

# School District Fund Balances: The Law and the Reality

**Adam Thumen, Research Analyst**

Division of Local Government and School Accountability



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**THOMAS P. DiNAPOLI**

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# Topics

- What is Fund Balance?
- Real Property Tax Law §1318
- School District Compliance
- Restricted Funds (Legal Reserves)
- How Did We Get Here?
- Taxpayer Recourse
- Next Steps



# What is Fund Balance?

- Total accumulation of all operating surpluses and deficits since the beginning of a school district's existence. Put simply:

$$\text{Assets} - \text{Liabilities} = \text{Fund Balance}$$

- Fund balance is an important measure of a school district's financial condition
- Can provide a cushion to cover revenue shortfalls or expenditure overruns



# Fund Balance Classifications

## Types of Fund Balance

Classification	Definition
Nonspendable	Assets that cannot be spent (i.e. inventory, prepaid items)
Restricted	Reserves established for a restricted legal purpose (i.e. capital project reserve, workers' compensation reserve, etc.)
Committed	Not used by New York State local governments and school districts
Assigned	Amount set aside for an intended use by a governmental entity (i.e. revenue appropriated to subsequent year's expenses)
Unassigned	Amount of surplus revenue remaining after expenditures are paid that has no been restricted or assigned. (i.e. "rainy day fund")

**Source:** OSC Bulletin, *Fund Balance Reporting and Governmental Fund Type Definitions*, updated April 2011, <https://osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>



# Real Property Tax Law §1318

- “[A] warrant shall state the amount of unexpended surplus funds in the custody of the board and shall further state that ... **such unexpended surplus funds have been applied in determining the amount of the school tax levy.**”
- “For the 2008-09 school year, and thereafter, surplus funds as used in this subdivision shall mean **any operating funds in excess of 4 percent of the current school year budget,** and shall not include funds properly retained under other sections of the law.”

[Emphasis added]



# Real Property Tax Law §1318

The percentage has changed over the years

## Percentage of Unexpended Surplus Funds in Excess of Next Year's Budget

<u>SY</u>	<u>Percentage</u>
1977-78	2%
until	
1989-90	5%
until	
1991-92	2%
until	
2007-08	3%
2008-09	4%
to present	

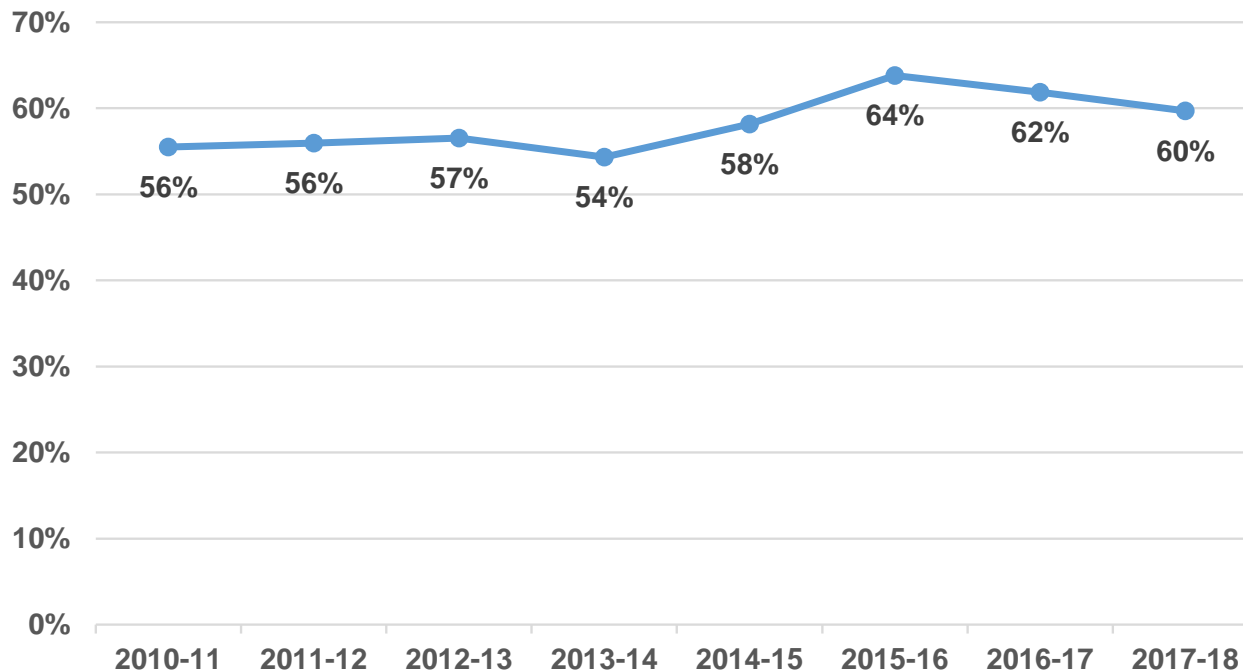
Source: Real Property Tax Law § 1318.



# School District Compliance

Are excess unexpended surplus funds  
an issue for school districts?

**Percentage of School Districts Retaining Unexpended Surplus Fund Balance  
Over 4 Percent of Next Year's Budget, SY 2010-11 to SY 2017-18**



Source: SED, State Aid Management System (SAMS).

Data are preliminary

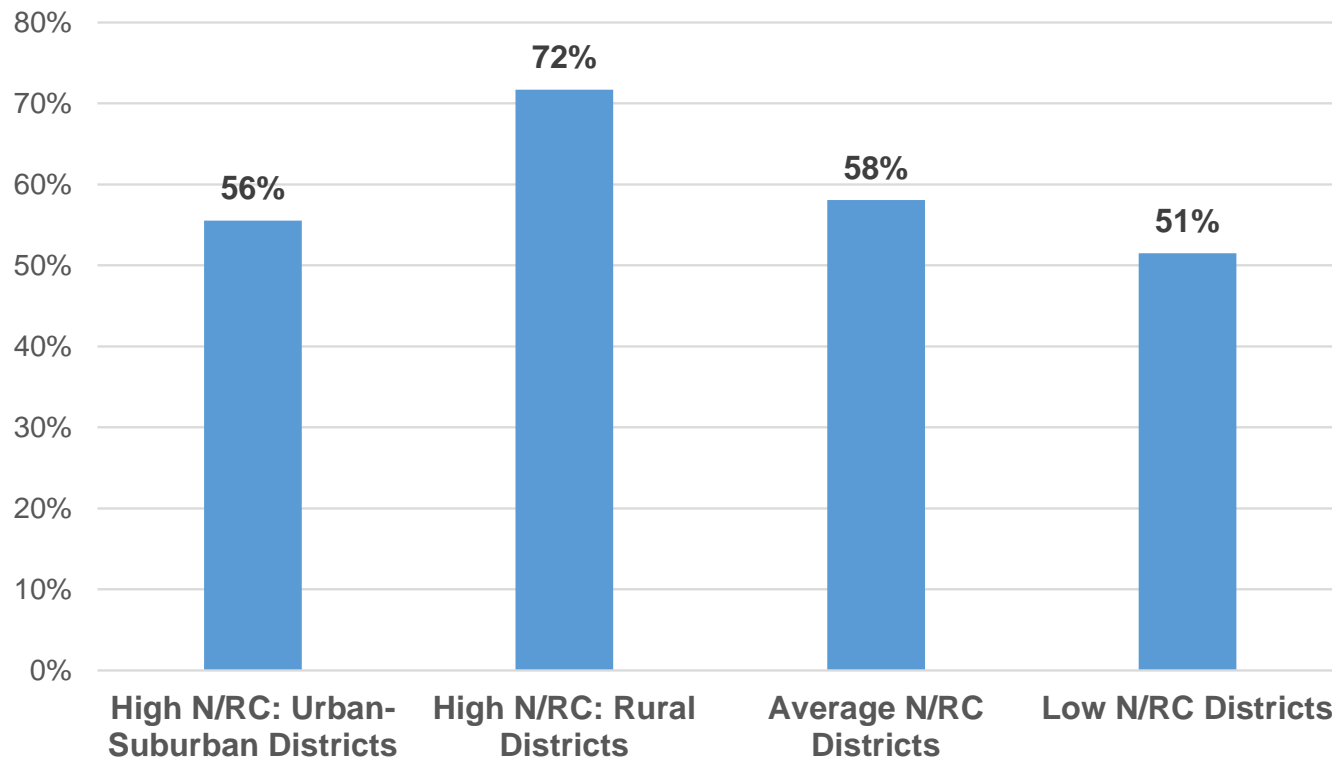


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# School District Compliance

Does the wealth of a school district affect fund balance management?

**Percentage of School Districts Retaining Over 4 Percent of Unexpended Fund Surplus, by NRC Code, SY 2017-18**



Source: SED (SAMS). Calculations performed by OSC. Data is self-reported.

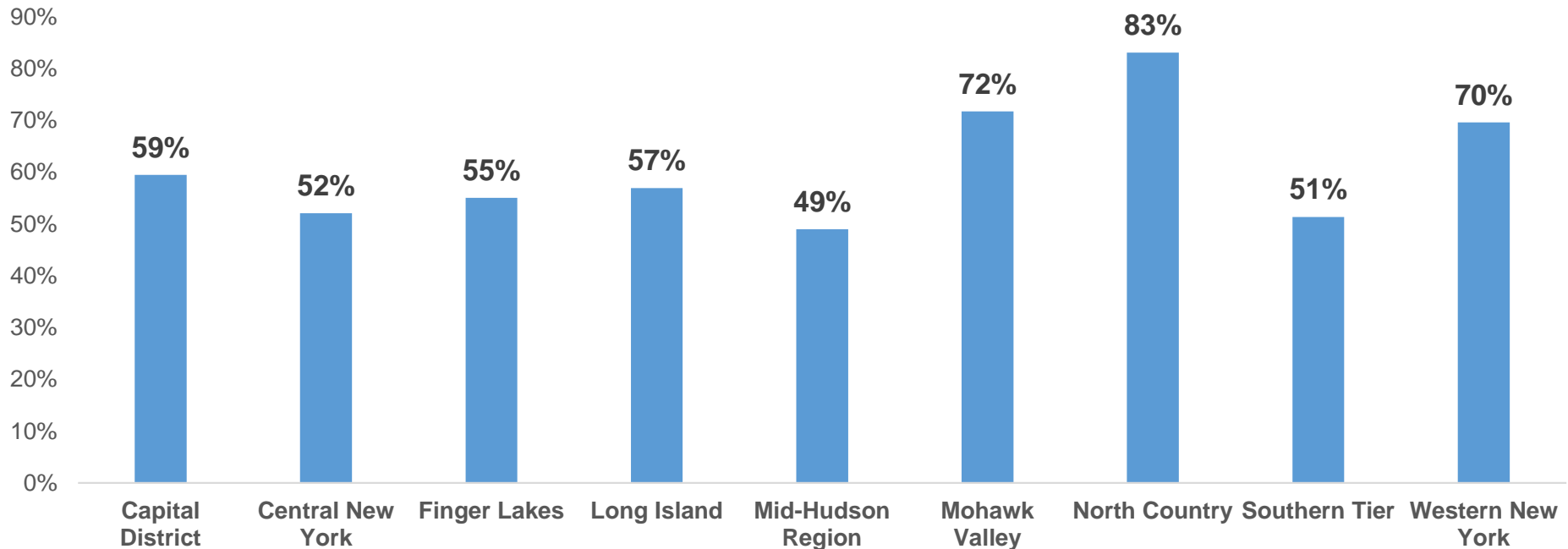
Data are preliminary



# School District Compliance

Does school district location affect whether it maintains excess funds?

**Percentage of School Districts Retaining Over 4 Percent of Unexpended Surplus Funds, by Region, SY 2017-18**



Source: SED, SAMS. Calculations performed by OSC. Data is self-reported.

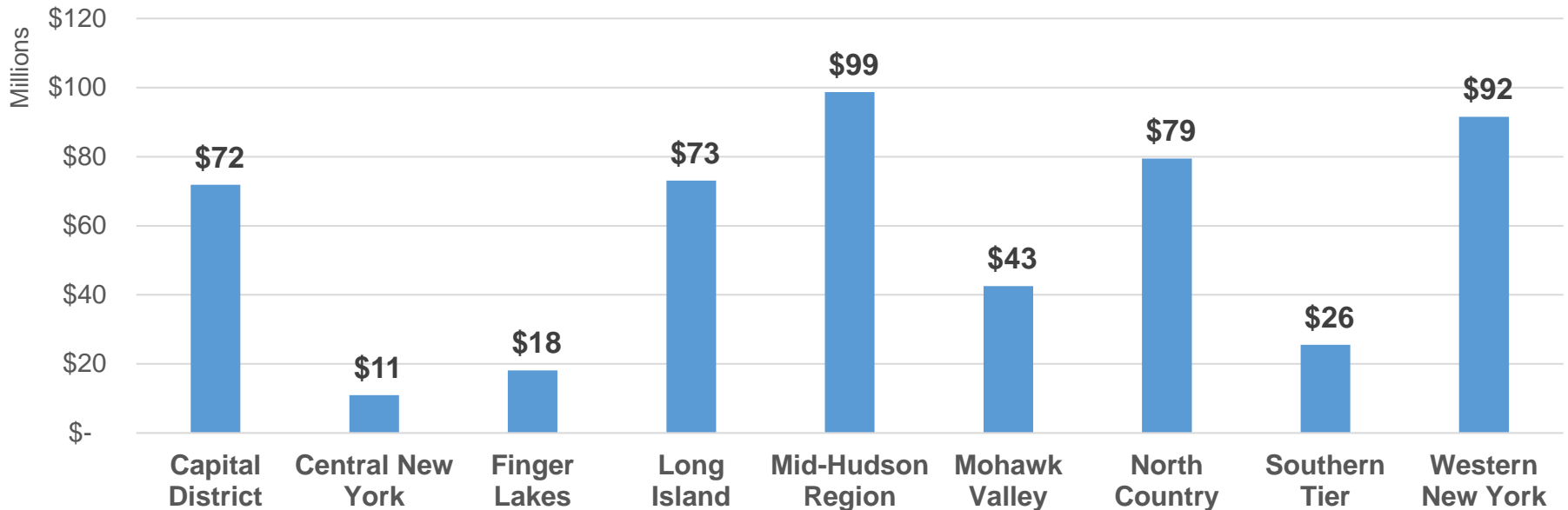
Data are preliminary



# School District Compliance

How much excess unexpended surplus funds are school districts maintaining?

\$512 Million in Unexpended Fund Balance Over 4 Percent, by Region, SY 2017-18



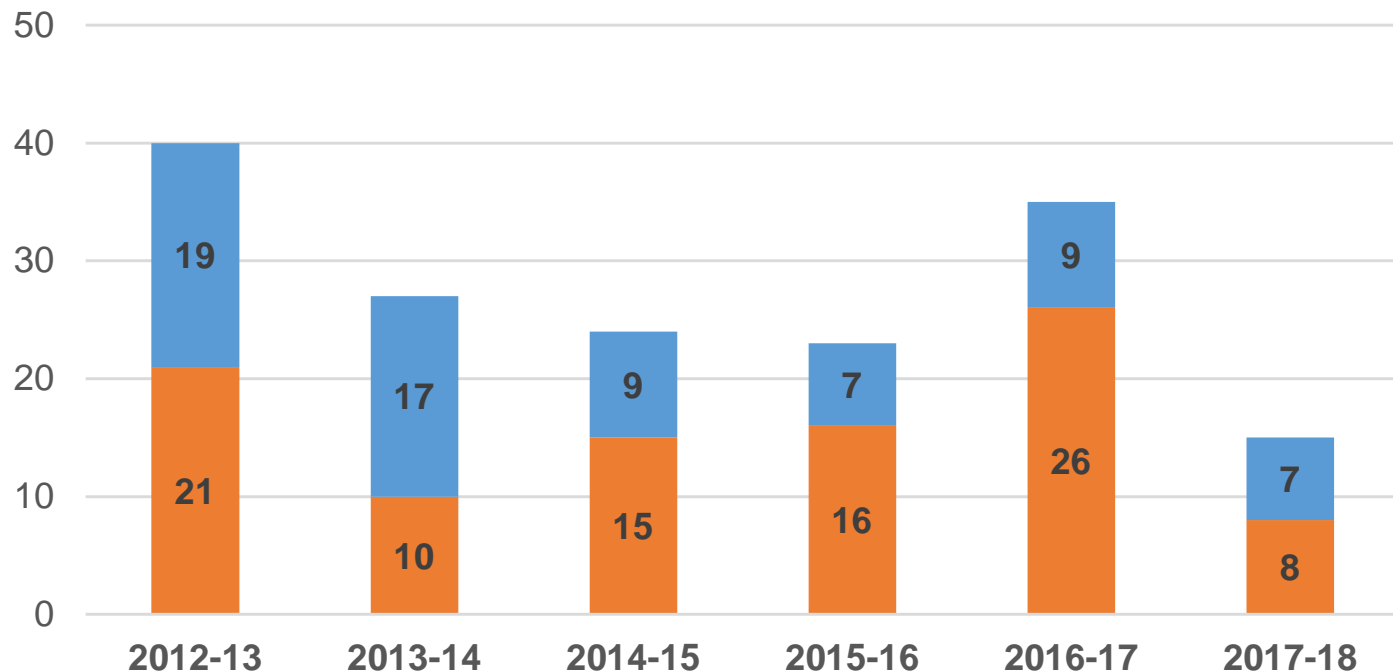
Source: SED, SAMS. Calculations performed by OSC. Data is self-reported.

Data are preliminary

# School District Compliance

Are any schools with excess unexpended surplus funds requesting a property tax cap override?

Number of School Districts Who Planned to Override the Property Tax Cap, SY 2012-13 through SY 2017-18



Data are preliminary

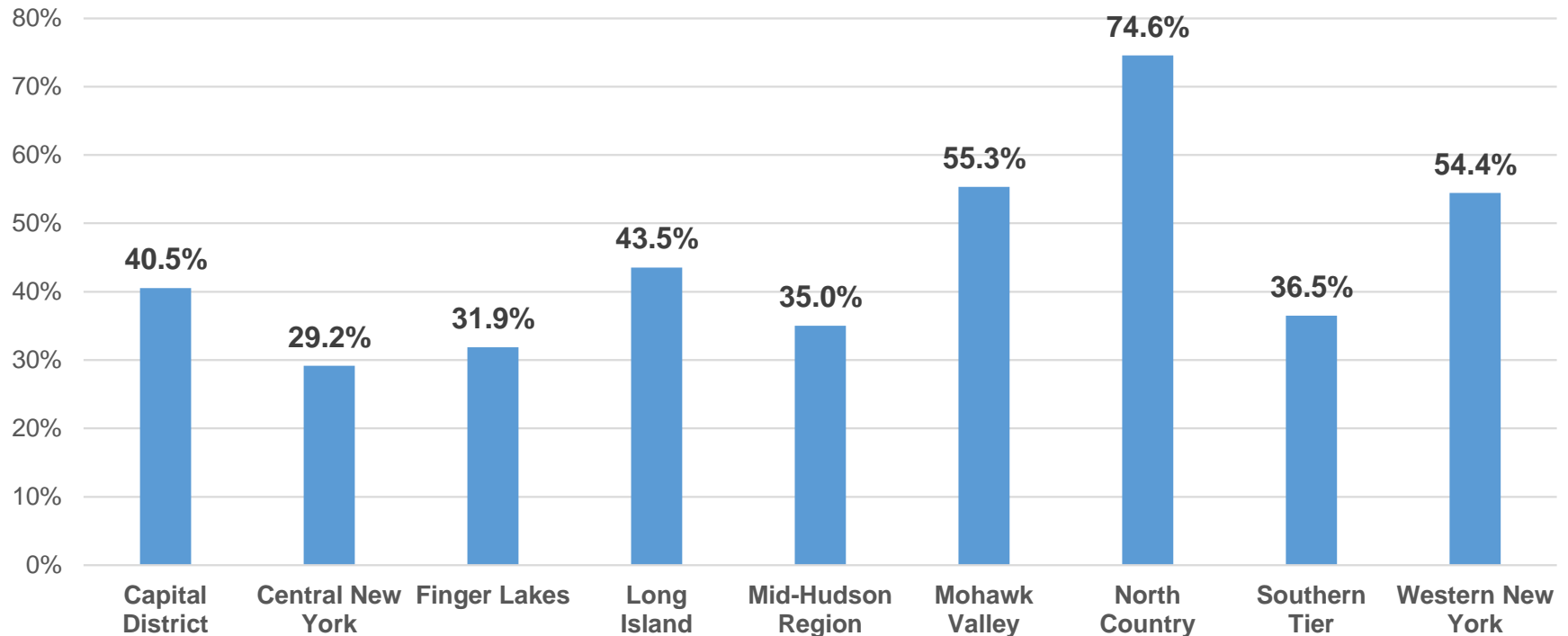
■ SD Over 4% ■ Not Over 4%

Source: OSC. Per Tax Cap Filing Submitted by School Districts

# Persistent School Districts

Are the same school districts maintaining excess unexpended funds year after year?

Percentage of School Districts Persistently Maintaining Excessive Fund Balance, by Region



Source: SED, SAMS, Calculations by OSC. Data is self-reported.

Data are preliminary

# Restricted Fund Balance

What actions can a school district take to save for the future?

- Create or continue to fund a reserve for a specific future use
- There should be a clear purpose or intent for establishing reserve funds that align with statutory authorizations
- OSC recommends developing and adopting fund balance and reserve fund policies



# Restricted Fund Balance

How much can a school district place in a reserve fund?

- Reserves are established for a legally restricted purpose – once funded it is usually difficult to use these funds except for its intended purpose
- School districts should balance the desirability of accumulating reserves for future needs with the obligation to not overburden taxpayers



# Under 4 Percent On Paper

- OSC audits have found that some school districts avoid reporting excess surplus funds by overfunding reserves.
- Some school districts have overfunded reserves and still maintained excess unexpended surplus funds.



# Under 4 Percent On Paper

- A school district can appropriate some of its fund balance to cover next year's budget
  - “Planned deficit”
  - These funds are not counted towards the 4 percent formula
- In practice, OSC audits have found that some districts regularly appropriate funds for next year, but never use them.





# How Did We Get Here?

## School District Budget Practices

- Underestimating Revenue
- Overestimating Expenditures
- Not using appropriations
- Not adopting annual budgets based on historical trends or other known factors
- Education Law § 2021(21)
- Fiscal year timing issues



# How Did We Get Here?

## Challenges Faced by School Districts

- Uncertain results of State Budget
  - On-time passage?
  - Mid-year cuts (rare)
  - Budgets previously included a Gap Elimination Adjustment (GEA)
- The 4 percent figure has changed over time



# Taxpayer Recourse

- File an appeal with the State Education Department (SED)
  - Relief is limited
  - Order school district to be under 4 percent in the next fiscal year
  - Remove school board trustees



# Best Practices for School District Officials

- Develop polices and procedures
  - Fund balance and reserve funds
- Develop multiyear financial and capital plans
- Adopt budgets that reasonably reflect the school district's operating needs
  - Use historical trends or other identified analysis to compute budget items
- If over 4 percent, develop a plan to reduce unexpended surplus fund balance



# Next Steps

What can be done to keep school districts under the cap?

- Legislation

- Multiple bills currently introduced in the Legislature

- S340 – Proposes to raise the cap to 6 percent

- A5371 – Proposes that school districts would have their State aid reduced by the amount of excess unexpended surplus funds over 4 percent.

- Recently enacted OSC-sponsored legislation increasing reserve fund transparency



# Links and Contacts

- OSC, Local Government Management Guides:
  - *Reserve Funds:*
    - [www.osc.state.ny.us/localgov/pubs/lgmg/reservefunds.pdf](http://www.osc.state.ny.us/localgov/pubs/lgmg/reservefunds.pdf)
  - *Understanding the Budget Process:*
    - [www.osc.state.ny.us/localgov/pubs/lgmg/budgetprocess.pdf](http://www.osc.state.ny.us/localgov/pubs/lgmg/budgetprocess.pdf)
- OSC audits of individual school districts:
  - [www1.osc.state.ny.us/auditsearch/auditsearch.cfm](http://www1.osc.state.ny.us/auditsearch/auditsearch.cfm).



# Links and Contacts

OSC's Local Government and  
School Accountability Division

<https://www.osc.state.ny.us/localgov/>

- Publications—Research Reports & Audits
- Open Book NY
- Fiscal Stress Monitoring System (FSMS)
- Training Opportunities

Questions or Inquiries:

[localtraining@osc.state.ny.us](mailto:localtraining@osc.state.ny.us)





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# Thank You



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School Accountability



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