

The seal of the Irvington Union Free School District is a circular emblem. It features a large, stylized letter 'I' in the center. The word 'IRVINGTON' is arched across the top, and 'UNION FREE SCHOOL DISTRICT' is arched across the bottom. Below the 'I', the words 'NEW YORK' and '1856' are visible. At the very bottom, the Latin motto 'PER ASPERA AD ASTRA' is inscribed.

# **Understanding Fund Balance/Reserves**

June 18, 2024



# Categories of Fund Balance

## Fund Balance

- Unassigned Fund Balance
  - Recommended and maximum amount is 4% of next year's budget
- Appropriated Fund Balance
  - Funds designated for revenue for next year's budget
  - Approved in budget process
- Reserve for Encumbrances
  - Incomplete orders at year-end that carry over to next year's budget
  - Amounts fluctuate from year-to-year
- Reserve Funds
  - Restricted for specific purposes
  - Funds assist with long range financial planning, managing liabilities and future budgetary "surprises"



## Categories of Fund Balance (cont.)

### Current Reserve Funds

- Tax Certiorari
  - Used to pay tax refunds on successful claims
- Capital Fund
  - Used with voter approval for future projects
- Worker's Comp
  - Used for self-insured districts to pay claims
- Employee Benefits Liability (EBALR)
  - Used for contractual employee benefits upon retirement
- TRS/ERS
  - Used for contractual retirement contribution matches set by NYSTRS and NYSERS



## Categories of Fund Balance (cont.)

### Current Reserve Funds – New this year

- Liability Reserve
  - Used to pay board approved legal settlements
- Insurance Reserve
  - Used to pay liability, casualty and other types of uninsured losses

More reserves are allowed: Repair, Property Loss, Unemployment



## Allowable Sources of Fund Balance

- Surplus resulting from expenditures not exceeding revenues
  - Expenditures lower than budget
  - Revenues higher than budget
- Borrowing
- Sale of building/land
- Unexpended capital project



## Why Have Unassigned Fund Balance?

- Office of State Comptroller/SED allows up to 4% of the next year's budget as unassigned funds and recommends 4% as a measure of fiscal health to avoid fiscal stress
- Previously larger levels were allowed – municipalities are not restricted to 4%
- Cash flow – avoid borrowing for Tax Anticipation Notes (T.A.N.) and resulting interest costs to fund operations until tax funds arrive in October and February
- Strong financial health leads to a better credit rating typically resulting in a lower borrowing rate for future capital projects
- Ability to weather any potential storms



## Why Have Reserves?

- Used for long range planning – known costs
  - Worker's Comp tail claim payments
  - Tax Certiorari refund payments
  - Legal settlements
  - Contractual payments to retirees
- Used for long range planning – future costs
  - Long range facilities plan
- Used to manage economic fluctuations and reduce budgetary swings
  - TRS/ERS rates increasing can result in severe budgetary pressure
  - Inflation effects - example utilities, health insurance



## Example of Reserve Use: Tax Certiorari Reserve

- Began year with \$4,423,699
- Money is added and subtracted each year
- Transferred \$183,379 to General Fund to pay out on settlements for current fiscal year
- Total exposure is ~\$27,645,000 based on actual filings but realistic exposure is closer to \$5.3 - \$8.8 million through settlements and court proceedings
- In 2012-13, the District borrowed \$3,575,000 to augment reserve. Final payment for this bond occurred this year.
- Recommend maintaining current level or slightly adding to tax cert reserve with a \$200,000 allocation of surplus funds available to avoid future borrowing





## Example: Long Range Facility Planning Aided by Capital Reserve

- The District maintains a long range facilities plan. This includes work that cannot be covered in an annual budget resulting from our building conditions survey and from improvement ideas
- When identified areas of concern become more urgently needed or desired, District seeks to initiate a capital project with voters
- Funding is typically through a voter approved bond but amount may be offset with funds in a capital reserve. Use of the reserve reduces annual borrowing costs that must be included with the general fund budget
- Projects contained in our long range facility plan include:
  - Roofing and ceilings
  - HVAC and plumbing fixtures
  - Electrical upgrades
  - Windows and door replacements
  - Turf field replacement and field improvements
  - Paving and concrete work
  - Repurposing of space requiring renovations for academic needs

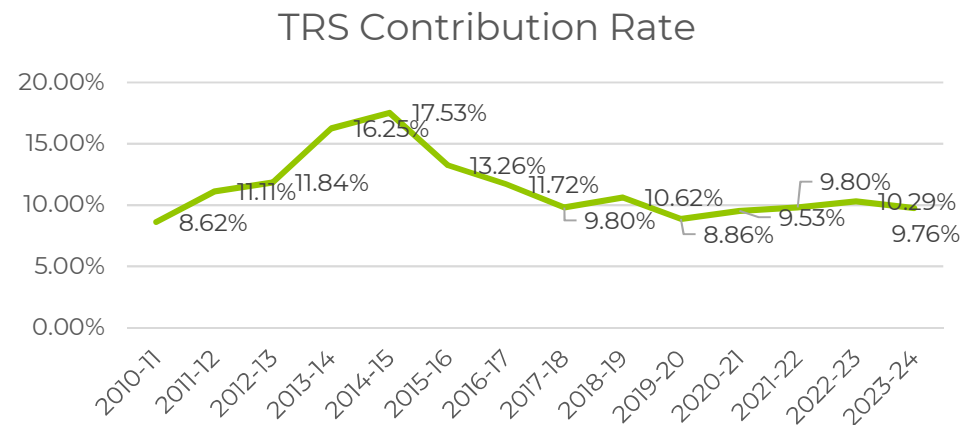


## Example: Long Range Financial Planning/Budgeting Aided by Retirement Reserve

- Having a retirement reserve will minimize the budgetary impact of any large swings in retirement system contribution rates

Fiscal Year	Salaries	Contribution Rate	TRS Payable	Variance to current year
2023-24	\$30,000,000	9.76%	\$2,928,000	
2024-25	\$30,000,000	10.11%	\$3,033,000	\$105,000
2024-25 Possibility	\$30,000,000	15.00%	\$4,500,000	\$1,467,000

- In this example, if the contribution rate increased to 15% from the 10.11% match, the budget would need to include an additional \$1,467,000 likely necessitating program/staff cuts





## Current Fund Balances

As of June 30, 2023

Reserve	Amount
Unassigned Fund Balance	\$2,923,165
Appropriated Fund Balance	\$422,500
Reserve for Encumbrances	\$838,273
Reserve for Tax Certiorari	\$4,423,699
Reserve for Employee Benefits Liability	\$658,522
Reserve for Capital	\$2,421,184
Reserve for TRS/ERS Liability	\$1,037,525
Reserve for Worker's Compensation	<u>\$1,010,948</u>
Total	\$13,735,816



## Do We Gain Interest on Our Reserves?

YES!

- Our reserve funds are invested throughout the year
  - Investments must follow NY General Municipal Law, Article 5-G and 3-A, which requires safety and liquidity
  - District primarily invests through a Local Government Investment Pool managed by NYLAF, NY Liquid Asset Fund; <https://nylaf.org/>
- Some years, interest rates are low and thus cannot be expected to add much to our reserves
- Current year, we expect approximately \$541,000 in interest revenue with rates approximately 5.25% much of this year with a high of 5.38%!



## What are the key variances creating surplus this year?

### Revenue:

- Interest revenue
- Tuition of non-resident students
- Sales tax revenue
- State aid from prior year expenditures (BOCES, Excess Cost)

### Expenditures:

- Utilities
- Special Ed tuitions
- Expenses charged to grants
- Health Insurance
- Facility projects coming in under estimates
- Non-Contract salary such as reduced overtime



## Reserve Funding Recommendations

With an expected surplus of ~\$2,145,000:

- Fund to 4% limit for Unassigned Fund Balance
- Add \$0 to Worker's Comp Reserve and Employee Benefits Reserve
  - Funds are sufficient for current exposure
- Add \$200,000 to Tax Certiorari Reserve
- Add \$1,500,000 to Liability Reserve
- Add \$100,000 to Insurance Reserve
- Add \$150,000 to TRS/ERS Reserve
- Add \$750,000 to Capital Reserve
- Add any remaining surplus funds to Capital Reserve

Estimates are based on current financials and accrual estimates. Final numbers/funding recommendation is available end of July/August as audit is completed and will be provided to the Board prior to finalizing reserve funding.



# Projected Fund Balances Illustrated

As of June 14, 2023

	2023-24		
	Recommended		Net Change
	June 2023	Projected Year End*	
Unassigned Fund Balance	\$2,923,165	\$3,043,524	\$120,359
Appropriated Fund Balance	\$422,500	\$422,500	\$0
Reserve for Encumbrances	\$838,273	\$100,000	-\$738,273
Reserve for Tax Certiorari **	\$4,423,699	\$4,690,869	\$267,170
Reserve for Employee Benefits Liability **	\$658,522	\$602,345	-\$56,177
Reserve for Capital	\$2,421,184	\$3,308,315	\$887,131
Reserve for Liability	\$0	\$1,500,000	\$1,500,000
Reserve for Insurance	\$0	\$100,000	\$100,000
Reserve for TRS/ERS	\$1,037,525	\$1,246,289	\$208,764
Reserve for Worker's Compensation **	\$1,010,948	\$893,206	-\$117,742
<b>Total</b>	<b>\$13,735,816</b>	<b>\$15,907,048</b>	<b>\$2,171,232</b>
* Final numbers depend on actual surplus determined at fiscal close			
** Net change includes fund spent from the reserve during the current fiscal year plus funds expected to be added			