



Board of Education

Fund Balance and Financial Reserve Plan Document

Fiscal Year July 1, 2021 – June 30, 2022

**Proposed to the Board of Education on October 5, 2022, **

The Naples Central School District Board of Education believes that there is a strong correlation between the long-term financial health of the school district and its ability to provide students with the necessary services and facilities to meet its mission.

MISSION STATEMENT

The Naples Central School District challenges and supports all students to develop their diverse talents and abilities in a safe environment with rigorous opportunities. Students will graduate with the skills and confidence needed to excel in their chosen pursuits.

Table of Contents

Intended Use of Reserves.....	4
Reserve Funds	5
<i>Reserve for Encumbrances</i>	<i>5</i>
Overview.....	5
<i>Tax Certiorari Reserve</i>	<i>6</i>
Overview.....	6
Analysis & Projected Needs	7
<i>Insurance Reserve</i>	<i>8</i>
Overview.....	8
Analysis & Projected Needs	9
<i>Property Loss and Liability Reserve.....</i>	<i>10</i>
Overview.....	10
Analysis & Projected Needs	11
<i>Employee Benefits Accrued Liability Reserve</i>	<i>12</i>
Overview.....	12
Analysis & Projected Needs	13
<i>Retirement Contributions Reserve</i>	<i>14</i>
Overview.....	14
Analysis & Projected Needs	15-17
<i>Unemployment Insurance Reserve.....</i>	<i>18</i>

Overview.....	18
Analysis & Projected Needs	19
<i>Capital Reserve</i>	20
Overview.....	20
Analysis & Projected Needs	21
<i>Capital Reserve - Transportation</i>	22
Overview.....	22
Analysis & Projected Needs	23
<i>Capital Reserve – Bus Purchase</i>	24
Overview.....	24
Analysis & Projected Needs	25
<i>Capital Reserve – 2018</i>	26
Overview.....	26
Analysis & Projected Needs	27
<i>Debt Service Fund</i>	28
Overview.....	28
Analysis & Projected Needs	29
<i>Appropriated Fund Balance</i>	30
Overview.....	30
<i>Unassigned Fund Balance</i>	30
Overview.....	30

Summary of Accounts.....	31-32
Reserve Fund Strategy.....	33
Long Term Plan for Use of Fund Balance.....	34

INTENDED USE OF RESERVES

Reserve funds, like other savings plans, are mechanisms for accumulating cash for future capital outlays and other allowable purposes. The practice of planning ahead and systematically saving for capital acquisitions and other contingencies is considered prudent management. Saving for future capital needs can reduce or eliminate interest and other costs associated with debt issuances. Similarly, certain reserve funds can be utilized to help protect the budget against known risks (a potential lawsuit) or unknown risks (a major ice storm).

Most reserve funds are established to provide resources for intended future use. An important concept to remember is that a reserve fund should be established with a clear intent or plan in mind regarding the future purpose, use and, when appropriate, replenishment of funds from the reserve. Reserve funds should not be merely a “parking lot” for excess cash or fund balance. Local governments and school districts should balance the desirability of accumulating reserves for future needs with the obligation to make sure taxpayers are not overburdened by these practices. There should be a clear purpose or intent for reserve funds that align with statutory authorizations.

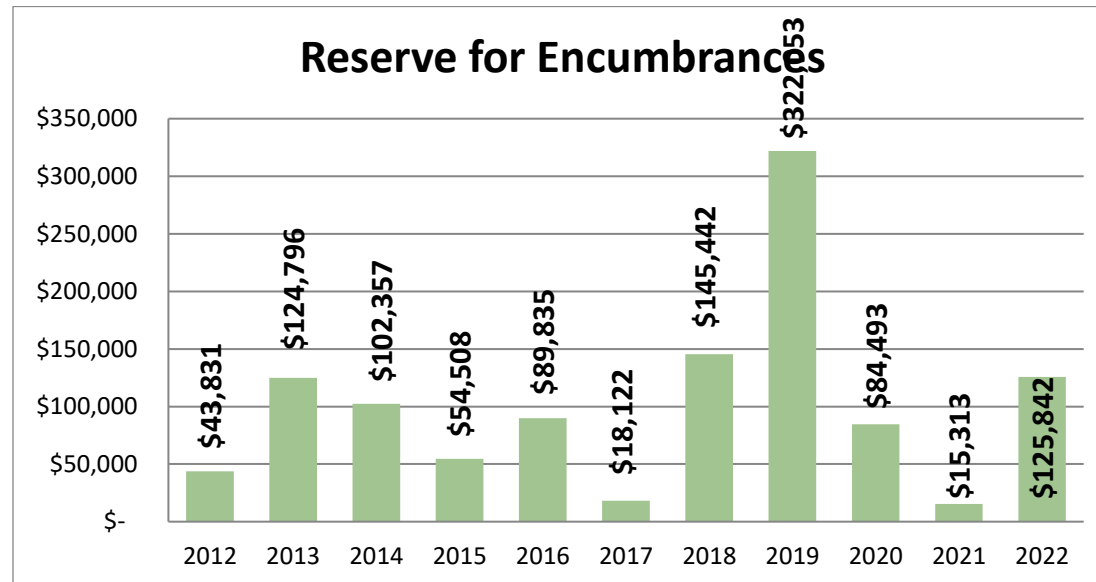
Each statute that authorizes a reserve fund sets forth a particular purpose for the fund. For example, provisions of the General Municipal Law (the GML) and the Education Law allow municipalities and school districts, respectively, to establish capital reserves for future equipment purchases and capital improvements. The GML also authorizes the establishment of an employee benefit accrued liability reserve for the payment of the monetary value of accumulated, unused leave time to employees upon separation from service. Planning today and saving incrementally for expected future events can help mitigate the financial impact of major, nonrecurring, or unforeseen expenditures on your annual operating budget. Establishing and funding allowable reserve funds for a clear purpose can help smooth out spikes in the annual budget and in the real property tax levy.

Source: Office of the New York State Comptroller – Local Management Guide for Reserves
<http://www.osc.state.ny.us/localgov/pubs/lgmng/reservefunds.pdf>

Reserve for Encumbrances

Overview

A “Reserve for Encumbrances” is not a “reserve” in the traditional sense of reserves. This reserve is utilized to hold funds that are committed towards purchases or services from the prior fiscal year for which no balance sheet liability exists as the goods or services have not been received or billed. This value will fluctuate from year to year depending on various factors like the regular ongoing purchasing cycle and the supplier’s ability to deliver products in a timely fashion. Significant additions or deletions to this reserve at year-end can cause large fluctuations in the overall fund balance. The District will try to minimize its use at year-end so that balances remain stable and consistent.



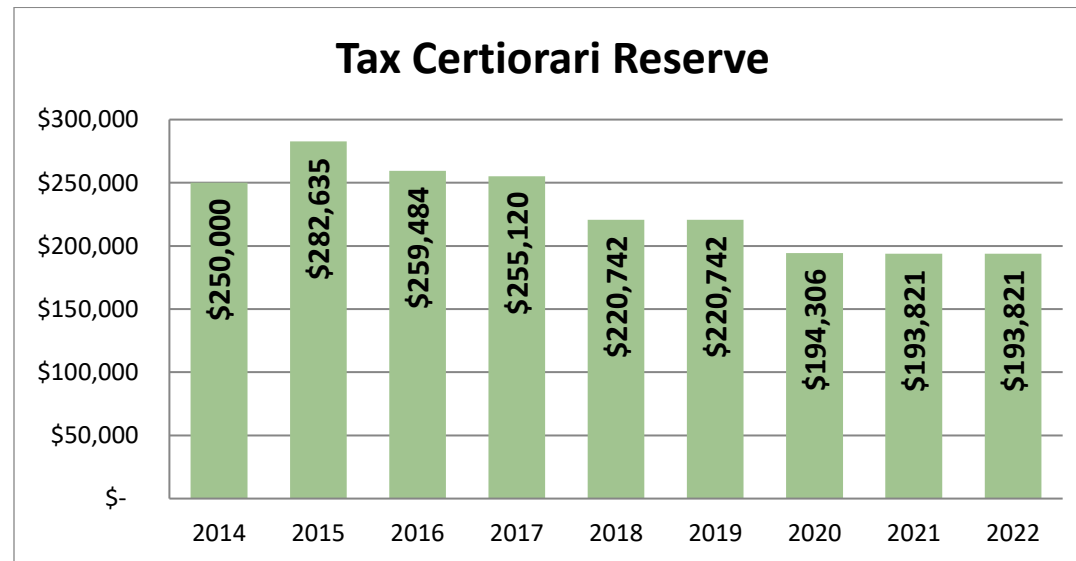
Tax Certiorari Reserve [EDN Article 74 §3651 (1-a)]

Overview

- Established by Board of Education resolution
- Voter approval is not needed to expend funds
- Utilized to pay judgments and claims arising out of tax certiorari proceedings
- Established in the amount which might be deemed reasonably necessary to pay judgments and claims
- Monies not used and/or are not reasonably required to pay judgments or claims are to be returned to the general fund on or before the first day of the fourth fiscal year following deposit into such fund
- Such monies shall be deemed reasonably required to pay any such judgment or claim if the proceeding or claim has not been finally determined, or otherwise terminated or disposed of after the exhaustion of all appeals

Analysis & Projected Needs

The tax certiorari reserve was established by the Board of Education in September 2008. The amount of the reserve, capped by the Board of Education, is not to exceed the amount of \$500,000. A portion of the District is situated on Canandaigua Lake, which contains lakefront properties that are assessed at high values in comparison to other district properties. As a result, the District is extremely dependent upon tax revenues received from these properties. Approximately 55% of the District's revenues are derived from the tax levy. Approximately 60% of the tax base is in the Town of South Bristol where most of the lakefront property is located, and tax certiorari proceedings are ongoing. Current economic conditions in the housing market present many unknowns and it is prudent for the District to protect itself against fluctuations that may occur. There are no tax certiorari claims currently. However, in recent years, the estimated cost to the district, if all determinations had been granted in favor of the landowner, was over \$1M. Recently, all cases have either expired or settled. It is prudent to carry funds in this reserve given the uncertainty regarding claims. The District will continue to monitor and possibly increase this fund in future years to protect itself from major losses in tax revenue.



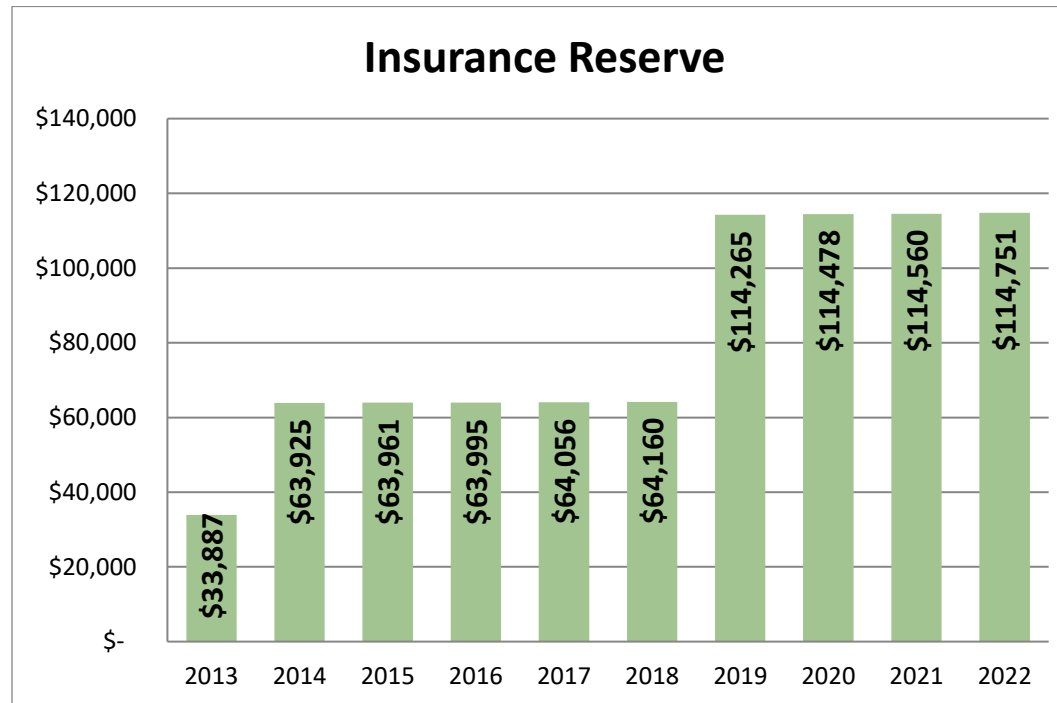
Insurance Reserve (GML Article 2 § 6-n)

Overview

- Established by the Board of Education
- Funded by budgetary appropriations, transfers from other reserve funds as permitted by law, and such other funds as the school board may legally appropriate
- Contributions to the fund may not exceed 5 percent of the total budget for that year, or \$33,000, whichever is greater
- Voter approval is not needed to expend funds. Judicial approval is needed to pay settled or compromised claims exceeding \$25,000
- Upon determination that this fund is no longer needed the fund may be discontinued and transferred to another reserve fund as permitted by law

Analysis & Projected Needs

The District will hold this reserve to fund losses, claims, actions, or judgments as they arise for those claims that are either not covered by insurance or are denied coverage by the insurance company. At 5% of the budget, the current maximum amount that can be funded in this reserve is approximately \$1,116,902. However, there are no plans to increase this reserve at the present time.



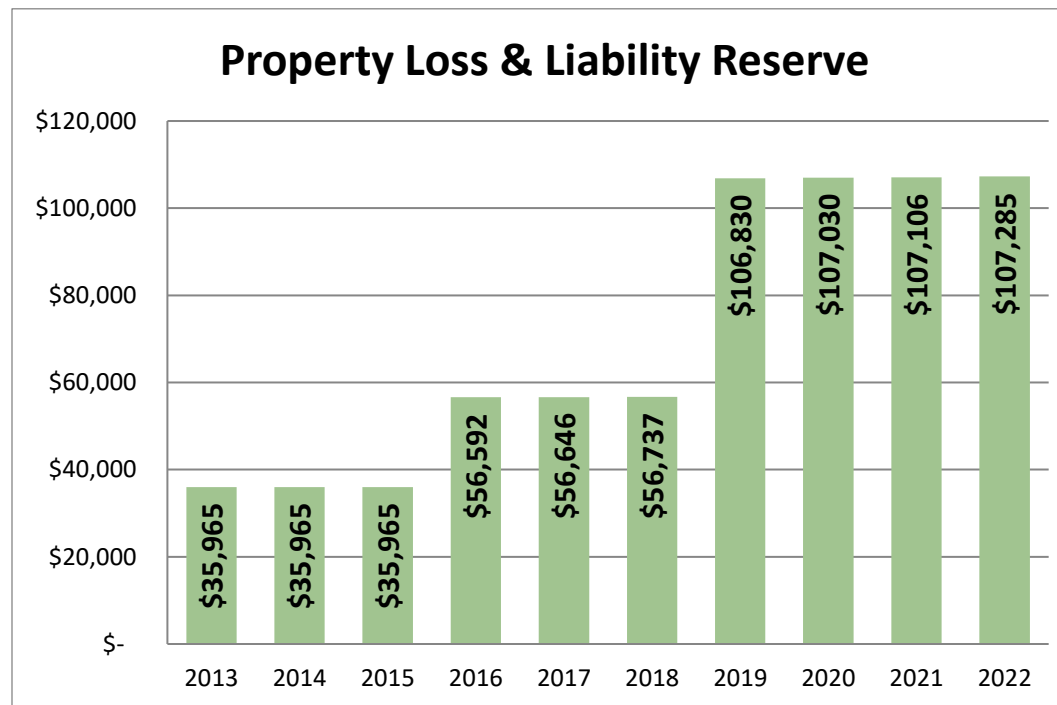
Property Loss and Liability Reserve [EDN Article 35 §1709 (8-c)]

Overview

- Established by Board of Education resolution
- May be established as separate funds
- Contributions to each fund may not exceed 3 percent of the annual budget or \$15,000 per year whichever is greater
- Once established funds may not be reduced below amounts needed to cover incurred but unsettled claims other than for payments for which the funds were established
- May be expended without voter approval unless the funds are expended for a purpose other than the one for which it was established
- Utilized to cover property loss and other liability claims

Analysis & Projected Needs

The District will hold this reserve to fund property loss claims that are either not covered by insurance or are denied coverage by the insurance company as they arise. At 3% of the budget, the current maximum amount that can be funded in this reserve is approximately \$700,000 annually. However, there are no plans to increase this reserve at the present time. In 2016, the Liability Reserve was eliminated and the remaining balance of \$20,627 was rolled into the Property Loss & Liability Reserve.



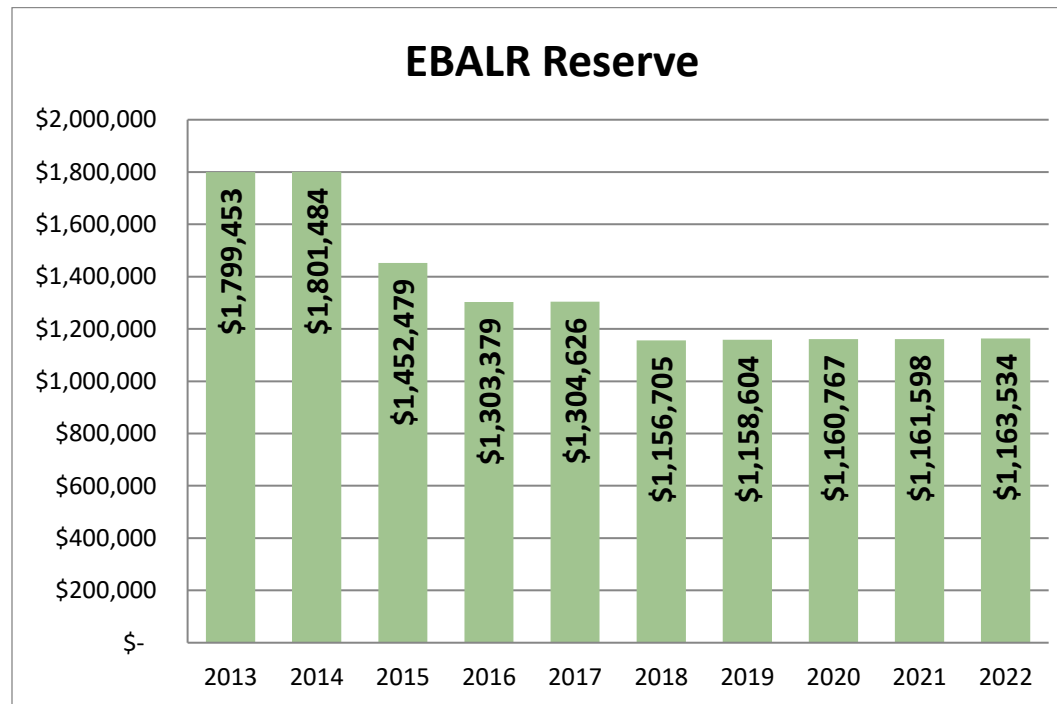
Employee Benefits Accrued Liability Reserve (GML Article 2 § 6-p)

Overview

- Established by the Board of Education
- Funded by budgetary appropriations, transfers from other reserve funds as permitted by law, and other funds as the school board may legally appropriate
- Voter approval is not needed to expend funds
- Utilized to pay for accrued and accumulated but unused sick leave, personal leave, holiday leave, vacation time, and other benefits earned by employees and payable upon termination
- Upon determination that this fund is no longer needed the fund may be discontinued and funds may be transferred to another reserve fund as permitted by law
- Funds cannot be used to pay lump sum “retirement awards” calculated as a percent of an employee’s final salary and paid upon retirement under a collective bargaining agreement

Analysis & Projected Needs

According to the audited financial statements, as of June 30, 2022, the District had an estimated future liability of \$3,456,345 for benefits paid to its employees upon termination of employment (compensated absences). This liability is largely made up of accrued sick leave benefits payable to employees in the form of health insurance premiums, at their daily rate, upon retirement from the District. As this liability represents a significant portion of the District's long-term obligations, the District continues to monitor this reserve and consider further funding if needed. For the 2021-2022 school year, the District did not appropriate funds from this reserve to support retiree health insurance benefits. The District does not anticipate appropriating additional funds from this reserve in the 2022-2023 budget.



Retirement (ERS/TRS) Contributions Reserve (GML Article 2 § 6-r)

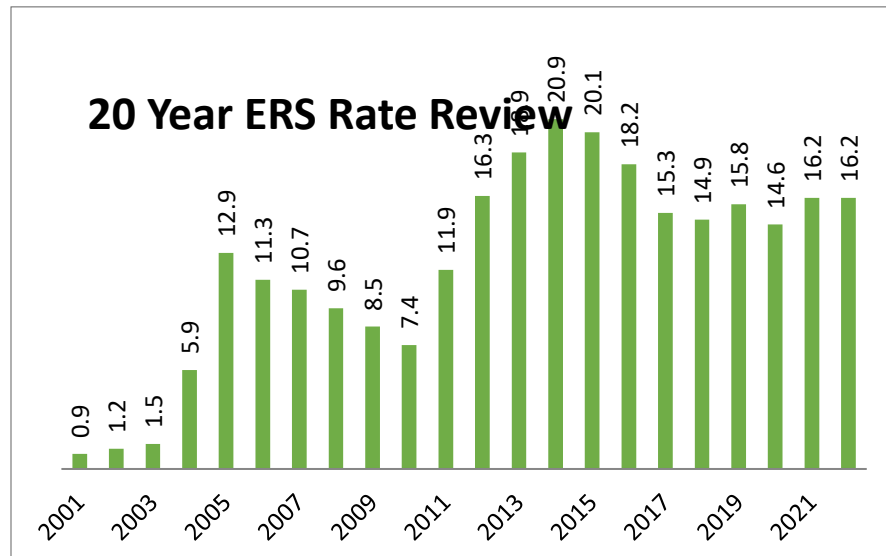
Overview

- Established by the Board of Education
- Funded by budgetary appropriations, revenues not required by law to be paid into other funds or accounts, transfers from other reserve funds as permitted by law, and such other funds as the board may legally appropriate
- Voter approval is not needed to expend funds
- A portion of the funds may be transferred to another reserve fund established pursuant to Education Law § 3651 following a public hearing conducted in the manner set forth by law

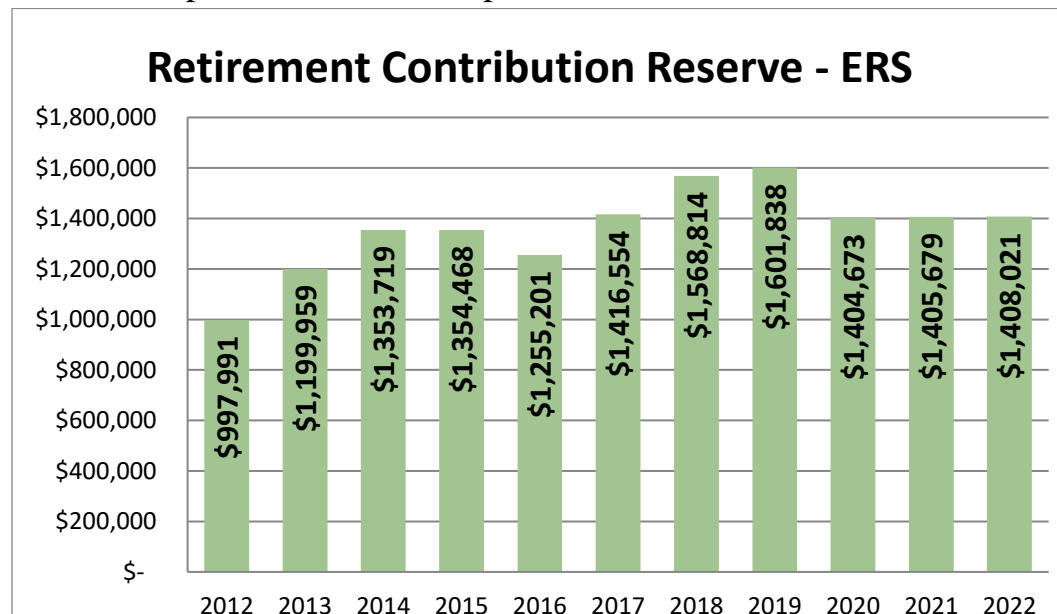
Analysis & Projected Needs

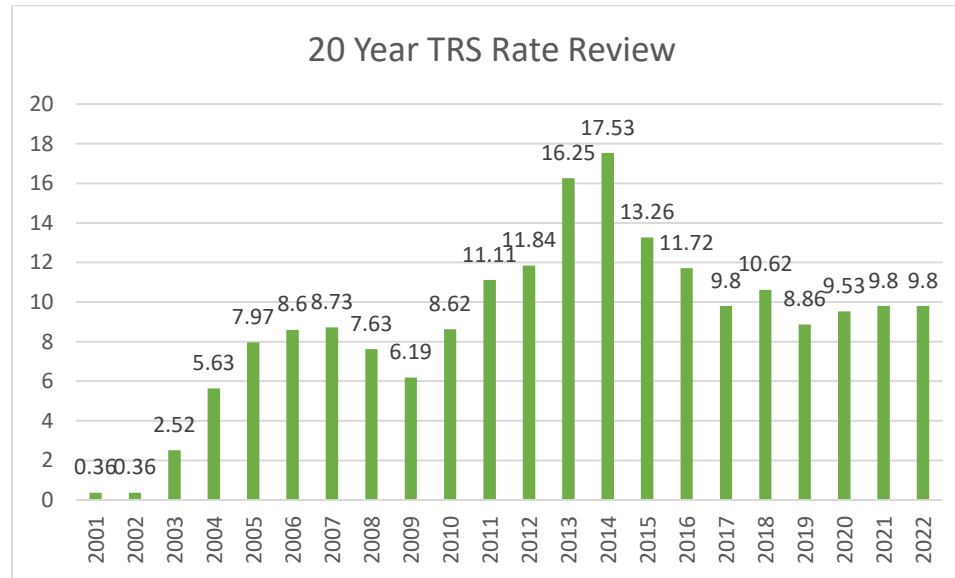
The ERS portion of the Reserve was established by the Board of Education in September 2009. In November of 2009, the Board resolved to place \$80,000, received by First Wind Energy, LLC, from the settlement of wind farm proceedings, in the ERS Reserve. In addition to this amount, the Board added \$220,000 on June 30, 2010, to further fund this reserve. Additional funding for this reserve can be viewed below. Because of the severe stock market declines in 2008, the NYSERS (New York State Employees' Retirement System) steadily increased the employer contribution to ERS. Current market conditions will potentially, negatively affect and impact district contribution rates. Therefore, it will be prudent to monitor balances in this reserve.

The TRS portion of this reserve was established on June 30, 2019, in the amount of \$117,043. This is a newly legalized reserve and became law on June 30, 2019. School districts may fund the reserve by 2% of the previous year's instructional salary and may not exceed 10% of the total compensation or salaries of teachers employed and who are members of the NYS teachers' retirement system paid during the prior fiscal school year. Current market conditions may negatively affect and impact district contribution rates. Therefore, it will be prudent to monitor balances in this reserve.

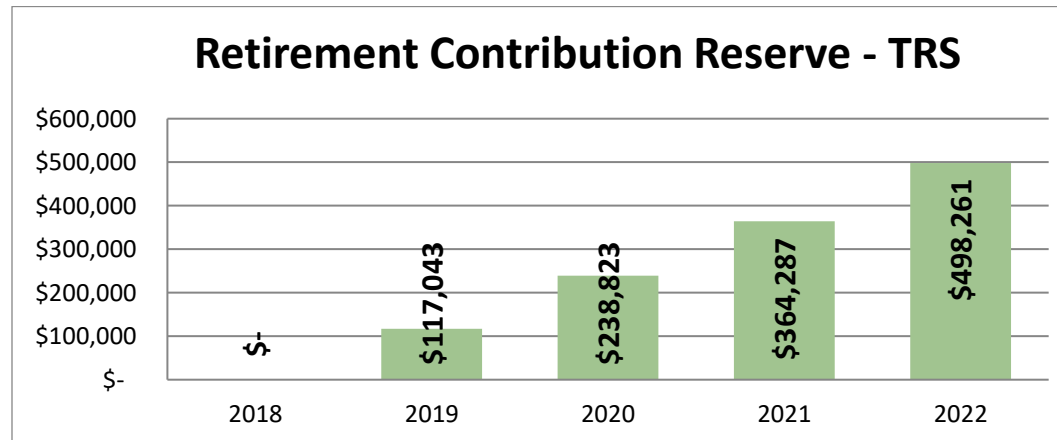


The District will utilize this reserve to mitigate the impact of ERS contributions in future years. The District will also use this reserve to protect its financial position in an era of uncertain state aid and property tax caps.





The District will utilize this reserve to mitigate the impact of TRS contributions in future years. The District will also use this reserve to protect its financial position in an era of uncertain state aid and property tax caps.



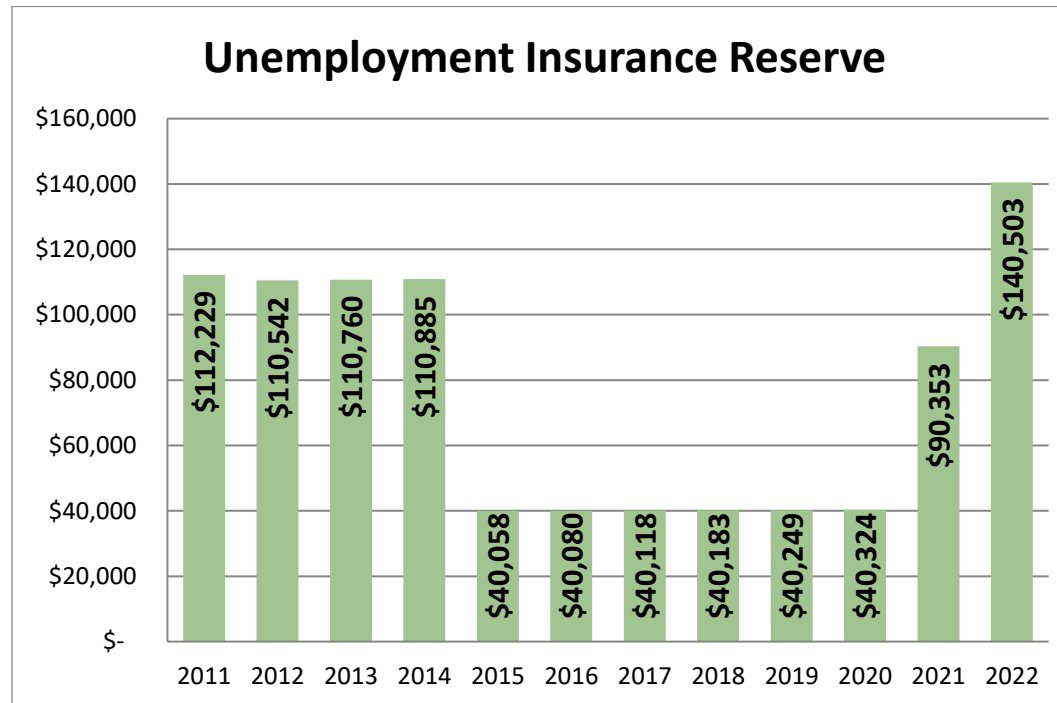
Unemployment Insurance Reserve (GML Article 2 § 6-m)

Overview

- Established by Board of Education resolution
- Funded by budgetary appropriations, amounts from any other fund authorized by this chapter by resolution subject to referendum, or other sums that may be legally appropriated
- Voter approval is not needed to expend funds
- Utilized to pay unemployment claims
- Excess funds may be transferred to other reserves authorized by General Municipal Law and Education Law sixty days before the end of the fiscal year

Analysis & Projected Needs

The District is obligated to pay 100% of all unemployment claims granted by the NYS Department of Labor. The District will continue to monitor and possibly increase this fund in future years as reductions in force may be necessary to balance future budgets. At the conclusion of the summer 2022 independent audit, it was determined to add money to this reserve given unprecedented unemployment rates and their potential effect on student enrollment.



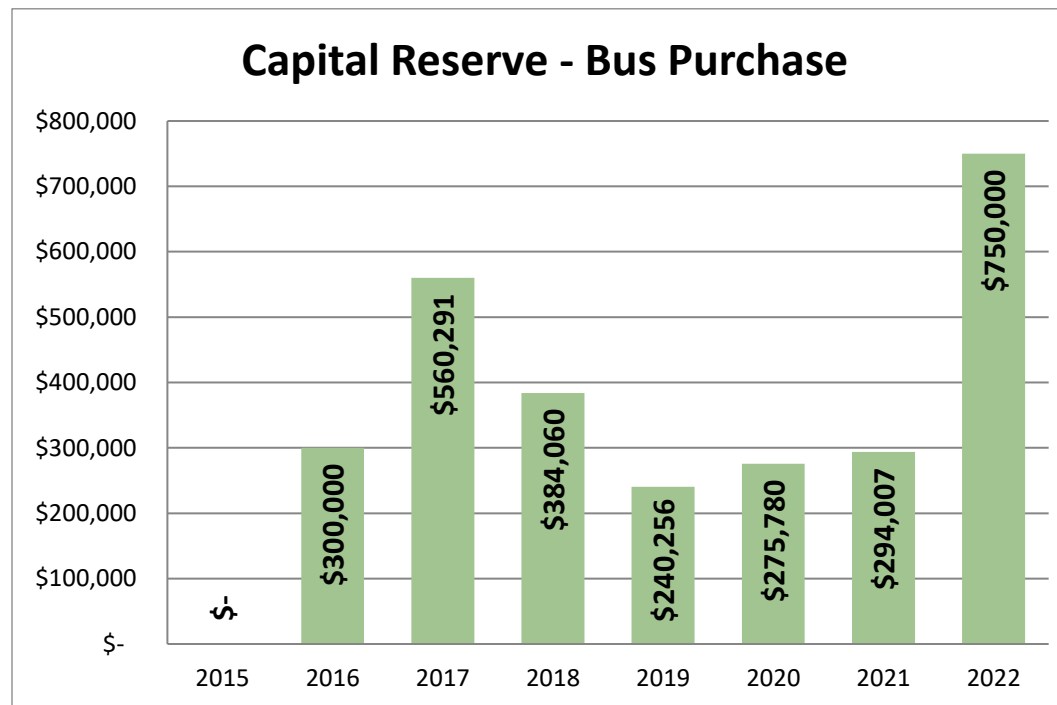
Capital Reserve – Bus Purchase [EDN Article 74 § 3651 (1)]

Overview

- Established by voter approval
- States the specific purpose of the fund, the amount, the term of the fund, and sources where the fund is obtained e.g. budgetary appropriations, unappropriated fund balance, and New York State aid
- Utilized to pay for any object or purpose for which a school district may issue bonds pursuant to Finance Law
- Expended only with voter approval and for the purpose for which the fund was established
- Transferred to other funds only by voter approval
- May be liquidated by approval of voters if the determined fund is no longer needed for the original purpose. Proceeds must be applied first to outstanding bond indebtedness than to tax levy

Analysis & Projected Needs

The capital reserve for bus purchase was established by a positive vote of the Naples CSD taxpayers on the 17th of May 2022. The reserve is authorized to be funded up to \$750,000 plus earnings thereon. As of June 30, 2022, \$750,000 has been funded. The purpose of the reserve is to finance in whole or part the cost of the acquisition of transportation vehicles. Over the next three to five years, the district intends to fund and use this reserve (upon voter approval) to pay for buses if the cost cannot be absorbed by the General Fund.



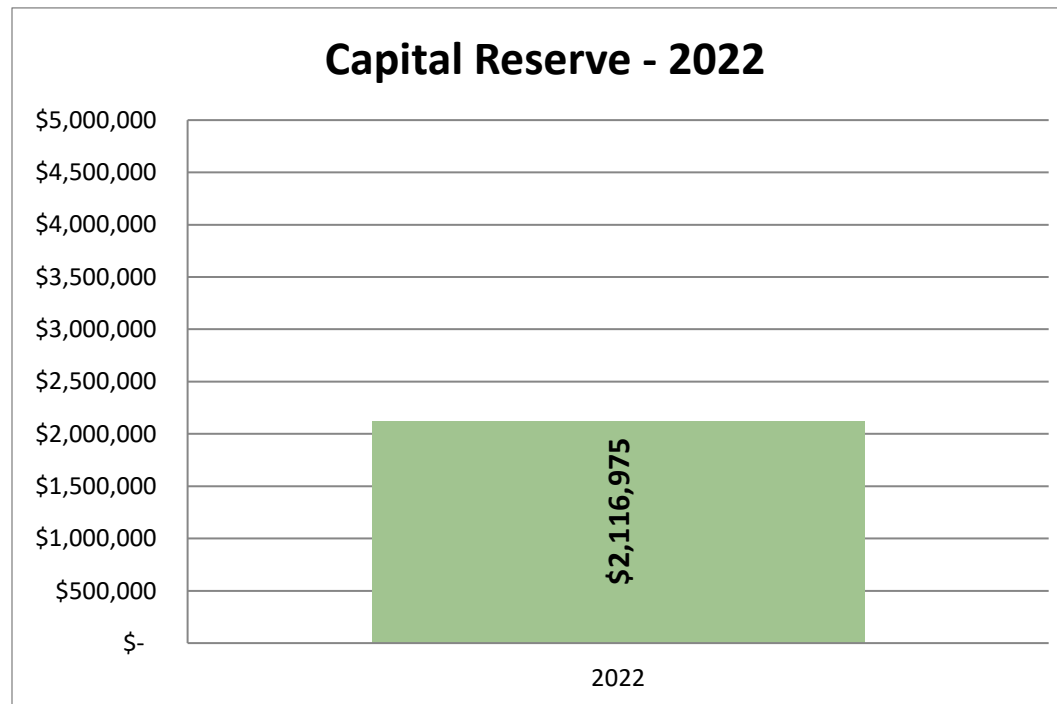
Capital Reserve - 2022 [EDN Article 74 § 3651 (1)]

Overview

- Established by voter approval
- States the specific purpose of the fund, the amount, the term of the fund, and sources where the fund is obtained e.g. budgetary appropriations, unappropriated fund balance, and New York State aid
- Utilized to pay for any object or purpose for which a school district may issue bonds pursuant to Finance Law
- Expended only with voter approval and for the purpose for which the fund was established
- Transferred to other funds only by voter approval
- May be liquidated by approval of voters if the determined fund is no longer needed for the original purpose. Proceeds must be applied first to outstanding bond indebtedness than to tax levy

Analysis & Projected Needs

This capital reserve was established by a positive vote of the Naples CSD taxpayers on the 17th of May 2022. The reserve is authorized to be funded up to \$5,000,000 inclusive of accrued interest and other investment earnings. The purpose of the reserve is to fund site work, additions to, reconstruction, and equipping of its school buildings and facilities. Due to the overwhelming amount of capital construction that is needed and the low building aid ratio of 63.7% (2021-2022 aid ratio), the Board of Education feels that this reserve is critical to its mission, is necessary to maintain health and safety for students and staff, is necessary to preserve school buildings, and should be in place to protect taxpayer investment.



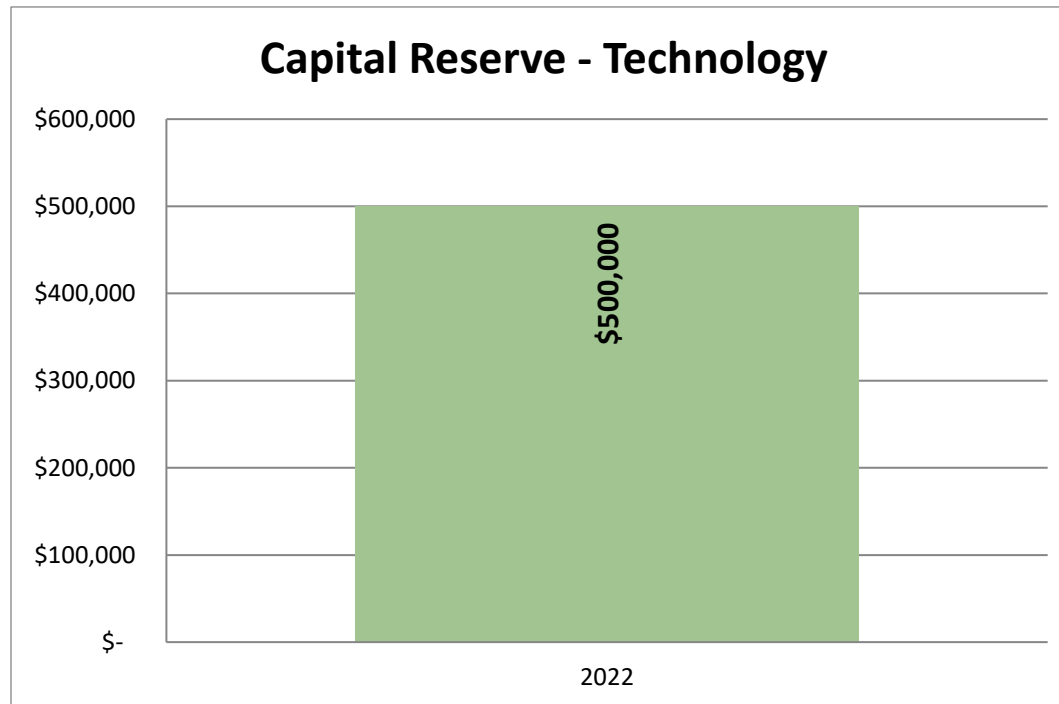
Capital Reserve Technology - 2022 [EDN Article 74 § 3651 (1)]

Overview

- Established by voter approval
- States the specific purpose of the fund, the amount, the term of the fund, and sources where the fund is obtained e.g. budgetary appropriations, unappropriated fund balance, and New York State aid
- Utilized to pay for any object or purpose for which a school district may issue bonds pursuant to Finance Law
- Expended only with voter approval and for the purpose for which the fund was established
- Transferred to other funds only by voter approval
- May be liquidated by approval of voters if the determined fund is no longer needed for the original purpose. Proceeds must be applied first to outstanding bond indebtedness than to tax levy

Analysis & Projected Needs

The 2022 Technology Capital Reserve Fund is to be used to finance in whole or part the cost of purchasing and replacing technology as needed, in accordance with Education Law section 3651, and in order to accomplish the same, the Board is hereby authorized to establish the ultimate amount of such reserve fund to Five Hundred Thousand Dollars (\$500,000) inclusive of accrued interest and other investment earnings, with a probable term of ten years. The Board of Education is hereby authorized to pay funds from the available fund balance, state aid reimbursement to the School District on account of capital projects, such other monies as the voters may direct, and/or other legally available funds of the School District to the such reserve fund in an amount determined by the Board of Education up to the maximum authorized amount.



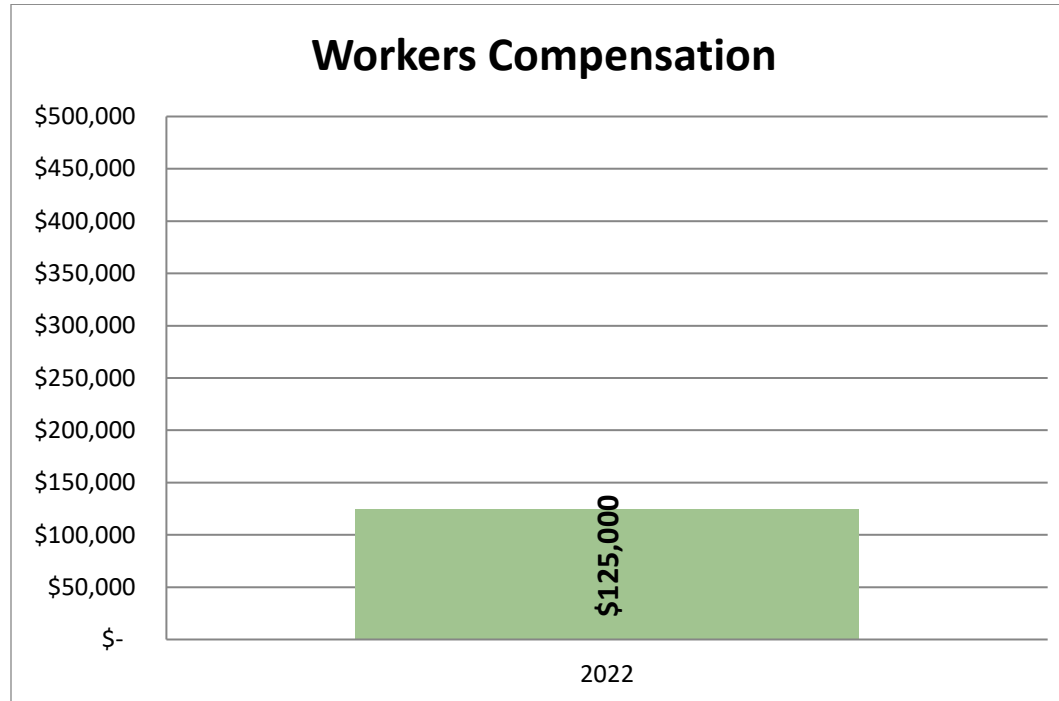
Workers Compensation Reserve - (GML §6-j)

Overview

- Established by BOE Resolution
- To fund workers' compensation expenses, related medical expenses, and self-insurance administrative costs.
- Expended by BOE authorization unless included in the original budget

Analysis & Projected Needs

The Workers Compensation Reserve funds are authorized under Section 6-j of the GML to pay compensation and benefits for medical, hospital, or other expenses authorized by Article 2 of the Workers Compensation Law. This reserve was established via a Board of Education resolution with a maximum balance of \$500,000.



Debt Service Fund (GML §6-1)

Overview

According to the NYS Education Department:

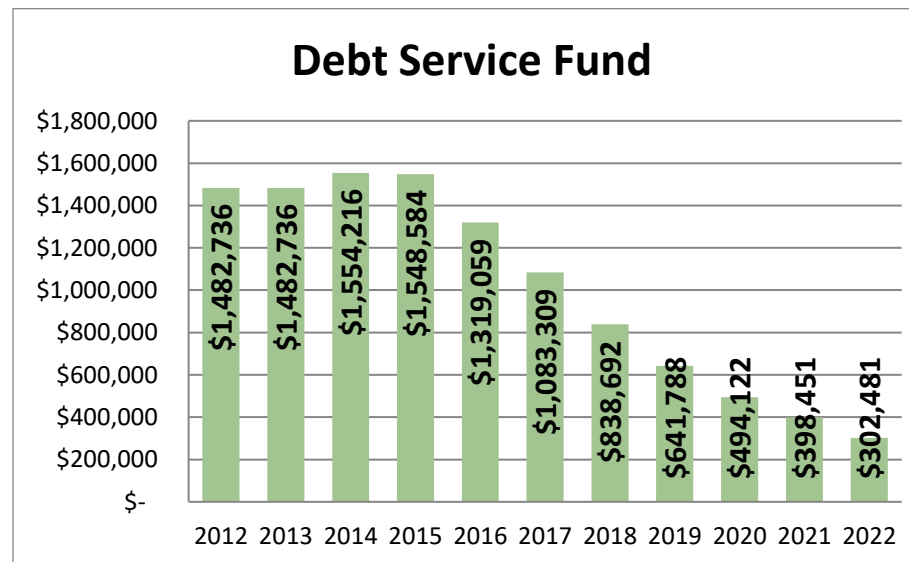
(<http://www.p12.nysed.gov/mgtserv/budgeting/handbook/otherfunds.html>),

“The use of this fund by school districts is optional except where a mandatory reserve for debt service is required as a result of having sold school property on which there is outstanding debt, or where unexpended proceeds of borrowings, earned interest, bond premium, or accrued interest are being retained to offset future payments on principal and interest.”

Analysis & Projected Needs

For the Naples Central School District, the Debt Service Fund is mandatory as the fund is used to account for “unexpended proceeds of borrowings, earned interest, bond premium, or accrued interest”. Over the years, the district has borrowed funds for various projects. At the end of every project, the district is required to take unexpended funds and use them to offset the cost of debt service principal and interest payments in the general fund.

For the 2022-2023 school year, the district plans to use \$75,000 to offset debt service payments through the general fund. The district will continue to expend monies from this fund in future years in an attempt to slowly work this fund down to zero while keeping in mind that this “general fund revenue source” will need to be replaced with other sources when it is spent down.



Assigned Fund Balance/Reserve for Subsequent Year/Designated for Expenditures

For the 2022-2023 school year, the District appropriated \$256,037 of the prior year's unassigned fund balance for its budget. This represented approximately 1.14% of the budget. The District expects to return this amount to the fund balance at the end of the fiscal year. The assigned fund balance will only be utilized as a last resort to meet expenditures if revenue does not cover expenses.

Unassigned Fund Balance

The District intends to retain unexpended funds in this reserve up to the legal limit of 4% of the upcoming year's budget (\$893,522).

SUMMARY OF FUND BALANCE ACCOUNTS

Naples CSD - Reserve Usage

	15/16	16/17	17/18	18/19	19/20	20-21	21-22
Fund Balance	6/30/2016	6/30/2017	6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022
Reserved							
Reserved for Encumbrances	89,835	18,122	18,122	322,053	84,493	15,313	125,842
Tax Certiorari Reserve	220,742	220,742	220,742	193,821	193,821	193,821	193,821
Workers Compensation Reserve	-	-	-	-	-	-	125,000
Insurance Reserve	63,995	64,056	64,056	114,265	114,478	114,560	114,751
Property Loss Reserve & Liability Reserve	56,592	56,646	56,646	106,830	107,030	107,106	107,285
Employee Benefits Accrued Liability Reserve	1,303,379	1,304,626	1,304,626	1,158,604	1,160,767	1,161,598	1,163,534
Retirement Contributions Reserve	1,255,201	1,416,554	1,416,554	1,601,838	1,643,496	1,769,966	1,906,282
Unemployment Insurance Reserve	40,080	40,118	40,118	40,249	40,324	90,353	140,503
Capital Reserve	1,400,757	211,793	211,793	1,789,594	3,127,703	4,092,135	2,116,975
Capital Reserve - Technology	-	-	-	-	-	-	500,000
Capital Reserve - Buses	300,000	560,291	560,291	240,256	275,780	294,007	750,000

	4,730,581	3,892,948	3,892,948	5,567,510	6,747,892	7,838,859	7,243,993
Unreserved							
Designated for Expenditures (subsequent year)	650,000	550,000	550,000	350,000	436,390	356,037	256,037
Unassigned*	789,435	796,773	796,773	827,991	1,577,354	2,209,847	893,522
	1,439,435	1,346,773	1,346,773	1,177,991	2,013,744	2,565,884	1,149,559
Fund Balance & Reserves at 6/30	6,170,016	5,239,721	5,239,721	6,745,501	8,761,636	10,404,743	8,393,552
Debt Service Balance	1,319,059	1,083,309	1,083,309	641,788	494,122	398,451	302,481

NAPLES CSD RESERVE FUND STRATEGY

Over time, the District prefers to continue to use conservative budgeting practices which, under normal circumstances, generally result in revenues exceeding expenditures at the end of the fiscal year. The District wishes to avoid draconian cuts in programs in the midst of the current economic crisis. Through the management of its reserves and carrying an unassigned balance forward, the District hopes to achieve the following:

- Maintenance of educational programming
- Cash flow in all funds that will continue to prevent the need to issue Revenue Anticipation Notes in the event state or federal aid is not paid in a timely fashion
- Cash flow in all funds that will allow for increased investment earnings
- The ability to take advantage of opportunities as they arise, relevant to school district operations, that could result in better efficiencies, facilities/capital improvements, and instruction that are a savings to taxpayers in the long run
- Consistencies and improvements in its educational program
- A long-term plan for preserving its infrastructure and school buildings through long-term planning in conjunction with the school architect and financial planning teams without significantly impacting the tax levy
- The ability to maintain and/or improve its bond rating which will save taxpayers money at both the local and state level

In terms of its mission and responsibility to manage its fiscal affairs prudently the Board of Education considers all the goals above to be critical to its philosophy in managing reserves.

Long Term Plan for Use of Fund Balance 2022-2027

6/30/23

- Excess Revenue over Expenditures: \$450,000
- Transfer from Debt Service to General Fund: \$75,000
- Add up to \$160,000 to Retirement Contributions (TRS) Reserve
- Assign up to \$1,000,000 to newly established capital reserve

6/30/24

- Excess Revenue over Expenditures: \$450,000
- Transfer from Debt Service to General Fund: \$75,000
- Add up to \$160,000 to Retirement Contributions (TRS) Reserve
- Assign up to \$1,000,000 to newly established capital reserve

6/30/25

- Excess Revenue over Expenditures: \$450,000
- Transfer from Debt Service to General Fund: \$75,000
- Add up to \$160,000 to Retirement Contributions (TRS) Reserve
- Assign up to \$1,000,000 to newly established capital reserve

6/30/26

- Excess Revenue over Expenditures: \$450,000
- Transfer from Debt Service to General Fund: \$75,000
- Add up to \$160,000 to Retirement Contributions (TRS) Reserve
- Assign up to \$1,000,000 to newly established capital reserve

6/30/27

- Excess Revenue over Expenditures: \$450,000
- Transfer from Debt Service to General Fund: \$75,000
- Add up to \$160,000 to Retirement Contributions (TRS) Reserve
- Assign up to \$1,000,000 to newly established capital reserve