

Bethlehem Central School District



FUND BALANCE AND RESERVES REPORT

JUNE 30, 2016

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Bethlehem Central School District

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This report is a new addition to the litany of financial reports provided by the Bethlehem Central School District. The district has historically provided information on its fund balance and reserves within budget presentations and as part of the year-end report on financial results. Those overviews provided general information on the restricted nature of reserves and the amounts within fund balance and in reserves. However, the district desired to have a more comprehensive summary of the reserves, contained within a single reference document, to further enhance understanding of the reserves that are authorized and in use by the district.

Statutorily, other reserves are permissible; however, the district does not utilize the reserves at this time. At the rear of the report, a summary of the other permissible reserves is presented, for future reference.

We hope that this report will provide helpful information to the Board and to the Community. Based on recent changes in regulations, school districts will be required to present additional information on reserves, beginning in the 2016-17 budget development cycle. Once those requirements are announced, we will ensure that we have fulfilled all compliance elements. Additionally, should you find other information to be helpful to your review and analysis of the district's fund balance and reserves, please share your requests, and we will be happy to consider a modification in how the information is presented in subsequent years.

Sincerely,

Judith E. Kehoe
Chief Business and Financial Officer

Workers' Compensation Reserve Fund

Creation – This reserve was created prior to 2000.

Enabling Statute – GML §6-j

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

Funding Methods – This reserve was funded through excess fund balance over the course of several years.

Use of Reserve – The district is self-insured for Workers' Compensation. This reserve is used to pay claims that exceed the budgeted appropriations for workers' compensation, or those claims that are unusually large settlements. The reserve functions similarly to stop loss insurance coverage.

Monitoring of Reserve – This reserve is monitored by the Chief Business and Financial Officer.

Determination of Funding Level – Recognizing that exposures may fluctuate, we use a 5-year average of incurred claims to assess the reasonability of the reserve amount. The reserve should be within a calculated ceiling and floor. The ceiling is the most recent 5-year average of incurred claims. The floor is the most recent 5-year average of the sum of: actual claims paid during the fiscal year, plus the estimate of future claims still to be paid on incurred claims.

Retirement Contribution Reserve Fund

Creation – This reserve was created at the Board of Education meeting held on August 14, 2013, effective June 30, 2013. A copy of the original resolution is attached.

Enabling Statute – GML §6-r

Purpose – This reserve is used to pay employee contribution expenses for the NYS Employees' Retirement System. Payments to the Teachers' Retirement System are not allowed from this reserve. School districts are not permitted to establish a reserve for Teachers' Retirement Contribution expenses. Although legislation has been proposed to authorize such a reserve, it has not been enacted.

Funding Methods – This reserve was funded through excess fund balance over the course of several years.

Use of Reserve – The reserve is used to pay expenses related to the Employees' Retirement System, and to smooth tax levy fluctuations that result from rate changes and cost increases associated with these expenses.

Monitoring of Reserve – This reserve is monitored by the Chief Business and Financial Officer.

Determination of Funding Level – The statute does not specify a maximum amount that may be kept in this reserve; however, as a matter of good practice, the district considers recent payments to the NYSERS when assessing the reasonability of funding levels. Recognizing that required contributions may fluctuate widely (*thus the provision for an exemption built into the property tax cap calculations*), we use a 5-year average of contributions to assess the reasonability of the reserve amount, but not to establish an absolute maximum. The district also considers the amounts budgeted in the subsequent fiscal year, as an indicator of potential increases in contribution levels, which may warrant a funding amount in excess of the 5-year average.

Retirement Contribution Reserve Fund

RESOLUTION

WHEREAS, the Board of Education of the Bethlehem Central School District (the "Board") desires to place funds into a retirement contribution reserve fund in accordance with General Municipal Law (GML) section 6-r, in order to provide a source of funds to pay future retirement contributions to the New York State and Local Employees' Retirement System;

WHEREAS, the funding source is to come from an excess of revenues over expenditures within the 2012-13 fiscal year;

NOW THEREFORE, BE IT RESOLVED, that a retirement contribution reserve fund be established as of June 30, 2013 in an initial amount of \$880,000

Employee Benefits Accrued Liability Reserve Fund

Creation – This reserve was created circa 2002.

Enabling Statute – GML §6-p

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

Funding Methods – This reserve was funded through excess fund balance over the course of several years.

Use of Reserve – This reserve is available for use when an employee separates from the district and a payment of accumulated leave is required. It is drawn upon in years in which the required payments exceed budgeted appropriations.

Monitoring of Reserve – This reserve is monitored by the Chief Business and Financial Officer.

Determination of Funding Level – The Business Office generates a report identifying accrued sick and vacation leaves for all employees. The limitations on payout amounts, which varies by bargaining unit, are applied to the accrued balances, to establish the allowable amount of time. To this, the employee's pay rate is applied, in order to calculate the district's potential liability. Applicable payroll taxes are also applied, in order to calculate the amount of the obligation (which is also reported in the district's long term debt group of accounts, to the extent the obligation exceeds the amount provided for within this reserve).

Mandatory Reserve for Debt Service Fund

Creation – This reserve was created upon the sale of district property, 90 Adams Place, on May 13, 2014, due to debt being outstanding at the time of the sale.

Enabling Statute – GML §6-I

Purpose – This reserve is used to cover future debt service payments on outstanding bonds originally issued to finance work at 90 Adams Place.

Funding Methods – This reserve was funded from the proceeds received upon the sale of the building.

Use of Reserve – The reserve funds the allocable principal and interest payments for this property. The reserve terminates once the outstanding obligations are repaid (June 15, 2022).

Monitoring of Reserve – This reserve is monitored by the Chief Business and Financial Officer.

Determination of Funding Level – The amount in the reserve corresponds to the remaining balance on the outstanding debt.

2015 Capital Reserve Fund

Creation – Funding of this reserve, up to \$10,000,000 was authorized by the voters on May 19, 2015. The authorization limits the term of existence to 10 years, expiring June 30, 2025.

Enabling Statute – Education Law §3651(1)

Purpose – This reserve is used to pay for future capital improvements.

Funding Methods – This reserve is funded through the transfer of any available unexpended operating funds.

Use of Reserve – The reserve is restricted to paying the cost of future building projects, as may be approved by the Board of Education and only upon voter authorization for a specified capital project.

Monitoring of Reserve – This reserve is monitored by the Chief Business and Financial Officer.

Determination of Funding Level – Funding is considered annually, based on any available surpluses within the General Fund, subject to the \$10,000,000 cap.

Tax Certiorari Reserve Fund

Creation – This reserve was created prior to 2000.

Enabling Statute – Education Law §3651(1-a)

Purpose – This reserve is to pay judgments and claims in tax certiorari proceedings per RPTL, Article 7.

Funding Methods – This reserve was funded through excess fund balance over the course of several years.

Use of Reserve – This reserve is used to pay judgments that exceed the budgeted appropriations for tax refunds, or those claims that are unusually large settlements.

Monitoring of Reserve – This reserve is monitored by the Chief Business and Financial Officer.

Determination of Funding Level – The district receives petitions challenging assessments directly from the taxpayer (or their legal representative). The district maintains a list of these pending assessment reductions for the Towns of Bethlehem and New Scotland, which we annually verify with the respective assessor's offices. The tax impact based on the approval of the reduction at the amount requested by the taxpayer is calculated, representing the maximum potential liability for the district (and the ceiling for the amount funded in the reserve). Theoretically the amount could be higher if multiple years of refunds were granted; however, based on awards that do not typically grant the full amount requested by the taxpayer, this estimate is reasonably stated.

Other Elements of Fund Balance

Assigned Fund Balance

As per the Board of Education's Fund Balance Policy (#6135), there are potentially two elements of Assigned Fund Balance:

- 1) Appropriated Fund Balance: funds that are identified as a funding source in the subsequent year's adopted budget (there are no such appropriations as of June 30, 2016). The absence of appropriated fund balance indicates that the adopted budget is balanced, with anticipated revenues deemed sufficient to pay for budgeted expenditures. Although this may be a very prudent tool to balance a budget, such use needs to be both judicious and moderate. To maintain strong fiscal management practices, it is best to avoid deficit budgets, since there is often a compounding effect in later budget years, such that it may ultimately become much more difficult to achieve a balanced budget.
- 2) Outstanding Encumbrances: funds that are earmarked to pay for goods and services from the prior year's budget; however, for which the goods or services were not received/provided by the end of that fiscal year. These amounts roll into the subsequent fiscal year, and increase the amount of budgeted appropriations in that subsequent year, to pay for the ultimate obligation when these items are received. A detailed list of validly created encumbrances is prepared by the Business Office, which list supports the totals reported in the financial statements.

Assigned Fund Balance might also include a Reserve for Inventory. These are funds that are not available for appropriation, due to being invested in inventory. However, because General Fund inventory balances have not been material, the district has not used this reserve.

Unassigned Fund Balance

Also as per the Fund Balance Policy, any portion of the fund balance not otherwise restricted pursuant to authorized reserve, is by its definition Unassigned. The amount of the Unassigned Fund Balance is limited to 4% of the subsequent year's budgeted appropriations. This element of fund balance becomes a key fiscal indicator, and the district strives to keep this element close to the 4% maximum. Ultimately, this is the resource that will enable the district to absorb unanticipated, negative fiscal developments in any given year. It also helps ensure adequate liquidity to pay obligations throughout the year, at times when the cash position of the district might be at lower levels. Maintaining sufficient liquidity is a good fiscal practice, and it also minimizes or eliminates the need for short-term financing, such as Tax or Revenue Anticipation Notes.

Other Authorized Reserves Available to NYS School Districts

Although not currently authorized for use in the Bethlehem Central School District, the following chart identifies other reserves potentially available for future use:

Type of Reserve	Enabling Statute	Purpose
Unemployment Insurance Reserve	GML §6-m	To fund payments to the NYS Unemployment Insurance Fund, where the school uses the benefit reimbursement method (<i>vs. premium payments</i>).
Insurance Reserve Fund	GML §6-n	To pay liability, casualty and other types of losses (<i>should the district maintain unusually high deductibles, for instance</i>). These funds are similar in purpose; however, there are different contribution limits between GML vs. Ed Law.
Property Loss Reserve and Liability Reserve	Ed Law §1709(8-c) and §1950(4)(cc)	
Reserve for Insurance Recoveries	Ed Law §1718(2)	To temporarily hold unexpended proceeds of insurance recoveries, remaining at the end of the fiscal year.
Repair Reserve	GML §6-d	To pay for repairs to facility or equipment, when those repairs are not required at least annually.
Reserve for Tax Reduction	Ed Law §1604(36) and 1709(37)	To allow for the gradual use of proceeds from the sale of real property, in excess of funds that might be required to repay outstanding debt.
Reserve for Excess Tax Levy	Chapter 97 of the Laws of 2011	To restrict any monies levied in excess of the calculated maximum allowable tax levy.