

# **Kingston City School District**

## **Fund Balance & Reserve Fund Plan**

### **2021-2022**

### **06/30/2021**

#### **OVERVIEW**

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.

Kingston City School District believes that the judicious use of reserves reduces long-term borrowing costs, smooths 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, Kingston City 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 withstand 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 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. This plan is designed to clarify and communicate the specific reserves held by the district and offers an analysis of each reserve or fund and its role in the financial stability of the district.

#### **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 contribute 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.

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

#### **RESTRICTED FUND BALANCES:**

##### **Tax Certiorari Reserve (Ed. Law §3651 (1-a)) (A864)**

*Funding Goal-* As the district receives tax certiorari petitions, the district determines the total funding level that might reasonably be deemed necessary to meet anticipated judgments and claims arising out of tax certiorari proceedings.

*Creation* – The Tax Certiorari Reserve was established by Board of Education Resolution.

*Purpose* – This reserve is used to pay judgments and claims in tax certiorari proceedings in accordance with Article seven of the Real Property Tax Law.

*Funding Methods* – The Tax Certiorari Reserve can be funded 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.

*Funding Level* – The current balance in the fund is \$9,323,548.56. The total liability of current outstanding tax certiorari petitions is \$11,944,500.00. The tax collector maintains a listing of the outstanding petitions and updates regularly by adding the current year petitions and removing any claims that have been settled or discontinued. The reserve balance is evaluated annually, and recommendations to appropriate additional funds, or return unneeded balances to the General Fund are made to the Audit and Finance Committee and Board of Education.

*Use of Reserve* – This reserve is used to pay for tax certiorari claims and settlements.

*Monitoring of Reserve* – This reserve is monitored by the Superintendent and the Tax Collector. Calculations will be required each year to support the amounts in this reserve.

*Note* – The Tax Certiorari Reserve is accounted for in the General Fund (A864). Interest earned accrues in the fund.

##### **Capital Reserve Funds (A878)**

*Funding Goal-* The board is presented with recommendations from the superintendent and the business office in support of offsetting local costs related to future capital projects. Recommendations to the capital reserve funds are based on operating surpluses from the general fund and are approved by the board.

*Creation* – Capital Reserve Funds are established by voter approval following Board of Education approval.

*Purpose* – The purpose of the fund is for construction, repair and construction of capital improvements and the acquisition of equipment. The Capital Reserve Fund can be used to pay the cost of any object or purpose for which bonds may be issued.

*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 Deputy Superintendent.

*Note* – Capital Reserves are accounted for in the General Fund (A878). Interest earned accrues in the fund.

### **Current Capital Reserve Funds**

#### **2015 Renovation and Reconstruction of District Buildings and Facilities Reserve Fund**

*Voter Approval Date:* 05/19/15

*Duration/Expiration Date:* 10 Years, 05/15/25

*Reserve Dollar Limit:* \$10,000,000

*Funding:* From unexpended appropriations in the General Fund, approved by the Board of Education:

06/30/15: \$5,000,000

06/30/16: \$3,000,000

06/30/17: \$2,000,000

*Current Reserve Balance:* \$811,081.24

#### *Authorized Uses:*

\$4,226,248 for the Addition, Renovations and Reconstruction of Meagher School Building was approved by district voters on 5/17/17. The funds were transferred to the Capital Fund to pay for project renovation costs.

\$5,000,000 for the Upgrade to School Facilities was approved by district voters on 5/16/18. The authorized funds were transferred to the Capital Fund to be used to pay for the renovation costs associated with districtwide capital projects approved by voters on 5/16/18.

**2018 Renovation and Reconstruction of District Buildings and Facilities Reserve Fund**

*Board of Approval Date:* 03/07/18

*Voter Approval Date:* 05/15/18

*Duration/Expiration Date:* 10 Years, 05/15/28

*Reserve Dollar Limit:* \$10,000,000 (plus earned interest)

*Funding:* Unexpended funds in the General Fund at 6/30/18 (and in future years) may be allocated to fund the reserve with Board of Education approval.

06/30/18: \$3,831,353.24

06/30/19: \$3,448,230.43

06/30/21: \$2,664,340.43

*Current Reserve Balance:* \$10,123,423.67

*Use of Reserve:* The reserve can be used to fund future capital projects with voter approval.

**Employee Retirement Contribution (ERS) Reserve Fund (GML §6-r) (A827)**

*Funding Goal-* A funding level that is sufficient to fund three to five years of employer contributions to the NYS Employees Retirement System. The average employer contribution over the last five years was approximately \$1,610,000, and the projected 2022 contribution rates range from 10.7% to 25.2%.

*Creation* – The Employee Retirement Contribution Reserve was established by Board of Education Resolution.

*Purpose* – This reserve is used to pay for employer retirement contributions to the NYS Employee’s Retirement System only.

*Funding Methods* – The reserve may be funded by budgetary appropriations or other funds that may be legally appropriated, revenue not restricted by law to be paid to another fund or account, transfers from other reserves (Tax Certiorari, Capital or Repair Reserves), or appropriations from excess fund balance.

*Funding:* Unexpended funds in the General Fund may be allocated to fund the reserve with Board of Education approval.

06/30/21: \$1,000,000.00

*Current Reserve Balance:* \$5,715,962.10

*Use of Reserve* – Funds will be used to offset ERS billings by allocating funds to the General Fund revenue budget to offset the anticipated expense to the Retirement System.

*Monitoring of Reserve* – This reserve is monitored by the Superintendent and Deputy Superintendent.

*Note* – Employee Retirement System Reserves are accounted for in the General Fund (A827). Interest earned accrues in the fund.

**Retirement Contribution Reserve Sub-Fund (GML §6-r 2019)**

*Funding Goal* – Funding shall not exceed 2% of the total compensation or salaries of all teachers employed by the District who are members of TRS (Teachers’ Retirement System) and were paid during the immediately preceding fiscal year. The balance of the Reserve Sub-Fund shall not exceed 10% of the total compensation or salaries of all teachers employed by the District who are members of TRS.

*Creation* – The Employee Retirement Contribution Reserve Sub-Fund was established by Board of Education Resolution on 4/24/19.

*Purpose* – This reserve is used to finance retirement contributions to the New York State Teachers’ Retirement System and/or to offset all or a portion of the amount deducted from the moneys apportioned to the District from the State for the support of schools pursuant to Section 521 of the Education Law.

*Funding Methods* – The reserve may be funded by budgetary appropriations or other funds that may be legally appropriated, revenue not restricted by law to be paid to another fund or account, transfers from other reserves or appropriations from excess fund balance.

06/30/19 (By Resolution dated 6/19/19): \$1,300,000.00  
06/30/21: \$1,000,000.00

*Current Reserve Balance:* \$2,313,052.22

*Use of Reserve* – Funds will be used to finance Teachers Retirement System contributions.

*Monitoring of Reserve* – This reserve is monitored by the Superintendent and Deputy Superintendent.

*Note* – Employee Retirement System Reserves are accounted for in the General Fund (A827). Interest earned accrues in the fund.

**Unemployment Insurance Reserve (A815)**

*Funding Goal*- Currently, reserve balance represents approximately 0.005% of the 2020-2021 budgeted salaries.

*Creation* – The Unemployment Reserve was established by Board of Education 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.

*Current Reserve Balance:* \$433,775.76

*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 Deputy Superintendent.

*Note* – Unemployment Reserves are accounted for in the General Fund (A815). Interest earned accrues in the fund.

### **Property Loss Reserve (A861)**

*Funding Goal-* A minimum funding level to cover property loss. Annual contribution(s) are limited to the greater of 3% of the budget or \$15,000.

*Creation* – The Property Loss Reserve was established by Board of Education Resolution.

*Purpose* – This reserve is used to cover property loss or insurance deductibles.

*Funding Methods* – This reserve may be funded by budgetary appropriations or other funds as may be legally appropriated.

*Current Reserve Balance:* \$102,308.98

*Use of Reserve* – In accordance with the law, this reserve may be used at the discretion of the superintendent and business manager.

*Monitoring of Reserve* – This reserve is monitored by the Superintendent and Deputy Superintendent.

*Note* – Property Loss Reserves are accounted for in the General Fund (A861). Interest earned accrues in the fund.

### **Liability Reserve (A862)**

*Funding Goal-* A minimum funding level for the payment of liability claims. Annual contribution(s) are limited to the greater of 3% of the budget or \$15,000.

*Creation* – The Liability Reserve was established by Board of Education Resolution.

*Purpose* – This reserve is used to cover liability claims incurred.

*Funding Methods* – This reserve may be funded by budgetary appropriations or other funds as may be legally appropriated.

*Current Reserve Balance: \$102,294.01*

*Use of Reserve* – In accordance with the law, this reserve may be used at the discretion of the superintendent and business manager.

*Monitoring of Reserve* – This reserve is monitored by the Superintendent and Deputy Superintendent.

*Note* – Liability Reserves are accounted for in the General Fund (A862). Interest earned accrues in the fund.

**Reserve for Tax Reduction (A891)**

*Funding Source*- Proceeds from the sale of Real Property in excess of what is required to repay outstanding debt (Bonds, BANS).

*Creation* – This reserve was established in 4/24/19 via board resolution.

*Purpose* – The proceeds from the sales of district real property are to be used to offset the tax levy for a period of up to 10 years.

*Opening Balance: \$3,472,000.00* from the sale of the Cioni Building

*Current Reserve Balance: \$2,808,075.32*

*Balance after 2021-2022 Allocation to Budget: \$2,468,075.32*

*Use of Reserve* - The funds will be allocated to offset the school tax levy over several years (legally up to 10 years).

2019-2020 Budget Allocation - 7/1/19: \$347,200.00

2020-2021 Budget Allocation - 7/1/20: \$347,200.00

2021-2022 Budget Allocation – 7/1/21: \$340,000.00

*Monitoring of Reserve* – This reserve is monitored by the Superintendent and Deputy Superintendent.

*Note* – The Reserve for Tax Reduction is accounted for in the General Fund (A891). Interest earned accrues in the fund.

**DEBT SERVICE FUNDS**

**Debt Service Reserve Account**

*Funding Source*- Proceeds from the cash sale of capital assets and improvements as defined in GML §6-c. Includes, but not limited to land, buildings, equipment and vehicles.

*Creation* – This reserve was established in August 20, 2014 via board resolution.

*Purpose* – The proceeds from the sales of closed school buildings are available to retire principal and interest on outstanding obligations that financed capital improvements on these buildings.

*Current Reserve Balance:* \$991,564.02

*Balance after 2020-2021 Allocation to Budget:* \$881,564.02

Sale of Sophie Finn School Proceeds:	\$ 300,000.00
Less- DASNY Reallocation:	(\$35,634.30)
Sale of Zena School Proceeds:	\$ 926,000.00
Accrued Interest:	\$ 50,675.32

*Use of Reserve* - The funds will be allocated to offset the school tax levy over several years (legally up to 10 years).

2021-2022 Budget Allocation - 7/1/21:	\$110,000.00
2020-2021 Budget Allocation - 7/1/20:	\$128,000.00
2019-2020 Budget Allocation - 7/1/19:	\$121,477.00

*Monitoring of Reserve* – This reserve is monitored by the Superintendent and Deputy Superintendent.

*Note* – The Debt Service Reserve Account is accounted for in the Debt Service Fund (V884). Interest earned accrues in the fund.

### **Debt Service Fund Account**

*Funding Source*- Premiums on Debt Service offerings to be used to offset future debt service payments.

*Purpose* – The premiums received on Bond Anticipation Note offerings is available to reduce future debt service payments on Bond principal and/or interest.

*Premium Reserve Balance 6/30/21:* \$1,599,228.85

*Balance after 2021-2022 Allocation to Budget:* \$549,228.85

Bond Premiums:

11/12/20: 42.0 Million BAN:	\$ 782,360.00^
11/01/19: 22.0 Million BAN:	\$ 219,780.00*
06/13/18: 76.0 Million BAN:	\$ 458,485.00**
06/14/17: 80.5 Million BAN:	\$ 677,810.00
01/18/17: 20.0 Million BAN:	\$ 40,400.00
06/15/16: 36.5 Million BAN:	\$ 423,782.00
06/16/15: 17.9 Million BAN:	\$ 191,391.34
06/17/14: 16.0 Million BAN:	\$ 44,640.00



Accrued Interest: \$ 62,317.51

*Use of Reserve* – ^The \$782,360.00 premium is part of the 2021-2022 Budget Allocation and will be used to offset the November 2021 interest payment due on the 2<sup>nd</sup> Century Phase II debt service.

\*The \$219,780.00 premium was part of the 2020-2021 Budget Allocation and was used to offset the November 2020 interest payment due on the 2<sup>nd</sup> Century Phase II debt service.

\*\*The \$458,485.00 premium was used to offset the December 2018 interest payment due on the 2<sup>nd</sup> Century debt service. Remaining funds will be used to offset other future payments.

2021-2022 Budget Allocation – 7/1/21:	\$1,050,000.00
2020-2021 Budget Allocation - 7/1/20:	\$ 559,800.00
2019-2020 Budget Allocation - 7/1/19 :	\$ 283,452.00

*Monitoring of Reserve* – This reserve is monitored by the Superintendent and Deputy Superintendent.

*Note* – The Debt Service Fund Account is accounted for in the Debt Service Fund (V884). Interest earned accrues in the fund.

**ASSIGNED FUND BALANCES:**

Assigned Fund Balances include amounts that are constrained by the school district’s intent to be used for specific purposes as established by the Board of Education or by their designated official(s).

**Assigned Appropriated Fund Balance**

*Purpose* – The Board of Education may approve balancing the following year’s budget with the planned use of currently available fund balance. The planned use is classified as an assignment of fund balance.

*Fund Balance Appropriations -*

2021-2022: \$ 4,000,000	2017-2018: \$ 2,000,000
2020-2021: \$ 3,000,000	2016-2017: \$ 1,000,000
2019-2020: \$ 2,000,000	2015-2016: \$ 1,000,000
2018-2019: \$ 2,000,000	

*Note* – Assigned Appropriated Fund Balance is accounted for in the General Fund (A914)

**Assigned Unappropriated Fund Balance**

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

*Funding Level* – The outstanding purchase orders 6/30/21 totaled \$1,404,517.49.

*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. During the year, account code A821- Reserve for Encumbrances is used for accounting.

*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 Deputy Superintendent and District Treasurer.

*Note*- This reserve exists only for so long as there exists an encumbrance (eg. P.O.) to match the funds in the reserve. The reserve is accounted for in the General Fund (A915) at year-end.

### **UNASSIGNED FUND BALANCE:**

Unassigned Fund Balance is the residual classification in the General Fund and could report a surplus or deficit. Real Property Law §1318 limits the amount of unexpended surplus funds a school district can retain to no more than 4 percent of the next year’s budgetary appropriations. Funds properly retained under other sections of the law (i.e., reserve funds established pursuant to Education Law or General Municipal Law) are excluded from the 4 percent limitation.

*Purpose* – Unassigned fund balance gives the district flexibility in case of unanticipated expenditures and helps in maintaining cash flow through the summer months prior to the upcoming tax levy and state aid payments.

*Funding Goal*- The ideal balance is considered to be 4% of the next year’s budget.

#### *Unassigned Fund Balance by Year-*

06/30/21: \$ 7,839,398  
06/30/20: \$ 6,950,669  
06/30/19: \$ 7,232,522  
06/30/18: \$ 7,001,281  
06/30/17: \$ 6,783,262  
06/30/16: \$ 6,463,944  
06/30/15: \$ 6,259,197

**Kingston City School District- Reserve Fund Analysis Report**

<b>Reserve Name</b>	<b>Balance 7/01/20</b>	<b>Transfers In/Interest Earned</b>	<b>Withdrawals Out*</b>	<b>Transaction/ Date</b>	<b>Balance 6/30/21*</b>
<i><b>Tax Certiorari Reserve</b></i>	\$ 9,261,022.13	\$437,526.43	\$ 375,000.00	*Tax Certiorari Settlements	\$ 9,323,548.56
<i><b>Capital Reserve (2015)</b></i>	\$ 811,081.24	\$ 0	\$0		\$ 811,081.24
<i><b>Capital Reserve (2018)</b></i>	\$ 7,450,092.57	\$2,673,331.10	\$ 0		\$10,123,423.67
<i><b>Retirement Reserve (ERS)</b></i>	\$ 4,710,057.60	\$1,005,904.50	\$ 0		\$ 5,715,962.10
<i><b>Sub-Fund (TRS)</b></i>	\$ 1,311,585.19	\$1,001,467.03	\$ 0		\$ 2,313,052.22
<i><b>Property Loss Reserve</b></i>	\$ 102,194.08	\$ 114.90	\$ 0		\$ 102,308.98
<i><b>Liability Reserve</b></i>	\$ 102,179.12	\$ 114.89	\$ 0		\$ 102,294.01
<i><b>Unemployment Reserve</b></i>	\$ 433,452.46	\$400,323.30	\$ 400,000.00	To Fund Excessive Claims	\$ 433,775.76
<i><b>Reserve for Tax Reduction</b></i>	\$ 2,804,658.59	\$ 3,416.73	\$ 340,000.00	To Use Cioni Sale Proceeds to offset Tax Levy	\$ 2,468,075.32*
<i><b>Totals</b></i>	<b>\$26,986,322.98</b>	<b>\$5,522,198.88</b>	<b>\$1,115,000.00</b>		<b>\$31,393,521.86</b>

\*Cash transfers of funds allocated to the next year's budget may take place after that date but are reflected in the balances above.