

# Fund Balance Management Plan

For



June 14, 2018

*Four Schools, Three Buildings, Two Nations, One Goal: Excellence!*

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## Purpose

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The Board of Education and the administration have been working on several aspects of the fund balance management and the fiscal health of the District. One area of focus pursuant to fund balance management will be to continue to reduce the reliance on Assigned Appropriated Fund Balance and building Undesignated Unreserved Fund Balance as well as Restricted Fund Balance for future budgets. In the Assigned Appropriated Fund Balance area we have been successful over time transitioning from an Assigned Appropriated Fund Balance as a percentage of the budget of 3.90% in the 2004-2005 school year to 2.90% for the 2018-2019 school year. We increased our Undesignated Fund Balance from a negative \$140,430 in the 2012-2013 school year to a positive \$749,412 or 4.00% of the 2017-18 budget. This school year we have been working to continue to maintain the Restricted Fund Balance. This can be directly attributed to accurate accounting practices, maximizing revenues and seeking efficiencies.

As the reserves and fund balance as well as future financial planning have become a regular part of our budget discussions, we will continue to grow the financial health of the district.

## A Review: How is Fund Balance created?

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This happens in different ways, one of which is through accounting entries. For Example: A District reduces the Designated Fund Balance and the difference has to be placed somewhere on our balance sheet. This could be Undesignated Unreserved Fund Balance or be added to a reserve. Undesignated Unreserved Fund Balance cannot exceed 4% of the most recent publicly approved school budget. We are currently at the 4% threshold. As the budget changes, we will make adjustments to the Undesignated Unreserved fund balance. Now that we are at a 4% threshold we will plan to maintain this threshold and continue to build upon our Restricted Fund Balance (district reserves).

Another method of creating Fund Balance is in the design and management of annual district budgets. Over the past couple of years, the LaFayette Board of Education and administration have been improving their efforts of prudent budget design. We have been conservative with our revenue estimates by acknowledging that the executive and legislative budget proposals are simply projections and estimates—not a guarantee of funding to the district, as well as accounting for the aid attributable to the Onondaga Nation School. The Onondaga Nation School students generate state aid through their attendance at school and we need to make sure this amount is accounted for when budgeting state aid. The **state aid actual dollars** to be received from the state are **not provided to us until November of the year following the vote**. By being conservative we avoid the **risk of over estimating budgeted revenues**. As a reminder of budget discussions, the “cardinal rule of budgeting” is to overestimate your expenditures and underestimate your revenues, otherwise a district runs the risk of deficit spending in its budget.

The appropriate development of the expenditure side of each budget is another area that has progressed and increased in accuracy in the past year. We strive to anticipate changes in regulations and student population. We receive updates from many sources in Albany and share information received by both the Superintendent and the Assistant Superintendent for Business from these sources in order to develop the most accurate financial plans possible. We work with the building administrators and supervisors closely to determine changes in student placements and plan programming for the future. Even after the budget is adopted, we monitor the fiscal plan on a regular basis looking for variances from our assumptions.

The result of these efforts has been demonstrated through maintaining low increases in the tax levy as well as reducing the reliance on designated fund balance to pay for expenses.

## Why do we need Fund Balance?

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Fund Balance is necessary in order to plan for future liabilities as well as to accommodate unforeseen issues. A good Fund Balance Management Plan will substantially reduce or eliminate a negative effect on normal operation of our District in order to accommodate the liabilities that may arise.

The General Fund budget voted upon by the community is established to pay for the expenses for that year. There is little room in that budget to pay for extraordinary or unanticipated expenses. We create Fund Balance with the idea that we can support future liabilities—known and unknown—without negatively affecting the instructional program or our taxpayers.

Use ERS Retirement Reserve for example, if we know that there will be increases in employer retirement contributions, it makes sense financially to place an amount aside within our reserves to pay for this liability. Should these contributions rise significantly we are prepared and have funding set aside in the Reserve for this expenditure increase. This supports the need for the ERS Retirement Reserve.

LaFayette Central Schools currently has the following reserves in place in order to maintain the financial health of the district:

- **Encumbrances** – This is a reserve that the Board has little control over. This is where open purchases orders (encumbrances) from the prior year are placed on our financial statements. As these purchases arrive, these funds are paid out (liquidated). They are funds already committed to purchases that have not arrived by the end of the fiscal year.
- **Liability** – We can place money in this reserve for future liability claims that may arise in the District. The District currently has \$501,380 in this reserve. Money can be used to settle pending liability claims or may be used to purchase insurance policies to cover losses previously self-insured. The balance of this account may not be reduced below amounts required to settle all pending claims. This reserve allows us to be prepared in case new claims arise in future years.
- **Unemployment** – This reserve can be used to pay our unemployment insurance claims. The District needs to be prepared as new unemployment claims may arise. The NYS Comptroller Audit cited our district for having an amount in this reserve larger than claims paid over the last three school years. The District currently has \$178,349 in this reserve. We will work to continue to spend down this reserve as it may not be needed as much as our State Aid continues to be restored through the State. We have budgeted to use \$165,000 of this reserve in the 2018-19 school year's budget.
- **Property Loss** – This reserve is similar to the liability reserve as it is in place to pay for property loss to the District. There is currently \$350,000 set aside in this reserve for this purpose. It is used to cover anything that may not be covered under insurance and can also be used to purchase insurance policies to cover losses previously self-insured.
- **Debt Service Reserve** – This is a reserve that can be used to help pay off outstanding debt obligations. This is funded with the sale of property or remaining funds from bond issuances. This reserve has a balance of \$1,050,759 and we will use \$46,887 of this reserve in the 2017-18 school as planned through the budget process. The district is using this reserve to assist in paying for the upcoming debt to be incurred with the capital project borrowing. We have also budgeted to use \$10,000 of this reserve in the 2018-19 school year's budget.
- **Retirement Contribution Reserve** – This reserve is used to finance retirement contributions payable to the New York State and Local Employees' Retirement System. The District pays approximately \$250,000 per year to this system. We currently have a balance of \$727,424 in this reserve. We have budgeted to use approximately \$222,576 in the 2018-19 school year's general fund budget.
- **Repair Reserve** – This reserve was created by the Board of Education in order to plan for any unforeseen repairs that may be needed in the future. The District currently has \$583,526 in this reserve. The Board of Education has passed two emergency project resolutions to use \$60,000 for Brick flashing Repairs at the LaFayette Jr/Sr High School and \$70,000 for the North Parking Lot lighting Repairs at the Jr/Sr High School in the 2017-18

school year. The District anticipates some funding available to be replenish some of this reserve by the end of the 2017-18 school year.

- **Employee Benefits Accrued Liability Reserve** – This reserve was created by the Board of Education in order to plan for payments of accrued and accumulated but unused sick leave, personal leave, holiday leave, vacation time, and other benefits earned by employees and payable upon termination, that are not covered by another existing reserve fund. The District currently has \$497,582 in this reserve and is planning to use approximately \$13,500 of this reserve in the 2018-19 school year.

## **Fiscal Overview**

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It is important to review the status of the funds within our General Fund Budget in order to get a snapshot of our overall fiscal health.

- **Designated Fund Balance** – This is the amount of funds from the previous budget applied as revenue toward the current spending plan. As mentioned before, the district has been intentionally reducing this amount for the past several years but it will remain the same for the 2018-2019 school year at \$550,000.
- **Undesignated Unreserved Fund Balance** – This is limited to 4% of the most recently publically approved general fund budget. Under this Fund Balance Management Plan we are anticipating funding of approximately 4% of the budget in this fund balance area and strive to continue to meet the 4% threshold.

## **Summary**

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The District's administration will continue to update the board regularly throughout the upcoming school year to discuss and review the District's budget status reports. We will also continue to discuss goals of the district for our upcoming budget year. We will continue to look at the short and long term liabilities facing the District and make recommendations to the Board of Education about adjustments that best meet these liabilities. The entire thrust of this effort is to mitigate the effects of these liabilities on our taxpayers and our instructional programs. I would like to thank the audit committee members/board of education, business/district office staff, and the administrative team and staff in their efforts to help our district continue to build its financial health.