year’s budget. Overuse can cause the depletion of available fund balance. The increase over the past few years was to pay for larger projects.

## **UNASSIGNED FUND BALANCE (A909)**

Purpose: To give the district flexibility in case of unanticipated expenditures, such as increased Special Education Costs due to a new student moving into the district. It also helps with cash flow during the months of July through September before tax receipts are available.

Balance June 30, 2015	\$2,066,279
Balance June 30, 2016	\$2,128,911
Balance June 30, 2017	\$2,178,846
Balance June 30, 2018	\$2,296,140

Ideal Balance: By law, the undesignated fund balance is limited to 4% of the ensuing years’ budget. This is generally considered an ideal balance.

*Recommendation: If money is available at the end of the year, request increasing Unassigned Fund Balance up to the maximum allowable (4% of the 19/20 budget);an additional \$117,294.*

***In summary, I recommend the Board of Education of the Onteora Central School District, adopt the reserve plan below with the following adjustments to the 18-19 reserve plan, in the following order, if monies are available at the end of the 18-19 school year:***

- Adjust Employee Benefit Accrued Liability based on entitlements at end of the year***
- Increase Unassigned Fund Balance by \$117,294***
- Fund TRS Sub-Fund Reserve to maximum allowable, \$376,516***
- Increase the Capital Reserve by any monies remaining from the adjustments of other reserves and from any monies left over after the close of the 18-19 school year so as not to exceed the 4% Unassigned Fund Balance***

