

Herkimer Central School District
Reserve Fund Report and Analysis
2020-2021 Year-End Summary Report – Final
Board of Education Review/Approval – October 2021



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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 Herkimer Central School District believes that the judicious use of reserves reduces long-term borrowing costs, which lessens 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, Herkimer 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 Reserve Funds.
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 auditors 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

1. 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/lgmg/reservefunds.pdf>
2. 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 bulletins. 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 current status and internal controls over Reserve Funds at Herkimer Central School District:

Reserve for Encumbrances
<u>Funding Goal</u> - Each year the reserve amount is equal to the outstanding purchase order obligations to be satisfied in the following school year.
<u>Funding Level</u> – The funding level currently stands at \$40,641.56.
<u>Purpose</u> – This reserve allows outstanding encumbrances remaining at the end of a school year to be carried over to the next school year.
<u>Funding Methods</u> – The funding is realized from revenue gleaned from the prior school year.
<u>Use of Reserve</u> – The reserve is used to liquidate purchase orders and requisitions from prior school years.
<u>Monitoring of Reserve</u> – The reserve will be monitored by the Superintendent and Treasurer.
<u>Caution</u> – 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
<u>Funding Goal</u> - As the district receives tax certiorari claims, we reserve funds based on the following: based on two individual claims not to exceed the actual claims. Tax certiorari claims older than four years should be based on the actual claim.
The Tax Certiorari Reserve shall not be funded to an amount beyond 2% of the District’s tax levy for the current year’s approved budget.
<u>Funding Level</u> - The current amount of fund is \$150,000 to be evaluated and adjusted on an annual basis. The amount represents a reserve for 2018, 2019, and 2021 each funded at \$40,000 with 2020 funded at \$30,000.
<u>Creation</u> - These reserves were created in 2018, 2019, 2020 and 2021 via board resolution.
<u>Purpose</u> - This reserve is used to pay for prior year judgements and claims in tax certiorari proceedings.
<u>Funding Methods</u> - Funding methods may include from excess fund balance or transfers from other reserves. Funds placed in this reserve that are not used to pay tax certiorari judgements or claims must be returned to the General Fund by the first day of the fourth fiscal year after the establishment of the fund.
<u>Use of Reserve</u> - This reserve would be used to pay for prior year tax certiorari claims.
<u>Monitoring of Reserve</u> - This reserve will be monitored by the Superintendent and Treasurer.

Capital Reserve

Funding Goal - The board is presented with an annual fund balance report and recommendations from the Superintendent in support of offsetting local costs related to future capital projects. Recommendations to the capital reserve funds are based on operating surpluses from the general fund and are approved by the board.

Funding level - The current amount of the fund is \$628,537. The reserve has an established fully funded level of \$3,500,000.

Creation - This reserve was created in May 2017 via voter approval.

Purpose - The purpose of the fund is for construction, repair and construction of capital improvements and the acquisition of bondable equipment.

Funding Methods - The source from which the funds will be obtained can include any or all of the following: unappropriated fund balance from the general fund as determined by the Board of Education, State aid related to expenditures from the capital reserve fund, interest income related to investments of monies in the fund, and any other monies thereafter authorized by the voters of the district.

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 is monitored by the Superintendent and Treasurer. **See Appendix A, attached.

Employee Benefit Accrued Liability Reserve (EBLAR)

Funding Goal - Not to exceed actuarial projections prepared by Questar BOCES.

Funding Level- The current amount of the fund is \$361,166.68. (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 Treasurer 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 on the following schedule: As of July 1, each year any excess funds in the EBLAR reserve that exceeds the District's liability for compensated absences will be reallocated to the capital reserve or Employee Retirement Contribution Reserve (ERS).

Creation - This reserve was established prior to 2011 and reestablished via board resolution on June 30, 2016.

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 any and 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 the use of the reserve as a revenue to cover the amount equivalent to a district's remaining in 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 Treasurer.

Reserve for Repairs

Funding Goal - In any given school year, fund to a level sufficient to account for approximately 1.5% of the approved budget.

Funding Level - This reserve was initially funded at \$80,000 and will continue to be funded as deemed appropriate. The current funding amount is \$342,500 at 6/30/2021.

Creation - This reserve was established on June 30, 2016 via board resolution

Purpose - This reserve is used to pay for unanticipated, non-recurring repairs to district capital improvements, facilities and equipment.

Funding Methods - Voter approval is required to fund this reserve.

Use of Reserve - 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 for an emergency without holding a public hearing must be returned to the fund over two years with at least one-half in the first year. A vote of two-thirds of the board is required to authorize an emergency expenditure. Use is restricted to the purpose stated above.

Monitoring of Reserve - This reserve is monitored by the Superintendent and the Treasurer.

Employee Retirement Contribution (ERS) Reserve Fund & Retirement Contribution Reserve Sub-Fund (TRS)

Funding Goal - A minimum funding level equivalent to the value of five consecutive years as of the close of the current year for ERS and not to exceed 2% of the total compensation or salaries of all teachers employed by the district who are members of the TRS, paid during the immediately preceding fiscal year.

Funding Level - The current funding level for ERS is \$600,849 and \$286,306 for TRS.

Creation - This reserve was established prior to 2016 and reestablished on June 30, 2016 via board resolution. In May of 2019, The reserve was change to a Retirement Reserve Sub-fund to include the Teachers Retirement System as now allowed by the General Municipal Law.

Purpose - This reserve is used to pay for district expenses to the NYS Employee's Retirement System and Teachers Retirement System.

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

Use of Reserve - Funds are to be appropriated against ERS / TRS invoices for the current budget year.

Monitoring of Reserve - This reserve is monitored by the Superintendent and Treasurer.

Unemployment Insurance Reserve

Funding Goal - Currently, reserve balance represents approximately 0.011 % of the 2021-22 budgeted salaries.

Funding Level - This reserve is funded at \$100,000.

Creation - This reserve was established on June 30, 2016 via board resolution.

Purpose - This reserve is 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 specifically to offset expenses tied to unemployment insurance claims related to employee attrition.

Monitoring of Reserve- This reserve is monitored by the Superintendent and Treasurer.

Insurance Reserve
<p><u>Purpose</u> - The purpose of this reserve is to fund certain uninsured losses, claims, actions, or judgements for which the local government is authorized or required to purchase or maintain insurance, with a number of exceptions. This reserve may also be used to pay for expert or professional services in connection with the investigation, adjustment, or settlement of claims, actions, or judgements.</p>
<p><u>Creation</u> - This reserve was established on June 30, 2016 via board resolution.</p>
<p><u>Funding Goal</u> - An amount that is deemed adequate to offset costs of uninsured losses, claims, actions, or judgements.</p>
<p><u>Funding level</u> - This reserve will be funded as deemed appropriate. Current funding amount is \$20,000.</p>
<p><u>Funding Methods</u> - This reserve will be funded from excess fund balance or by budgetary appropriations.</p>
<p><u>Use of Reserve</u> - This reserve will be used to pay for uninsured losses, claims, actions, or judgements.</p>
<p><u>Monitoring of Reserve</u> - The reserve is monitored by the Superintendent and Treasurer.</p>

