



GREAT NECK PUBLIC SCHOOLS

FUND BALANCE & RESERVES PLAN

JUNE 30, 2022

Updated: December 14, 2022

GREAT NECK PUBLIC SCHOOLS
RESERVES PLAN
JUNE 2022

Understanding Fund Balance

School officials are often asked about fund balance, an aspect of fiscal management which is unique to public entities like school districts. Because fund balance is often mistaken for a "surplus," it may seem unnecessary to have it in the budget. Simply stated, it is the total accumulation of operating surpluses and deficits over time. As a simplified formula, it can be calculated as follows:

$$\text{Total Revenue} - \text{Actual Expenditures} = \text{Operating Surplus } \underline{\text{OR}} \text{ (Operating Deficit)}$$

A component of fund balance can be "restricted" reserve accounts. When money is put into a reserve fund, it can only be expended for the specific purpose of the fund. For example, money in a Workers' Compensation Reserve Fund can only be used to pay for claims and expenses related to workers' compensation. The reason why districts have reserve funds is very much the same as the reason why individuals put some of their discretionary income into savings - to set money aside for a later time when it may not be available, or to avoid using regular income for special, non-recurring expenses. The difference is that school districts are required to specify which expenses are anticipated and to dedicate the restricted funds for that purpose.

In the Great Neck Union Free School District, fund balance is governed by **Board Policy 6212**, which is presented below. The following pages explore each category of our total fund balance, as well as current balances.

Fund Balance – Policy 6212

The Board of Education recognizes that the maintenance of a fund balance is essential to the financial integrity of the school district and is fiscally advantageous for both the district and the taxpayer.

Fund Balance measures the net financial resources available to finance expenditures within current or future periods. The Fund Balance may only be appropriated by resolution of the Board of Education, unless voter approval is required. Amendments or modification to the applied or transferred fund balance must also be approved by formal action of the Board of Education.

Fund Balance classifications will be reported by the District in accordance with accounting standards issued by the GASB (Governmental Accounting Standards Board) Statement 54 (Fund Balance reporting and Governmental Fund Type Definitions) as follows:

Nonspendable – Amounts that cannot be spent because they are in a non-spendable form (e.g., inventory) or legally or contractually required to be maintained intact (e.g. principal of a permanent fund).

Restricted – Amounts limited by external parties, or legislation (e.g., grants or donations).

Committed – Amounts constrained to specific purposes by a government itself using its highest level of decision-making authority (i.e., Board of Education); to be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest-level action to remove or change the constraint.

Assigned – Amount intended to be used for a specific purpose; intent can be expressed by the Board of Education or by an official or body to which the Board delegates the authority.

Unassigned – Amounts available for consumption or not restricted in any manner. These amounts are reported only in the General Fund.

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications as defined by GASB 54, the Board will assess the current financial condition of the district and then determine which fund balance classification will be charged.

Adopted: 07/05/11

Workers' Compensation Reserve (Authorized under GML §6-j)

Creation – Initial reserve established prior to June 30, 1984.

Purpose – This reserve is used to pay for actual Workers' Compensation claims, related medical expenses and self-insurance administrative costs.

Funding Methods - This reserve has typically been funded from operating surplus, but can also be funded as a line-item budgetary appropriation.

Use of Reserve – This reserve will be used to pay claims filed during the time period for which the District is self-insured.

Monitoring of Reserve – This reserve will be monitored annually by the Board of Education in conjunction with the Superintendent and the Assistant Superintendent for Business.

Funding Level – An appropriate maximum funding level should be equivalent to the determined actuarial value of all outstanding self-insured claims. The administration will continue to evaluate outstanding liabilities annually in order to recommend funding levels in future years.

Recommendation - Continue to maintain and monitor reserve balances in accordance with Board Policy 6212, and utilize funds in deliberate manner that protects programmatic needs.

June 30, 2021 Actual Balance – \$13,518,541

June 30, 2022 Actual Balance – \$12,432,060

Retirement Contribution Reserve (Authorized under GML §6-r)

Creation – This reserve was created on June 20, 2011.

Purpose – This reserve is used to pay for employee contribution expenses to the NYS Employees Retirement System (ERS) only. Use of this reserve to fund Teachers’ Retirement System (TRS) expenditures is not permitted.

Funding Methods - This reserve has typically been funded from operating surplus but can also be funded as a line-item budgetary appropriation.

Use of Reserve – The intended use of this reserve calls for annual allocations from this fund, so not to create a budgetary shortfall. It helps the District to hedge against large annual fluctuations in the employer contribution percentage.

Monitoring of Reserve – This reserve will be monitored annually by the Board of Education in conjunction with the Superintendent and the Assistant Superintendent for Business.

Funding Level – Maintaining a minimum funding level equivalent to at least three years of estimated ERS expenditures is deliberate to protect the General Fund budget from the uncertainty of annual required contributions from the District on behalf of the Civil Service staff.

Recommendation - Continue to maintain and monitor reserve balances in accordance with Board Policy 6212, and utilize funds in deliberate manner that protects programmatic needs.

June 30, 2021 Actual Balance – \$23,487,548

June 30, 2022 Actual Balance – \$21,802,919

Retirement Contribution Reserve Sub-Fund (Authorized under GML §6-r)

Creation – This reserve was created on June 3, 2019.

Purpose – This reserve is used to pay for District expenses to the NYS Teachers’ Retirement System (TRS) only. Use of this reserve to fund Employees Retirement System (ERS) expenditures is not permitted.

Funding Methods – This reserve has typically been funded from operating surplus but can also be funded as a line-item budgetary appropriation. This reserve was initially funded by a transfer from the Retirement Contribution Reserve.

Use of Reserve – The intended use of this reserve calls for annual allocations from this fund, so as not to create a budgetary shortfall. It helps the District to hedge against large annual fluctuations in the employer contribution percentage.

Monitoring of Reserve – This reserve will be monitored annually by the Board of Education in conjunction with the Superintendent and the Assistant Superintendent for Business.

Funding Level – A maximum annual funding level equivalent to approximately 2% of TRS reportable salaries in the preceding year, with a maximum cap of 10% of TRS reportable salaries.

Recommendation - Continue to maintain and monitor reserve balances in accordance with Board Policy 6212, and utilize funds in deliberate manner that protects programmatic needs.

June 30, 2021 Actual Balance – \$5,536,876

June 30, 2022 Actual Balance – \$4,012,098

Employee Benefit Accrued Liability Reserve–EBALR (Authorized under GML §6-p)

Creation – Initial reserve established prior to June 30, 2004.

Purpose – This reserve is used to pay for unused accumulated leave time contractually provided to certain groups of employees. This typically includes payment for unused sick and vacation pay. This fund cannot be used to pay for items such as: retirement incentives, FICA and Medicare payments and retiree health insurance.

Funding Methods - This reserve has typically been funded from operating surplus but can also be funded as a line-item budgetary appropriation.

Use of Reserve – This reserve is used when an employee separates from the District and payment of accumulated leave is required. These transactions flow through the budget from reserve transfer contributions. This reserve will continue to be used in this manner to make such payments.

Monitoring of Reserve – This reserve will be monitored annually by the Board of Education in conjunction with the Superintendent and the Assistant Superintendent for Business.

Funding Level – This reserve should be funded at 100% of the accrued liability for unused accumulated leave time. Each year, a detailed analysis of the liability is computed and used to support the funding of this reserve.

Recommendation - Continue to maintain and monitor reserve balances in accordance with Board Policy 6212, and utilize funds in deliberate manner that protects programmatic needs.

June 30, 2021 Actual Balance – \$12,035,201

June 30, 2022 Actual Balance – \$13,015,090

Unemployment Insurance Payment Reserve (Authorized under GML §6-m)

Creation – Initial reserve established prior to June 30, 2000.

Purpose – This reserve is used to reimburse the State for payments made to claimants where the District uses the benefit reimbursement method. The District does subscribe to the benefit reimbursement method, meaning we reimburse the State for actual claims incurred. We do not pay NYS a fixed premium for unemployment insurance coverage.

Funding Methods - This reserve has typically been funded from operating surplus but can also be funded as a line-item budgetary appropriation.

Use of Reserve – This reserve can be used to pay claims that exceed the budgeted appropriations for unemployment claims, as actual expenses for unemployment claims vary from year to year, since the District is self-insured.

Monitoring of Reserve – This reserve will be monitored annually by the Board of Education in conjunction with the Superintendent and the Assistant Superintendent for Business.

Funding Level – At this time, this reserve is deemed to be adequately funded and the Administration will look to appropriate from the reserve as needed to pay unemployment claims.

Recommendation - Continue to maintain and monitor reserve balances in accordance with Board Policy 6212, and utilize funds in deliberate manner that protects programmatic needs.

June 30, 2021 Actual Balance – \$2,406,736

June 30, 2022 Actual Balance – \$2,409,143

Capital Reserve Fund (Authorized under Ed. Law §3651)

Creation – This reserve was created by a voter approved proposition on May 19, 2015.

Purpose – This reserve may be used to fund the project costs for which bonds may be issued.

Funding Methods – This reserve will be funded from operating surplus. Funds placed in this reserve are restricted for use for specific voter-authorized capital improvement projects.

Use of Reserve - Use of this reserve requires voter approval. The proposition to use these funds must be specific to a set of projects and dollar amounts.

Monitoring of Reserve – This reserve will be monitored annually by the Board of Education in conjunction with the Superintendent and the Assistant Superintendent for Business.

Funding Level – This reserve was created with a maximum funding up to \$19,000,000, plus any earned interest. NOTE: All funds were transferred to the capital fund as of June 30, 2016.

Recommendation – In the near future, the Board should consider seeking voter approval via a proposition for the authority to establish a new Capital Reserve Fund, since this reserve has already met its maximum funding limits, and has been exhausted. A new reserve could be utilized to address needed renovations and repairs that cannot be addressed through the annual General Fund budget.

June 30, 2021 Actual Balance – \$0

June 30, 2022 Actual Balance – \$0

The following items are not restricted reserve accounts, but are equally important components of the District’s overall Fund Balance, and essential to planning revenues available to the District.

Unassigned Fund Balance

Creation – Retention of these funds are allowed by law. This fund is often known as the “*Rainy Day Fund*.”

Purpose – These funds are unrestricted and may be used for any valid purpose.

Funding Methods – These funds have been accumulated from operating surplus.

Use of Funds – It is recommended that these funds not be used except for an emergent, unanticipated expense, or revenue shortfall, which cannot be managed either in the budget or with other available reserves.

Monitoring of Balance – These funds will be monitored annually by the Board of Education in conjunction with the Superintendent and the Assistant Superintendent for Business.

Funding Level – The maximum legal limit is recommended at 4.00% of the ensuing year’s budget.

Recommendation – Annually monitor the District’s overall fund balance and the various restricted reserves with an intent to maintain the full 4.00% whenever possible to help mitigate any unanticipated future expenses.

June 30, 2021 Actual Balance –\$10,087,787

June 30, 2022 Actual Balance –\$10,457,308

Assigned Fund Balance – Appropriation for Subsequent Year’s Budget

Creation – These funds are fund balance that has been set aside for a particular purpose, such as reduction of the tax levy required to support an ensuing year’s budget, or to bridge a revenue shortfall in an ensuing year’s budget to maintain District programs.

Purpose – To provide funds necessary to support an ensuing year’s budget.

Funding Methods – These funds are assigned for a particular purpose from existing fund balance.

Use of Funds – It is recommended that the practice of returning these funds continue when it is deemed financially permissible, and as part of an overall long-range financial plan with a goal of sustainable budget building. As the constraints of the tax cap continue to limit increases in tax revenue, it is likely that future budgets will have limited operating surpluses.

Monitoring of Balance – These funds will be monitored annually by the Board of Education in conjunction with the Superintendent and the Assistant Superintendent for Business.

Funding Level – Over time, it is recommended that the planned amount of assigned fund balance included as a funding source in future budgets be limited and only utilized when fiscally prudent to do so.

Recommendation – District administration will continue to carefully monitor overall fund balance and available revenues and scale back on utilization of appropriated fund balance as a funding source for recurring operating expenditures as it is able to do so to limit deficit spending scenarios that could compromise the overall integrity of fund balance over time.

June 30, 2021 Actual Balance –\$3,184,205

June 30, 2022 Actual Balance –\$8,614,076

Assigned Fund Balance - Reserve for Encumbrances

Purpose - These are funds that are earmarked to pay for goods or services from the prior year’s budget, for which the goods or services were not received/provided by the end of that fiscal year.

Funding Methods - These amounts roll into the subsequent fiscal year, and increase the amount of budgeted appropriations in that subsequent year. This account pays for the ultimate obligation when these items are received.

Funding Level – There is no planned balance, as this reserve only exists to satisfy payments on outstanding purchase orders.

Recommendation – Year-end purchases and purchase orders will continue to be monitored by District administration in an effort to limit the number of purchase orders that need to be carried into the subsequent school year.

June 30, 2021 Actual Balance –\$1,036,191

June 30, 2022 Actual Balance –\$1,980,834

Reserve for Debt Service

Creation – This reserve was created in the Debt Service fund to capture earnings on long-term debt obligations issued. This is NOT a component of General fund balance.

Purpose – This reserve is used to apply the earnings on long term debt obligations (bonds, BANS, etc.) issued to the debt service payments for those underlying outstanding debt obligations.

Funding Methods – The funding of this reserve is from the earnings on the issuance of debt obligations.

Use of Reserve – The balance in the reserve fund is available for application against the underlying outstanding long-term debt balance which gave rise to this. Amounts not applied before the maturity of the underlying long-term debt obligation are available for application to the general fund.

Monitoring of Reserve – These funds will be monitored annually by the Board of Education in conjunction with the Superintendent and the Assistant Superintendent for Business.

Funding Level – There is currently no intent or anticipated reason to increase funding. This reserve is funded with interest earnings on long-term debt obligations issued.

Recommendations – District administration is working with the external auditor to research the initial source(s) of funds in this reserve with the intent to earmark them to be utilized to pay existing principal debt payments (i.e. energy performance contract or bond debt).

June 30, 2021 Actual Balance - \$489,014

June 30, 2022 Actual Balance - \$522,897

Other Authorized Reserves Available to NYS School Districts

Although not currently authorized for use in the Great Neck Public Schools, the following chart identifies other reserves potentially available for future consideration:

Type of Reserve	Enabling Statute	Purpose
Repair Reserve	GML §6-d	This reserve would be used to pay for unanticipated, non-recurring repairs to District capital improvements, facilities, and equipment. In accordance with the law, a public hearing must be held in order to use funds from this reserve, except in an emergency. Funds used without holding a public hearing must be repaid to the fund over two years. Use is restricted to the purpose stated above.
Insurance Reserve Fund	GML §6-n	To pay liability, casualty and other types of losses (should the district maintain unusually high deductibles, for instance). There are limits on the amount of annual contributions.
Property Loss Reserve/Liability Reserve	Ed Law §1709(8-c)	For property loss and liability claims incurred. The limit is 3% of the annual budget or \$15,000, whichever is greater.
Reserve for Insurance Recoveries	Ed Law §1718(2)	To temporarily hold unexpended proceeds of insurance recoveries remaining at the end of the fiscal year.

TOTAL FUND BALANCE & RESERVES

JUNE 30, 2022

Updated: December 14, 2022

GENERAL FUND	BALANCE <u>JUNE 30, 2021</u>	BALANCE <u>JUNE 30, 2022</u>	<u>CHANGE</u>
WORKERS' COMPENSATION RESERVE	13,518,541	12,432,060	(1,086,481)
RETIREMENT CONTRIBUTION RESERVE (ERS)	23,487,548	21,802,919	(1,684,629)
RETIREMENT CONTRIBUTION RESERVE (TRS) (SUB-FUND)	5,536,876	4,012,098	(1,524,778)
EMPLOYEE BENEFIT ACCRUED LIABILITY RESERVE	12,035,201	13,015,090	979,889
UNEMPLOYMENT RESERVE	2,406,736	2,409,143	2,407
ASSIGNED FUND BALANCE			
<i>RESERVE FOR ENCUMBRANCES</i>	1,036,191	1,980,834	944,643
<i>APPROPRIATED FUND BALANCE</i>	3,184,205	8,614,076	5,429,871
UNASSIGNED FUND BALANCE	10,087,787	10,457,308	369,521
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TOTAL RESERVE & FUND BALANCES	<u>71,293,085</u>	<u>74,723,528</u>	<u>3,430,443</u>