

Middleburgh Central School District - Fund Balance & Reserve Plan

Approved 12/11/2024 by the Board of Education

This plan complies with BOE Policy #5511

What is a Reserve Fund?

As per the NYS OSC: <https://www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2019-01/reservefunds.pdf>

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.

In addition to reserve funds, maintaining a reasonable amount of undesignated fund balance within operating funds is another important financial consideration for local governments and school districts. A reasonable level of unreserved, unappropriated fund balance provides a cushion for unforeseen expenditures or revenue shortfalls and helps to ensure that adequate cash flow is available to meet the cost of operations. Combining a reasonable level of undesignated fund balance with specific legally established reserve funds provides resources for both unanticipated events and other identified or planned needs.

Why do we need reserves?

Reserves have many purposes, including:

- Improvement of cash flow - Reserve funds not required by law to be in a separate account can mitigate timing gaps in receipt of state aid and property taxes.
- Avoidance of borrowing interest costs - When a reserve fund finances purchases of materials or equipment, such as buses, the District does not have to borrow money and incur interest payments on debt.
- Support of the credit rating - Rating agencies such as Standard & Poor's typically provide a higher credit rating to local governments with higher reserve fund balances as a percent of the total budget. The higher the credit rating received, the lower the interest cost on multi-year bond financing, typically for capital project expenses.
The District's credit rating as of May 2022 under Standard & Poor's rating scale is an A+, which is considered a "upper medium grade" credit rating. At that time, the total restricted fund balance (all reserves combined) totaled \$2,034,979.
- Maintenance of a stable operating budget - If money is available in reserve funds for projects or equipment, the funds do not need to come from the general operating budget, which would impact the tax levy.
- Funding beyond the State's limitation on unrestricted fund balance – New York State sets a limit on surplus funds that may be maintained from year to year at 4% of the succeeding year's budget. Reserve funds provide an additional mechanism for school districts to engage in financial planning for future needs beyond the 4% limitation.

When may we fund reserves?

Funding for reserves is allowable consistent with law and regulation. For example, the capital reserve can only be funded subject to the terms of the proposition initially authorized by the District voters. Funding for other reserves is subject to availability, the District’s financial condition, and reserve restrictions (i.e. limited to a certain amount). The annual general fund budget contains estimates of revenues and expenditures, and the actual financial results will differ from the budget. In addition, as recommended by the Office of the State Comptroller, there are contingencies built into budgeted expenditures. In the event that any surplus funds are available at the end of the year, the Board of Education will determine the best use of these funds in accordance with its Financial Accountability Policy (BOE Policy #5511).

What types of reserves does the District have?

The District’s most recent audited financial statements from June 30, 2024 contain reserve balances and information. The notes to the financial statements will describe the legal authority for each reserve, its purpose, and funding.

General fund restricted fund (reserve) balances as of June 30, 2024 are listed below:

Name	Balances as of June 30, 2024
Unemployment	\$ 155,884.72
Insurance	\$ 264,195.44
Liability & Property Loss	\$ 211,356.46
Worker's Compensation	\$ 158,517.29
Capital Reserve (2023) - Projects	\$ 2,028,390.98
Capital Reserve (2024) - Buses	\$ 1,500,000.00
Repair	\$ 411,356.39
Employee Benefits	\$ 541,239.49
Retirement - TRS	\$ 605,448.88
Retirement - ERS	\$ 482,849.32
Total	\$ 6,359,238.96

Breakdown of the interest Earned on the Reserves for the fiscal year 2023/2024 (NYCLASS Multi-Reserve Account):

Name	GL TB	Total Interest Earned on Reserves, 23/24 Yr
Unemployment	815	\$ 7,955.83
Insurance	863	\$ 13,483.64
Liability & Property Loss	820	\$ 10,786.91
Worker's Compensation	814	\$ 8,090.18
Capital Reserve	878	\$ 26,967.28
Repair	882	\$ 10,786.91
Employee Benefits	867	\$ 29,004.84
Retirement - TRS	828	\$ 30,900.05
Retirement - ERS	837	\$ 24,642.99
Grand Total - Interest Earned		\$ 162,618.62

What might cause changes in reserve balances?

The funding or spending of a reserve can only be done by a Board resolution or voter authorization as prescribed by law or statute. Other increases or decreases in a reserve balance can occur from the following:

Increases

- Excess surplus funds available from the District budget to fund a reserve
- Improved financial resources available from state and federal sources
- Receipt of State transportation aid to fund bus purchase reserve

- Tax litigation - The number of businesses filing tax certiorari may require the Board to create a tax certiorari reserve and fund amounts related to refund exposure.

Decreases

- Property tax cap limitations on the ability of the Board to raise funds
- Budgetary need to withdraw from the reserve for contingent expenses
- Unanticipated workers compensation claims
- Additional unemployment claims from previous staff
- Limitation on reserve deposits over time - For example, the 2023 capital reserve for projects has a maximum limit of \$4,000,000 in deposits over its life. Once the limit is reached, no additional deposits to the account may occur with the exception of any interest earned on the account.

Fund Balance

Another important financial consideration is maintaining a reasonable amount of unrestricted fund balances. There are 4 classifications of fund balance:

- Restricted: the budget fund balance is set aside to pay for legally allowed types of expenses (Reserves)
- Assigned Unappropriated: budget fund balance is set aside to pay year-end bills
- Assigned Appropriated: an amount of the budget fund balance is designated to lower property taxes
- Unassigned unappropriated: subject to a 4% regulatory limit, this amount of the fund balance can be used as a contingency for emergencies.

Why is Maintaining an adequate amount of fund balance so important?

There are several benefits to maintaining a sufficient fund balance level. First, the surplus gives a school district the ability to cover year-to-year budget fluctuations to sustain a robust educational program over time. Second, an adequate fund balance level provides stability, enabling school districts to avoid repeated cycles of budget and staffing reductions, class size increases, limited extracurriculars such as field trips. Third, the extra capital gives a district flexibility to address the tax cap levy increases, even as inflation persists and costs continue to rise. Lastly, maintaining a strong tax base enhances the community and can increase property values.

Use of fund balance and reserves to balance the budget must be carefully managed in the short-term to avoid long-term negative consequences. Fund balance and reserve accounts should not be used as recurring sources of revenue; continued use over time will create revenue gaps that will eventually require cuts to balance the budget or increase the tax levy. If there are unanticipated increases in expenditures or loss of revenues, these gaps may need to be funded through borrowing or a budget freeze.

DISTRICT RESERVE DETAIL

Employee-Related Reserves

Reserve: Workers Compensation Reserve

Account: A814, Restricted Fund Balance

Board Resolution: Established June 21, 2023

How Funded: Funded by budgetary appropriations or other funds that may be legally appropriated (i.e., surplus funds).

Purpose: Used to fund worker’s compensation benefits and expenses, related medical expenses (including settlements), and self-insurance administrative costs.

The District is a member of the Schoharie Area Workers Compensation Plan (SAWCP). This consortium includes various school districts from both Capital Region BOCES & the WSWHE BOCES (a total of 13 school district participants) and each member of the consortium is self-insured.

Annually each member funds the plan based on its expected losses (exposure) over time, as well as the overall needs and expenses of the plan. The amount paid in premiums and quarterly expenses paid in the 2023/2024 year from the general fund was \$64,851. In addition, a single catastrophic or serious event can cause a spike in costs that can as much as double premiums. The District will hold this reserve to assist in the event a large spike occurs (for when losses exceed estimated amounts, premium spikes, etc.)

Although there is no limit set by the NYS OSC, the reserve balance should be based on reasonable obligations or liabilities of the District. Three percent of the payroll budget will be used as a maximum amount- 3% of the 2024/2025 payroll budget is \$295,419.

October 31, 2024 balance	\$161,029	(unaudited)
Deposits:		
6/21/2023	\$150,000	
Withdrawals:	N/A	
Total Interest earned:		
2023/2024	\$ 8,517	
2024/2025	\$ 2,512	through October 31, 2024 (unaudited)

The District appropriated \$55,631 for the 2024/2025 school year budget. The District will consider appropriating funds from this reserve in future budgets as needed.

If excess surplus funds are available, additional funds will be transferred into the reserve.

Projected Balance at June 30, 2025, \$171,000

Reserve: Unemployment Insurance Reserve

Account: A815, Restricted Fund Balance

Board Resolution: Established June 9, 2004

How Funded: Funded by budgetary appropriations or other funds that may be legally appropriated (i.e., surplus funds) or funds from other reserves authorized in the GML, or Education Law.

Purpose: To pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the school district uses the benefit reimbursement method.

The District is obligated to pay 100% of all unemployment claims granted by the NYS Department of Labor. For many school districts across New York State including Middleburgh, decreases in state aid, uncertainties regarding future state aid, property tax cap limits, enrollment decline, and a stagnant economy have created questions regarding the workforce. If, at a future date, the District finds it necessary to restructure its workforce, this reserve will help offset costs related to staff reduction.

Note that a downward trend in the economy or a failed school budget could cause the District to pay more in the future for unemployment claims. A typical balance recommended for this reserve is about two (2) percent of the payroll budget; 2% of the 2024/2025 payroll budget is \$196,946.

October 31, 2024 balance	\$158,355	(unaudited)
Deposits:		
6/9/2004	\$ 10,000	
6/30/2008	\$ 10,000	
5/31/2009	\$200,000	
Withdrawals:		
6/30/2013	\$ 75,000	
Total Interest Earned:		
2008/2009	\$ 5	
2009/2010	\$ 608	
2022/2023	\$ 2,316	
2023/2024	\$ 7,955	
2024/2025	\$ 2,471	(through October 31, 2024 – unaudited)

The District will continue to monitor this reserve in future years as reductions in force may be necessary to balance future budgets.

If excess surplus funds are available, additional funds will be transferred into the reserve.

Projected Balance at June 30, 2025, \$163,400

Reserve: Retirement Contribution Reserve Sub-Fund (TRS) Reserve

Account: A828, Restricted Fund Balance

Board Resolution: Established April 22, 2009

How Funded: Per NYSED, there are three funding sources allowed for this reserve:

1. Funded by budgetary appropriations or other funds that may be legally appropriated (i.e., surplus funds); 2. Revenue not restricted by law to be paid to another fund or account; 3. Transfers from Tax Certiorari, Capital, or Repair Reserves subject to public hearing requirements.

Purpose: To fund employer retirement contributions payable by an eligible school district to the New York State Teachers Retirement System (NYSTRS). The reserve balance can offset future payments made to the New York State Teachers Retirement System.

The amount of monies contributed annually to the sub-fund cannot exceed 2% of the salaries of TRS members paid during the immediately preceding fiscal year.

- 2% of TRS Gross Payroll salaries reported in the 2023-2024 school year, \$142,448

The balance of the sub-fund cannot exceed 10% of the salaries of all TRS members paid during the immediately preceding fiscal year.

- 10% of TRS Gross Payroll salaries reported in the 2023-2024 school year, \$712,238

It is anticipated due to the COVID pandemic that contribution rates will increase now and in future years.

October 31, 2024 balance, \$615,042 (unaudited)

Deposits:

6/30/2019	\$131,000
6/30/2020	\$144,670
6/30/2021	\$140,231
6/22/2023	\$151,671

Withdrawals: N/A

Total Interest earned:

2022/2023	\$ 6,977	
2023/2024	\$ 30,900	
2024/2025	\$ 9,593	(through October 31, 2024 – unaudited)

The District appropriated \$100,000 for the 2024/2025 school year budget. The District will consider appropriating funds from this reserve in future budgets as needed.

The District will continue to monitor employer contribution rates to the pension system and reserve funding in the future.

Projected Balance at June 30, 2025: \$650,000

Reserve: Employee Benefit & Accrued Liabilities Reserve (EBALR)

Account: A867, Restricted Fund Balance

Board Resolution: Established June 30, 2008

How Funded: Funded by budgetary appropriations or other funds that may be legally appropriated (i.e., surplus funds) or funds from other reserves authorized in the GML, or Education Law.

Purpose: To pay accrued benefits due employees upon termination of service.

The reserve is valued at the end of each fiscal year based on the number of accumulated sick days times the contractually determined compensation rate (varies by contract). To determine the maximum reserve balance, the District uses the auditor's compensated absences liability calculation for employee benefits (this balance is adjusted by the auditors each year).

Compensated Absences Liability calculation for employee benefits as of June 30, 2024, \$281,668

Audits by the Office of the State Comptroller have restricted the use of this reserve. In certain years, school districts had the ability to transfer excess funds to the general fund. NYS has also allowed Districts to use a portion of the reserve to fund the Gap Elimination Adjustment in 2011/2012. We await further clarification and guidance on any future withdrawals if revenue reductions come in the 2025/2026 school year and/or beyond.

The District continues to expend this reserve to fund accumulated sick time payments to eligible retirees who retire effective June 30th as a way to spend down the balance in this reserve and be more aligned to the actual liability.

October 31, 2024 balance,	\$ 549,815	(unaudited)
Deposits:		
6/30/2008	\$ 110,000	
6/10/2009	\$ 300,000	
6/30/2018	\$ 114,849	
6/30/2021	\$ 96,010	
Withdrawals:		
6/22/2023	\$ 92,210	
6/14/2024	\$ 27,075	
Total Interest earned:		
2008/2009	\$ 3	
2009/2010	\$ 1,132	
2022/2023	\$ 9,526	
2023/2024	\$ 29,005	
2024/2025	\$ 8,575	(through October 31, 2024 – unaudited)

The District will continue to fund all accumulated sick time payouts from this reserve.

Projected Balance at June 30, 2025: \$500,000

Property-Related Reserves

Reserve: Capital Reserve – 2023 Building Project Reserve

Account: A878, Restricted Fund Balance

Voter Approval: Voter Proposition approved 5/2*/2023, BOE established June 21, 2023

How Funded: Proposition put before voters; must specify purpose, ultimate amount to be deposited into reserve, probable term, or life/lives and sources of funds to be deposited into the reserve. BOE resolution required to transfer funds to reserve.

Purpose: To pay the cost of any object or purpose for which bonds may be issued for future building projects and renovations. For future building projects and renovations.

Reserve expires June 30, 2033 (ten-year term). Deposits excluding interest cannot exceed \$4,000,000.

When the next capital project is planned, there may be consideration given to use the reserve fund to offset some project costs rather than bonding. The District currently is in discussions to determine scope of work for a \$8.5M capital project to begin in the Summer of 2026; the goal is to use \$2.1M of the Capital Reserve for minimal tax impact to taxpayers to fund the project. The remaining funding in the capital reserve can be used to fund an additional future project and offset the local share of the cost (before the end of the 2032-33 school year).

The terms of the proposition also allow additional funding of the reserve by resolution of the Board with excess fund balance. Such additional funding is subject to availability and District financial condition.

October 31, 2024 balance,		\$2,063,896	(unaudited)
Deposits:	6/21/2023	\$ 500,000	
	6/30/2024	\$1,500,000	
Withdrawals:		N/A	
Total Interest earned:			
	2022/2023	\$ 1,424	
	2023/2024	\$ 26,967	
	2024/2025	\$ 35,505	(through October 31, 2024 – unaudited)

If excess surplus funds are available, additional funds will be transferred into the reserve.

Projected Balance at June 30, 2025: \$ 50,000

Reserve: Capital Reserve – 2024 Bus Reserve

Account: A878, Restricted Fund Balance

Voter Approval: Voter Proposition approved May 21, 2024, BOE established June 30, 2024

How Funded: Proposition put before voters; must specify purpose, ultimate amount to be deposited into reserve, probable term, or life/lives and sources of funds to be deposited into the reserve. BOE resolution required to transfer funds to reserve.

Purpose: To pay the cost of any object or purpose for which bonds may be issued (buses). The bus portion of the reserve is valued each year based on the beginning balance, plus state (transportation) aid attributable to bus purchases, less the cost of bus purchases approved by the voters as a withdrawal from the reserve.

This reserve expires in 2034 (ten-year term) and deposits excluding interest cannot exceed more than \$2,000,000.

This reserve is specifically for the purchase of Non-EV/EV Buses and/or charging stations. This reserve was established due to the Electric Vehicle Mandate to take place in NYS effective July 1, 2027. The goal of the reserve is to minimize taxpayer impact on future purchases of school vehicles (non-electric or electric) for pupil transportation.

The EV Bus Replacement plan will be reviewed in the Winter 2025 – three vehicles are currently replaced each year.

October 31, 2024 balance,	\$1,520,403	(unaudited)
Deposits:		
6/30/2024	\$1,500,000	
Withdrawals:	N/A	
Total Interest earned:		
2024/2025	\$ 20,403	(through October 31, 2024 – unaudited)

The District will consider appropriating funds from this reserve in future budgets as needed. If excess surplus funds are available, additional funds will be transferred into the reserve.

Projected Balance at June 30, 2025: \$1,542,000

Reserve: Insurance Reserve

Account: A863, Restricted Fund Balance

BOE Resolution: Established June 30, 2007

How Funded: Funded by budgetary appropriations or other funds that may be legally appropriated (i.e., surplus funds) or funds from other reserves authorized in the GML, or Education Law.

Purpose: 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. An insurance reserve may not pay for any loss, claim, action, or judgment for which it has established a reserve fund under any other provision of law.

Voter approval is not needed to expend funds. A judicial approval is needed to pay settled or compromised claims exceeding \$25,000.

Contributions to the fund may not exceed 5 percent of the total budget for that year, or \$33,000, whichever is greater. 5% of the 2024/2025 school year budget is \$492,364.

October 31, 2024 balance,	\$268,382	(unaudited)
Deposits:		
6/30/2007	\$100,000	
6/30/2008	\$ 25,000	
6/22/2023	\$123,041	
Withdrawals:	N/A	
Total Interest earned:		
2008/2009	\$ 3	
2009/2010	\$ 345	
2022/2023	\$ 2,323	
2023/2024	\$ 13,484	
2024/2025	\$ 4,186	(through October 31, 2024 – unaudited)

If excess surplus funds are available, additional funds will be transferred into the reserve.

Projected Balance at June 30, 2025: \$275,000

Reserve: Liability & Property Loss Reserve

Account: A820, Restricted Fund Balance

BOE Resolution: Established June 30, 2013

How Funded: Funded by budgetary appropriations or other funds that may be legally appropriated (i.e., surplus funds).

Purpose: To pay for property loss claims incurred. Funds deposited cannot be used for another purpose w/o voter approval except BOE may use funds not required to settle pending claims, or to purchase insurance policies to cover losses previously self-insured.

Annual contribution(s) limited to greater of \$15,000 or 3% of the budget.

3% of the 2024/2025 school year budget is \$295,419.

October 31, 2024 balance,	\$214,705	(unaudited)
Deposits:		
6/30/2013	\$ 75,000	
6/30/2023	\$199,984	
Withdrawals:		
6/30/2014	\$ 75,000	
Total Interest earned:		
2013/2014	\$ 16	
2022/2023	\$ 569	
2023/2024	\$ 10,787	
2024/2025	\$ 3,349	(through October 31, 2024 – unaudited)

If excess surplus funds are available, additional funds will be transferred into the reserve.

Projected Balance at June 30, 2025: \$220,000

Reserve: Reserve for Repairs – 2023 Repair Reserve

Account: A862, Restricted Fund Balance

BOE Resolution: BOE established June 8, 2023

How Funded: Funded by budgetary appropriations or other funds that may be legally appropriated (i.e., surplus funds). Voter approval is required to fund this reserve.

Purpose: For repairs to capital improvements or equipment not reoccurring annually or at shorter intervals. Voter approval is required to fund the reserve. This reserve will be used to pay for unanticipated, non-recurring repairs to district capital improvements, facilities, and equipment.

The District will continue to build up this reserve in the event an emergency repair funding is needed. The District anticipates a proposition for the voters to approve an additional deposit of \$200,000 with any excess fund balance remaining at the end of the 2024/2025 school year.

October 31, 2024 balance,	\$417,875	(unaudited)
Deposits:		
6/22/2023	\$200,000	voter proposition approved May 16, 2023
6/30/2024	\$200,000	voter proposition approved May 21, 2024
Withdrawals:	N/A	
Total Interest earned:		
2023/2024	\$ 11,357	
2024/2025	\$ 6,518	(through October 31, 2024 – unaudited)
Projected Balance at June 30, 2025:	\$620,000	

DISTRICT FUND BALANCE DETAIL

Assigned Appropriated Fund Balance – Reserve for Subsequent Year

For the 2024/2025 school year the District appropriated \$921,815 of unassigned fund balance towards its budget. This represents approximately 3.79% of the 2024-2025 budget. The District expects to return this amount to fund balance at the end of the fiscal year.

Unexpected costs, such as high cost or unanticipated enrollment increase in special education students, can disrupt school district finances. This reserve allows to minimize the impact of such unexpected costs on planned programming.

Projected June 30, 2025 Balance: \$921,815

Assigned Unappropriated Fund Balance - Encumbrance Reserve

At the end of the school's fiscal year there have been purchases of goods and services that have been ordered, but have not yet been received. The encumbrance reserve is utilized to set aside funds that are committed from the previous fiscal year toward paying for the purchases or services that will occur in the next fiscal year. The assigned unappropriated fund balance at June 30, 2024 was \$145,942.

Projected June 30, 2025 Balance: \$150,000

Unassigned Unappropriated Fund Balance – undesignated reserve

For the year ended June 30, 2024 the amount in unassigned fund balance was \$1,989,971 (7.99%) which was over the maximum allowed under State law (4% of next year's budget amount). In future years the District will work towards an unassigned unappropriated fund balance of 4%.

4% projection as of June 30, 2025: \$1,015,920
(using a 2% increase for the 2025/26 Budget to calculate the 4% assumption)

Reserve Potential/Considerations for next 1-3 years:

- Continue the use of EBLAR to fund retirement payouts
- Continue funding the Repair Reserve due to the district's history of unforeseen and/or unaidable repairs (voter approval required – separate proposition)
- Continue to review the Fund Balance Projection with the BOE in March & again in June of each school year
- Consider ways to reduce the reliance of fund balance in future budgets
- Expend from the Capital Reserve for Building Projects to fund next capital project – cash project or Bond to minimize taxpayer impact (voter approval required – separate proposition)
- Update the District's long-range financial plan to reflect a 3-year projection (2026-2029)

- Consider creating an additional Capital Reserve for Bus Purchases to meet the EV bus mandate by 2035 (more than \$2M is needed to minimize any taxpayer potential and replace entire bus fleet with EV buses)