

TO: Jeffrey P. Simons, Superintendent of Schools
FROM: Larry Edson, Assistant Superintendent for School Business Finance
DATE: September 1, 2016
RE: **2016-2017 General Fund Restricted Reserves Plan & Reauthorization**

The Office of the State Comptroller has recently conducted audits of school districts and BOCES focused on reserves. Audit recommendations have included reauthorization of reserves on an annual basis and development of a reserve plan to be authorized by the Board. Although a reserve plan is currently not required based on law or regulation, we believe there is value in providing additional disclosure beyond the annual financial statements to the public. In the event that a reserve plan becomes mandatory and specific guidance is issued, the plan below is subject to modification for compliance purposes.

While I am not aware of any pending bills on a mandatory school reserve plan, there are bills S-5795-A/A-7675-A awaiting Governor Cuomo's signature as of September 1, 2016 which will require the following:

- Posting of the annual external audit on the website, along with any corrective action plan
- Posting of any Comptroller's final audit report on the website
- Funding any reserves in the future through a resolution of the Board of Education
- Including a schedule of all reserve funds as part of the detailed statement that is appended to the annual budget document

The Comptroller supports approval of the bills.

The District's audited financial statements are set to be approved by the Board of Education on October 19, 2016, and contain reserve balances and information as of June 30, 2016. The notes to the financial statements will describe the legal authority for each reserve, its purpose, and funding. General fund restricted reserves were as follows at June 30, 2016, pending audit:

Workers Compensation Claims	\$ 700,000
Unemployment Insurance	248,000
Retirement Contribution Reserve Fund	6,235,432
Tax Certiorari 2012, 2013, 2014 & 2015	658,799
Employee Benefits & Accrued Liabilities	2,496,853
Capital - Construction 1994	60,913
Capital - Bus Purchase 2010	636,478
Total Restricted Reserves	<u>\$11,036,475</u>

Restricted reserve balances are part of the school district's overall fund balance, which is governed by Board of Education Policy #6245, Fund Balance and Governmental Fund Type Definitions.

Funding for reserves is allowable only consistent with law and regulation. The capital reserve can only be funded subject to the terms of the May 18, 2010 proposition initially authorized by the District voters. Funding for other reserves is subject to availability and District financial condition. The annual general fund budget contains estimates of revenues and expenditures, and the actual financial results will differ from the budget. In addition, as recommended by the Office of the State Comptroller, there are contingencies built into budgeted expenditures. In the event that any surplus funds are available at the end of the year, the Board of Education will determine the best use of these funds in accordance with policy #6245, which may include using these funds to reduce taxes, maintain programs, and/or fund reserves.

Reserve:	Workers Compensation
Account:	A814, Restricted Fund Balance
Purpose:	To fund workers compensation expenses, related medical expenses, and self-insurance administrative costs
Board Resolution:	Not found, although the Board approved self-insurance for workers compensation at the June 9, 1993 meeting. The reserve was reauthorized at the November 10, 2010 Board of Education meeting.
06/30/16 Balance:	\$700,000
06/30/17 Projected:	\$700,000
Valuation:	The Board receives an annual update on the reserve, typically in May or June. The last update was at the June 8, 2016 Board of Education meeting. The goal is to maintain no more than five years' worth of expenses in the reserve. For the period beginning with the 2011-2012 year and ending with the 2015-2016 year, workers compensation expenses totaled \$2,095,291; the current reserve balance is at 33% of the goal amount. As a reminder, the retention limit on the excess workers compensation policy is currently at \$500,000. In the event of a catastrophic employee injury, the District would be liable for the first \$500,000 in expenses and the excess policy would pay the overage. This further illustrates the need for a healthy reserve balance.
Plan:	Additional funding could be requested, but is not anticipated at this time.

Reserve:	Unemployment Insurance
Account:	A815, Restricted Fund Balance
Purpose:	To pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the school district uses the benefit reimbursement method
Board Resolution:	April 14, 2010
06/30/16 Balance:	\$248,000
06/30/17 Projected:	\$240,000
Valuation:	The Board receives an annual update on the reserve, typically in May or June. The last update was at the June 8, 2016 Board of Education meeting. The goal is to maintain no more than five years' worth of expenses in the reserve. For the period beginning with the 2011-2012 year

and ending with the 2015-2016 year, unemployment expenses totaled \$251,533; the current reserve balance is at 98% of the goal amount. Since unemployment expenses have been below \$36,000 annually in the last three years, an \$8,000 amount was planned for application against expense in the 2016-2017 budget.

Plan: Additional funding is not anticipated at this time. Future budgets will contain plans to use \$8,000 of reserve funds annually to offset annual expenses.

Reserve: **Retirement Contribution Reserve Fund (ERS)**

Account: A827, Restricted Fund Balance

Purpose: To fund employer retirement contributions payable by an eligible school district to the New York State and Local Employees' Retirement System (ERS)

Board Resolution: June 10, 2009

06/30/16 Balance: \$6,235,432

06/30/17 Projected: \$5,404,542

Valuation: The Board receives an annual update on the reserve, typically in May or June. The goal is to maintain no more than 70% of five years' worth of employer retirement contribution expenses in the reserve. The current balance is slightly over at 73% of the goal amount. The reserve balance can offset future payments made to the New York State and Local Employees' Retirement System.

Plan: The 2016-2017 budget anticipates utilization of \$830,890 from the reserve to offset current year ERS expense. In the event general fund monies are available for ERS cost, they will be used first before reserve funds in accordance with Board of Education Policy #6245, Fund Balance and Governmental Fund Type Definitions. Although employer pension contribution rates continue to be high, additional funding is not anticipated based on the current balance. Any future funding is subject to availability and based on District financial condition.

Reserve: **Tax Certiorari - 2014**

Account: A864, Restricted Fund Balance

Purpose: To pay judgments and claims in tax certiorari cases related to the 2014 school tax year

Board Resolution: June 11, 2014

06/30/16 Balance: \$33,714

06/30/17 Projected: \$33,714

Valuation: Tax certiorari reserves are usually evaluated at least twice per year based on the exposure outstanding on the open cases. The Board receives an update in either December or January, and then again in May or June. If the balance exceeds the exposure, excess is transferred back to the general

fund. Any unused funds within the reserve at the end of four years (June 30, 2018) must be returned to the general fund.

Plan: Two of the original seventeen cases remain open at September 1, 2016. The timeframe for settlement of the remaining cases in litigation is uncertain at this time. If the cases remain unsettled at year-end 2017, there will be no adjustment in the balance, except for interest. The reserve account currently reflects 51% of the anticipated exposure on the remaining cases.

Reserve: **Tax Certiorari - 2015**

Account: A864, Restricted Fund Balance

Purpose: To pay judgments and claims in tax certiorari cases related to the 2015 school tax year

Board Resolution: June 10, 2015

06/30/16 Balance: \$70,897

06/30/17 Projected: \$70,897

Valuation: Tax certiorari reserves are usually evaluated at least twice per year based on the exposure outstanding on the open cases. The Board receives an update in either December or January, and then again in May or June. If the balance exceeds the exposure, excess is transferred back to the general fund. Any unused funds within the reserve at the end of four years (June 30, 2019) must be returned to the general fund.

Plan: Three of the original fourteen cases remain open at September 1, 2016. The timeframe for settlement of the remaining cases in litigation is uncertain at this time. If the cases remain unsettled at year-end 2017, there will be no adjustment in the balance, except for interest. The reserve account currently reflects 72% of the anticipated exposure on the remaining cases.

Reserve: **Tax Certiorari - 2016**

Account: A864, Restricted Fund Balance

Purpose: To pay judgments and claims in tax certiorari cases related to the 2016 school tax year

Board Resolution: June 8, 2016

06/30/16 Balance: \$554,188

06/30/17 Projected: \$300,000

Valuation: Tax certiorari reserves are usually evaluated at least twice per year based on the exposure outstanding on the open cases. The Board receives an update in either December or January, and then again in May or June. If the balance exceeds the exposure, excess is transferred back to the general fund. Any unused funds within the reserve at the end of four years (June 30, 2020) must be returned to the general fund.

Plan: The District is tracking ten open cases at September 1, 2016. The reserve account currently reflects 63% of the anticipated exposure on the cases.

The timeframe for settlement of the cases in litigation is uncertain at this time. The reserve will be reviewed with the Board in November or December; additional funding is not anticipated. The year-end 2017 balance will reflect refunds made on settled cases.

Reserve:	Employee Benefit & Accrued Liabilities
Account:	A867, Restricted Fund Balance
Purpose:	To pay accrued benefits due employees upon termination of service
Board Resolution:	August 13, 2003
06/30/16 Balance:	\$2,496,853
06/30/17 Projected:	\$2,580,000
Valuation:	The reserve is valued at the end of each fiscal year based on the number of accumulated sick and personal days times the contractually determined compensation rate (varies by contract). At June 30, 2016, the amount of the reserve was set at 42% of the total value of accumulated time.
Plan:	Audits by the Comptroller's Office have restricted the use of this reserve. In certain years, school districts had the ability to transfer excess funds to the general fund. Our District reserve is not overfunded. We await further clarification and guidance on any future withdrawals.

Reserve:	Capital Reserve - Construction
Account:	A878, Restricted Fund Balance
Purpose:	To pay the cost of any object or purpose for which bonds may be issued (For our District, capital construction)
Voter Approval:	Voter Proposition May 17, 1994
06/30/16 Balance:	\$60,913
06/30/17 Projected:	\$60,913
Valuation:	The construction portion of the reserve has not changed since 2002.
Plan:	When the next capital project is planned, there may be consideration given to using the reserve funds to offset some project costs rather than bonding.

Reserve:	Capital Reserve – Bus Purchases 2010
Account:	A878, Restricted Fund Balance
Purpose:	To pay the cost of any object or purpose for which bonds may be issued (For our District, bus purchases)
Voter Approval:	Voter Proposition May 18, 2010
06/30/16 Balance:	\$636,478
06/30/17 Projected:	\$580,327
Valuation:	The bus portion of the reserve is valued each year based on the beginning balance, plus state aid attributable to bus purchases, less the cost of bus purchases approved by the voters as a withdrawal from the reserve. The terms of the proposition also allow additional funding of the reserve by

Plan: resolution of the Board of up to \$200,000 annually. Such additional funding is subject to availability and District financial condition. A formal plan is issued annually in October that highlights the current year activity and includes a two-year projection. After completion of the annual plan, the Board will be requested to provide additional funding of \$200,000 to supplement the reserve.

Reserve:	Encumbrances
Account:	A915, Assigned Fund Balance (Not part of restricted reserves)
Purpose:	To fund orders placed before year-end, but not yet received
Board Resolution:	Not required
06/30/16 Balance:	\$280,783
06/30/17 Projected:	\$262,507
Valuation:	Dollar value of purchase orders outstanding at year-end
Plan:	The actual value of orders outstanding at year-end is difficult to predict. It's unlikely that orders outstanding would exceed \$400,000 at any one time. Previous year-end balances were \$157,628 at 6/30/15, \$212,042 at 6/30/14, \$358,860 at 6/30/13, \$303,222 at 6/30/12, and \$272,058 at 6/30/11.

RESOLUTION:

Resolved, the Board of Education of the East Greenbush Central School District hereby adopts the 2016-2017 general fund restricted reserves plan and reauthorize the following reserves of the East Greenbush Central School District as authorized by Education Law and General Municipal Law and reflected in the District's financial statements effective June 30, 2016: Workers Compensation Claims, Unemployment Insurance, Retirement Contribution Reserve Fund, Tax Certiorari (2014, 2015 & 2016), Employee Benefits and Accrued Liabilities, Capital Reserve-Construction (1994), and Capital Reserve-Buses (2010).

Motion: _____
Second: _____
Ayes: _____ Nays: _____ Abstentions: _____