



Financial Management Plan  
LaFayette Central School District

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

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## Financial Management Philosophy

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There are several steps to creating a strong financial plan. These key components are described below:

- **Budgeting** - Good budgeting practices are key. Involvement with departments is an important part of the process as well as reviewing past historical data and looking ahead to known economic issues currently trending. What is unique about the next year? What spending will be out of the ordinary? There are many questions to be asked and answered in order to have a reliable and honest budget.
- **Cash Flow** - A projected cash flow and attention to deviations as the year progresses is a key aspect of good financial management. Adjustments may need to be made on a monthly basis. Usually we can forecast the timing of revenues and it's critical to focus on these revenues along with large expenses such as debt and payroll obligations.
- **Fund Balance** - Fund balance management is another piece of the puzzle in that careful attention needs to be paid to fund balance trends throughout the year in order to fund planned reserves. Do we need to cut spending earlier than normal to help lessen expenses?
- **Reserves** - Having reserve accounts is yet another tool. They can be used to avoid major fluctuations within regular spending accounts as compared to budget and previous historical expenses. Reserves are a type of "savings account" for unplanned expenses in specific categories.
- **Multi-Year Plan** - A multi-year plan helps ensure we are looking at the future and planning for possible changes that can be foreseen. It allows us to keep budgets under control in order to keep tax levies at a minimum. It gives notice to us if there may be a concern in a future year that needs to be addressed.
- **Property Tax Cap** - Calculating and analyzing the property tax cap calculation over multiple years based on current known debt, building aid, etc. is also an important step. We should be looking ahead to when debt is paid off and consider timing another building project around this.

## Fund Balance Management

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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 2.67% for the 2021-22 school year. We increased our Undesignated Fund Balance from a negative \$140,430 in the 2012-2013 school year to a positive \$788,005 or 3.04% of the 2020-21 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 very close to 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 School Business Manager 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. We had an enrollment study completed during the 2020-21 school year.

The result of these efforts has been demonstrated through maintaining low increases in the tax levy as well as trying to reduce the reliance on designated fund balance to pay for expenses up until this year. Due to the level of state aid received in the recent past, we have had to rely more on designated revenues than we would like. With the recent grants provided from the American Rescue Plan, it is our hope the reliance on designated revenues will significantly decrease.

## 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.

## Reserves

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Prudent financial management includes the creation and use of reserve accounts. Reserve accounts can help offset major fluctuations in expenditures that may be unexpected. They can keep expenditures from having major changes from year to year. Avoiding anomalies such as peaks and valleys within expenditure accounts will help with long-term planning. One can look at a reserve account as a type of savings plan.

Reserves can be funded in different ways, but most commonly they are funded with surplus funds at year-end or with voter authorized funds transfers. It is important to realize there are many different types of reserves and that each reserve has its own rules to be followed. As required by law, reserves are funded only by board resolution or voter approval.

LaFayette Central School District has the following reserves in place at this time:

- **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. At 6/30/2020, the balance in this account is \$88,807. It is anticipated encumbrances will be similar at 6/30/2021.
- **Liability** – We can place money in this reserve for future liability claims that may arise in the District. 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. At 6/30/2020, the balance in this account is \$501,380. It is anticipated this reserve will not change at 6/30/2021.

- **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, however, after reducing the balance last year, we will be forced to increase this year. Due to this year's pandemic and resulting economic downturn, we will look at increasing this reserve due to possible future furloughs. While the state reimbursed the district for all unemployment claims during the pandemic, we need to consider future ramifications of the pandemic. The district has allocated \$25,000 in the 2021-22 budget. At 6/30/2020, the balance in this account is \$25,349. It is anticipated that this reserve will be increased.
- **Property Loss** – This reserve is similar to the liability reserve as it is in place to pay for property loss to the District. 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. At 6/30/2020, the balance in this account is \$350,000. It is anticipated this reserve balance will not change at 6/30/2021.
- **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. A successful December 2020 capital vote and authorization to transfer \$1 million to fund the local share of a capital project has reduced the balance of this reserve. The district is planning to close out this reserve and transfer the remaining funds to fund balance. At 6/30/2020, the balance in this account is \$1,133,241. It is anticipated this reserve balance will be approximately \$133,241 at 6/30/2021.
- **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 \$300,000 per year to this system. We have budgeted to use approximately \$442,500 in the 2021-22 school year's general fund budget with a plan to reimburse the reserve at 6/30/2021. At 6/30/2020, the balance in this account is \$727,424. It is anticipated this reserve will increase at 6/30/2021.
- **Retirement Contribution Reserve Subfund – TRS Reserve** – On April 12, 2019, the Governor included a provision in the budget allowing for the creation of a subfund reserve in order to finance retirement contributions payable to the New York State Teachers' Retirement System. The Board of Education approved the establishment of this new reserve fund. The District can fund this reserve annually with up to 2% of the TRS salaries paid in the prior year, up to a maximum amount of 10% of TRS salaries paid in the prior year. At 6/30/2020, the balance in this account is \$199,685. It is anticipated this reserve will increase at 6/30/2021.
- **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. Fund balance amounts in excess of 4%

can be transferred into the Repair Reserve with voter approval. At 6/30/2020, the balance in this account is \$2,273,900. It is anticipated the balance will be similar at 6/30/2021.

- **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 has allocated \$253,500 in the 2021-22 budget. At 6/30/2020, the balance in this account is \$497,582. It is anticipated this reserve will be increased as of 6/30/2021.
- **Capital Reserve** - This reserve was created to help offset the local share of capital projects by reducing the tax levy impact of new capital projects. Fund balance amounts in excess of 4% can be transferred into the Capital Reserve. There has been no funding to date. It is anticipated there will be funding as of 6/30/2021.

We are proposing the addition of two new reserves this year as recommended by our auditor:

- **Insurance Reserve** - this is used to offset insurance premiums which are considered to be a form of self-insurance
- **Workers' Compensation Reserve** - this reserve is used to help pay for workers' compensation insurance costs paid through the Consortium.

## 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 2019-20, 2020-21 and 2021-22 school years 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 2021-22 school year should see some relief from having a zero increase in foundation aid to a 3% increase due to the state's commitment to increase foundation aid and fund the American Rescue Plan over the next few years. 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.