

**Hancock Central School District
Reserve Fund Report and Analysis
2019-2020 Year-End Summary Report - Final
Board of Education Review/Approval
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Prepared By:

Terrance P. Dougherty, Ph.D. Superintendent of Schools

Raymond G. Preusser, CPA, External Auditor

Aimee Skiff- Treasurer

Overview

The New York State Comptroller's guidance on the Reserve Fund describes the importance of Reserve Funds for good financial management.

"Saving for future projects, acquisitions, and other allowable purposes is an important planning consideration for local governments and school districts. Reserve funds provide a mechanism for legally saving money to finance all or part of future infrastructure, equipment, and other requirements. Reserve funds can also provide a degree of financial stability by reducing reliance on indebtedness to finance capital projects and acquisitions. In uncertain economic times, reserve funds can also provide officials with a welcomed budgetary option that can help mitigate the need to cut services or to raise taxes. In good times, money not needed for current purposes can often be set aside in reserves for future use."

The establishment and funding of reserves is an important consideration in the maintenance of a sound financial plan for any school district. Strict adherence to state laws is required to ensure reserves are both legal and appropriate. Adequately funded reserves are vital to the long-term health and stability of the school district.

The Hancock Central School District believes that the judicious use of reserves reduces long-term borrowing costs, smoothes large fluctuations in tax rates, and minimizes the possibility of mid-year budget cuts which could have a direct impact on students. We believe it is in the best interest of students, staff, and taxpayers to prudently establish and use reserves to weather the financial storms and uncertainties that can occur throughout a school year.

Since New York State law mandates that expenditures can be no greater than the budget approved by the voters in May each year, Hancock Central School District budgets conservatively to ensure that unanticipated expenditures do not result in mid-year cuts that could have an immediate impact on students and/or staff. This practice has allowed the District to weather revenue reductions, state aid holdbacks, increases in expenditures such as transportation or Special Education, and other negative adjustments without impacting instructional programs. However, conservative budgeting can also result in budget surpluses at year-end. The Board of Education reviews budget surpluses via the annual Fund Balance Report and determines the best use of these surpluses including transfers to voter or Board approved reserves, or to a reduction in the ensuing year tax levy.

Legally established reserves can provide many benefits to the school district and to its taxpayers. However, these reserves can also cause confusion when not utilized and/or their purpose is not clearly understood by the community.

Finally, Education Law 2022(7), regarding voting on school district budgets and the election of board members states: "Each school district, in a timely fashion, shall post on

its website, if any, a financial budget or any multi-year financial plan adopted by the board of education or trustees.” In Hancock, community residents can find this important financial information on our school district website, www.hancock.stier.org.

Reserves

As stated, the Board is responsible for appropriately managing the financial affairs of the District. Reserves may be established by the Board in accordance with applicable laws. Money set aside in reserves must be used in compliance with statutory provisions which determine how reserves are established and how they may be funded, expended, and/or discontinued. Generally, school districts are not limited as to how much money can be held in reserves. However, reserve balances must be reasonable.

Funding reserves at greater than reasonable levels contributes to real property tax levies that are higher than necessary because the excessive reserve balances are not being used to fund operations. The Board is responsible for developing a formal plan for the use of its reserves, including anticipated use and need of reserve funds and how and when disbursements should be made. By maintaining excessive and/or unnecessary reserves, the Board and District officials may miss opportunities to lower the property tax burden and/or funds from being used to meet District needs.

Best Practices for Reserves

1. Familiarize yourself, the administrative team and the Board of Education as to the purpose and rules of Reserve Funds. Listed above are Reserve Funds available to school districts and BOCES. But not all school districts or BOCES can establish each of the listed funds. For example, the big five school districts, school districts with more than 125,000 inhabitants, cannot use the Insurance Reserve Fund, Employee Benefit Accrued Liability Reserve Fund or the Retirement Contribution Reserve Fund. Only a BOCES can use the Career Education Instructional Equipment Reserve Fund.
2. Share the New York State Comptroller’s guidance document with interested parties. The document can be found at the link noted below in the resource section.
3. Review your district’s reserve funds annually to assure that the funding level is appropriate based on the prescribed purpose of the Reserve Fund. Share an update with the Superintendent and Board of Education.
4. When establishing a Reserve Fund, document the reasons and the dollar amount. Keep a record of discussion with the Board of Education and any Board action. Keep the documentation in the business office.
5. Share information with your external auditor during the school year as you make changes to Reserve Funds.

6. If the district changes the level of funding in a reserve fund, document the reasons, inform the Board of Education and keep a copy of the resolution in the business office.

Resources

- New York State Office of State Comptroller guidance document: This document outlines all of the Reserves available to municipalities and school districts.
 - <http://osc.state.ny.us/localgov/pubs/lmg/reservefunds.pdf>
- New York State Office of State Comptroller Local Government and School Accountability Accounting Releases: The state may create new reserves or clarify requirements related to a reserve. This information is released in a bulletin. Bulletins can be found at this link:
 - <http://osc.state.ny.us/localgov/pubs/releases/pastreleases.htm>

The following is a report/analysis of the current status and internal controls over Reserve Funds at Hancock Central School District:

Reserve for Encumbrances

Funding Goal- Each year the reserve amount is equal to the outstanding purchase order obligations to be satisfied in the following school year.

Creation – This reserve was created in 1993 via board resolution.

Purpose – This reserve allows outstanding encumbrances remaining at the end of a school year to be carried over to the next school year.

Funding Methods – The funding is realized from revenue gleaned from the prior school year.

Use of Reserve – The reserve is used to liquidate purchase orders and requisitions from prior school years.

Monitoring of Reserve – The reserve will be monitored by the Superintendent and Business Manager.

Caution- This reserve exists only for so long as there exists an encumbrance (eg. P.O.) to match the funds in the reserve.

Tax Certiorari Reserve

Funding Goal- As the district receives tax certiorari claims, we reserve funds based on the following: based on two individual claims not to exceed the actual claims. Tax certiorari claims older than four years should be based on the actual claim. The Tax Certiorari Reserve shall not be funded to an amount beyond 2% of the District's tax levy for the current year's approved budget.

Creation – This reserve was created in June of 1993 via board resolution.

Purpose – This reserve is used to pay for prior year judgments and claims in tax certiorari proceedings.

Funding Methods – Funding methods may include from excess fund balance or transfers from other reserves. Funds placed in this reserve that are not used to pay tax certiorari judgments or claims must be returned to the General Fund by the first day of the fourth fiscal year after the establishment of the fund.

Use of Reserve – This reserve would be used to pay for prior year tax certiorari claims.

Monitoring of Reserve – This reserve, if needed, will be monitored by the Superintendent and Business Manager. It is anticipated that detailed calculations will be required each year to support the amounts in this reserve.

Capital Reserve for Construction

Funding Goal- The board is presented with an annual fund balance report and recommendations from the superintendent and the business office in support of offsetting local costs related to future capital projects (\$6.5 project was passed in December of 2014 based on a zero tax impact pledge). Recommendations to the capital reserve fund are based on operating surpluses from the general fund and are approved by the board.

Funding Level – Please reference summary page at end of report, Page 13.

Creation – This reserve was created on 2014 via voter approval. Must be expended prior to 2025.

Purpose – The purpose of the fund is for construction, repair and construction of capital improvements and the acquisition of equipment.

Funding Methods – The source from which the funds will be obtained can include any or all of the following: unappropriated fund balance from the general fund as determined by the Board of Education, State aid related to expenditures from the capital reserve fund, interest income related to investments of monies in the fund, and any other monies thereafter authorized by the voters of the district.

Use of Reserve – Use of this reserve requires voter approval. The proposition to use these funds must be specific to a set of projects and dollar amounts.

Monitoring of Reserve – This reserve is monitored by the Superintendent and Business Manager.

Capital Reserve for Bus Replacement

Funding Goal- The board is presented with an annual fund balance report and recommendations from the superintendent and the business office in support of costs related to the implementation of the district's five year bus purchasing program (please see attachments). Recommendations to the bus reserve are based on estimated surpluses from the general fund and are approved by the board.

Funding Level – Please reference summary page at end of report, Page 13.

Creation – This reserve was created in June 2009 and 2019 via voter approval.

Purpose – The purpose of the fund is for the replacement and acquisition of School District buses per the District's five year bus replacement planning cycle.

Funding Methods – The source from which the funds will be obtained can include any and all of the following: unappropriated fund balance from the general fund as determined by the Board of Education, State aid relating to expenditures from the bus replacement reserve fund and transportation aid, interest income related to the investment of monies in the fund, and any other additional monies thereafter authorized by the voters of the District.

Use of Reserve – Use of this reserve requires voter approval. The proposition to use these funds must be specific to a set of projects and dollar amounts.

Monitoring of Reserve – This reserve is monitored by the Superintendent and Business Manager.

Employee Benefit Accrued Liability Reserve (EBLAR)

Funding Goal- Not to exceed the value of compensated absences for those employees approaching retirement age.

Funding Level – Please reference summary page at end of report, Page 13. If the District determines that such an account is no longer needed or is overfunded, monies may be transferred to a reserve fund established under Education Law §3651, but only to the extent that the monies in the employee benefit accrued liability reserve fund exceed a sum sufficient to pay all liabilities incurred or accrued against the employee benefit accrued liability fund, as certified to the governing board by the fiscal and legal officers of the local government prior to the discontinuance of the fund. Consequently, the business manager and

superintendent, working in concert with the external auditor and the board of education, will transfer excess EBLAR reserve funds to the Retirement Contribution (ERS) or unemployment reserves pending BOE approval on the following schedule: As of July 1, 2016, any excess funds in the EBLAR reserve that exceed the District's liability for compensated absences will be reallocated to the capital reserve or Employee Retirement Contribution Reserve (ERS).

Creation – This reserve was created in June of 2003 via board resolution.

Purpose – The purpose of this fund is to pay accrued benefits due to employees upon termination of service for vacation, sick, leave, personal leave, etc.

Funding Methods – The source from which the funds will be obtained can include any and all of the following: unappropriated fund balance from the general fund as determined by the Board of Education, , interest income related to the investment of monies in the fund, and any other additional monies thereafter authorized by the voters of the District.

Use of Reserve – This reserve is used to pay for employee compensated absences upon termination of employment from the school district. Recent amendments to General Municipal Law allows for use of the reserve as a revenue to cover the amount equivalent to a district's remaining gap elimination adjustment or the dollar value of excess funding remaining in the fund as determined by the Comptroller.

Monitoring of Reserve – The reserve is monitored by the Superintendent and Business Manager.

Reserve for Repairs

Funding Goal- In any given school year, fund to a level sufficient to account for approximately 1% of the approved budget.

Funding Level – Please reference summary page at end of report, Page 13.

Creation – This reserve was established in June of 2003 via board resolution.

Purpose – This reserve is used to pay for unanticipated, non-recurring repairs to district capital improvements, facilities and equipment.

Funding Methods – Voter approval is required to fund this reserve.

Use of Reserve – In accordance with the law, a public hearing must be held in order to use funds from this reserve, except in an emergency. Funds used for an emergency without holding a public hearing must be returned to the fund over two years with at least one-half in the first year. A vote of two-thirds of the Board is required to authorize an emergency expenditure. Use is restricted to the purpose stated above.

Monitoring of Reserve – This reserve is monitored by the Superintendent and Business Manager.

Employee Retirement Contribution (ERS) Reserve Fund

Funding Goal- A minimum funding level equivalent to the value of five consecutive years as of the close of the current year.

Funding Level – Please reference summary page at end of report, Page 13.

Creation – This reserve was created in June of 2010 via board resolution.

Purpose – This reserve is used to pay for district expenses to the NYS Employee’s Retirement System only.

Funding Methods– Funds are placed in this reserve from excess fund balance.

Use of Reserve – Funds are to be appropriated against ERS billings for the current budget year.

Monitoring of Reserve – This reserve is monitored by the Superintendent and Business Manager.

***NYS Teachers Retirement – Subfund of the Retirement Contribution Reserve**

The law was amended in 2019 to authorize a sub-fund within the Retirement Contribution Reserve Fund to finance retirement contributions to the NYS Teachers Retirement System and/or offset all or some of the amount deducted from the moneys apportioned to the district from the state under Education Law §521 (e.g., collection of employer contributions to TRS).

Funding Goal- The amount of moneys contributed annually to the TRS sub-fund cannot exceed 2% of the total compensation or salaries of all teachers employed by the district who are members of TRS paid during the immediately preceding fiscal year. Nor can the balance of the sub-fund exceed 10% of the total compensation or salaries of all teachers employed by the district who are members of TRS paid during the immediately preceding fiscal year. The maximum amount of \$56,485 was funded as of 6/30/19.

Creation – This reserve was created in June of 2019 via board resolution.

Purpose – This reserve is used to pay for district expenses to the NYS Teachers Retirement System only.

Funding Methods– Funds are placed in this reserve from excess fund balance.

Use of Reserve – Funds are to be appropriated against TRS billings for the current budget year.

Monitoring of Reserve – This reserve is monitored by the Superintendent and Business Manager.

Unemployment Insurance Reserve

Funding Goal- Currently, reserve balance represents approximately 0.007% of the 2019-2020 budget salaries.

Funding Level – Please reference summary page at end of report, Page 13.

Creation – This reserve was established in June of 2003 via board resolution.

Purpose – This reserve is used to pay the cost of reimbursement to the New York State Unemployment Insurance Fund for unemployment benefit payments to claimants.

Funding Methods – This reserve may be established by a board resolution and funded by budgetary appropriations or other funds as may be legally appropriated.

Use of Reserve – In accordance with the law, this reserve may be used at the discretion of the superintendent and business manager specifically to offset expenses tied to unemployment insurance claims related to employee attrition.

Monitoring of Reserve – This reserve is monitored by the Superintendent and Business Manager.

Insurance Reserve

Funding Goal- The maximum amount paid into this reserve is limited to \$33,000 or 5% of the total annual budget for that year. \$10,000 was approved for funding in June 2019.

Funding Level – Please reference summary page at end of report, Page 13.

Creation – This reserve was established in June of 2019 via board resolution.

Purpose – This reserve is used to to fund certain uninsured losses, claims, actions, or judgments for which the local government is authorized or required to purchase or maintain insurance, with a number of exceptions. An insurance reserve fund may also be used to pay for expert or professional services in connection with the investigation, adjustment, or settlement of claims, actions, or judgments.

Funding Methods – This reserve may be established by a board resolution and funded by budgetary appropriations or other funds as may be legally appropriated.

Use of Reserve – In accordance with the law, this reserve may be used at the discretion of the superintendent and business manager specifically to offset expenses tied to insurance claims.

Monitoring of Reserve – This reserve is monitored by the Superintendent and Business Manager.

Hancock Central School District: Statutory Reserve Fund Analysis Report

Reserve Name	Year Established	Balance 6/30/15	2015–2016		Balance 7/1/16	2016–2017		Balance 7/1/17
			Transfers In	Withdrawals		Transfers In	Withdrawals	
Tax Certiorari	1993	\$163,128		\$14,480	\$148,648	0	0	\$148,648
Capital Reserve	2014	\$200,000			\$200,000	\$410,000	0	\$610,000
Capital Reserve Buses	2009	\$797,869		\$256,300	\$541,569	\$200,096	\$132,038	\$609,607
EBLAR	2003	\$742,296		\$164,862	\$577,434	0	\$3,000	\$574,434
Reserve for Repairs	2003	\$90,130			\$90,130	0	\$39,875	\$50,255
ERS Reserve	2010	\$831,000	\$801,000	\$50,000	\$1,582,000	0	\$200,000	\$1,382,000
Unemployment Reserve	2003	\$33,923	\$7	\$630	\$33,300	7	0	\$33,307
Total		\$2,858,346			\$3,173,081			\$3,408,251
Total Budget		\$10,307,946			\$10,537,072			\$10,684,945
Percent Reserved		27.7%			30.1%			31.9%

2016-2017 Supporting BOE Resolution (August 28, 2017 Meeting):

Homer moved, with a second by Smith as recommended by Superintendent Dougherty to adopt the following:

BE IT RESOLVED, the Board of Education, Hancock Central School District does hereby approve the transfer of \$410,000 from the unappropriated fund balance to the Capital Reserve Fund toward reducing local costs pertaining to future renovation/re-construction of the District bus garage per the District's five year facility plan and the transfer of \$200,000 from the unappropriated fund balance to the Capital Reserve for Buses to offset costs related to future bus purchases per the District's five year bus replacement plan.

2017-18 Supporting BOE Resolution (October 22, 2018 Meeting): Todd Jacobs moved, with a second by Becky Smith as recommended by Superintendent Dougherty to adopt the following: E IT RESOLVED, the Board of Education, Hancock Central School District does hereby approve the transfer of \$1,128,166 from the unappropriated fund balance to the Capital Reserve Fund toward reducing local costs pertaining to future renovation/re-construction of the District bus garage per the District's five year facility plan and the transfer of \$300,000 from the unappropriated fund balance to the Capital Reserve for Buses to offset costs related to future bus purchases per the District's five year bus replacement plan and reduce the ERS Reserve by \$332,000 and transfer to unappropriated fund balance.

Reserve Name	Year Established	Balance 7/1/17	2017–2018		Balance 7/1/18	2018–2019		Balance 7/1/19
			Transfers In	Withdrawals		Transfers In	Withdrawals	
Tax Certiorari	1993	148,648		15,392	133,256	302	20,000	113,558
Capital Reserve	2014	610,000			610,000	1,688		611,688
Capital Reserve 2017	2017		500,000		500,000	21		500,021
Capital Reserve 2018	2018		628,166		628,166	99		628,265
Capital Reserve Buses	2009	609,607	300,207	194,430	715,384	2,085	184,657	532,813
Capital Reserve Buses	2019					150,000		150,000
EBLAR	2003	574,434			574,434	147,120	151,482	570,072
Reserve for Repairs	2003	50,255			50,255	101		50,356
ERS Reserve	2010	1,382,000		332,000	1,050,000	21,229		1,071,229
TRS Reserve	2019					56,485		56,485
Unemployment Reserve	2003	33,307	8		33,315	5		33,320
Insurance Reserve	2019					10,000		10,000
Total		3,408,251	1,428,381	541,822	4,294,810	389,135	356,139	4,327,806
Total Budget					11,161,753			11,291,458
Percent Reserved					38.4%			38%

2018-19 Supporting BOE Resolution (October 28, 2019 Meeting):

_____ moved, with a second by _____ as recommended by Superintendent Dougherty to adopt the following: BE IT RESOLVED, the Board of Education, Hancock Central School District does hereby approve the transfer of \$21,229 to the Retirement Contribution Reserve and \$56,485 to the TRS Subfund from the unappropriated fund balance for the purpose of funding future retirement expenses and the transfer of \$150,000 from the unappropriated fund balance to the Capital Reserve for Buses to offset costs related to future bus purchases per the District's five year bus replacement plan and the transfer of \$10,000 from the unappropriated fund balance to the Insurance Reserve to fund future insurance claims and and the transfer of \$147,120 from the unappropriated fund balance to the EBLAR Reserve to fund employee benefits costs incurred upon retirement and reduce the Tax Certiorari Reserve by \$20,000 and transfer to unappropriated fund balance.

Reserve Name	Year Established	Balance 7/1/19	2019-2020		Balance 7/1/20	2020-2021		Balance 7/1/21
			Transfers In	Withdrawals		Transfers In	Withdrawals	
Tax Certiorari	1993	113,558	457		114,015			
Capital Reserve	2014	611,688	2,048	611,688	2,048			
Capital Reserve 2017	2017	500,021	1,527	500,021	1,527			
Capital Reserve 2018	2018	628,265	1,987	628,265	1,987			
Capital Reserve Buses	2009	532,813	2,629	146,282	389,160			
Capital Reserve Buses	2019	150,000	495		150,495			
EBLAR	2003	570,072	292	58,200	512,164			
Reserve for Repairs	2003	50,356	14		50,370			
ERS Reserve	2010	1,071,229	46		1,071,275			
TRS Reserve	2019	56,485	2		56,487			
Unemployment Reserve	2003	33,320	7		33,327			
Insurance Reserve	2019	10,000	13		10,013			
Total		4,327,806	9,517	1,944,456	2,392,867			
Total Budget		11,590,423			11,671,074			
Percent Reserved		37.4%			20.5%			