



THE STATE EDUCATION DEPARTMENT

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Fund Balance - Reservations and Designations

The following Reserve Funds are available to school districts.

1. **Capital Reserve** (ED § 3651)

The Capital Reserve Fund is used to pay the cost of any object or purpose for which bonds may be issued. Proposition(s) put before voters must specify purpose(s), ultimate dollar amount(s) to be deposited into reserve(s), probable term(s) or life/lives, and source(s) of funds. Voter approval required to spend from these reserve(s). Expenditures must be specific i.e., to purchase school buses, facility construction, equipment, etc. Annual appropriations to fund reserve(s) further authorized by voters.

The creation of a Capital Reserve fund **requires** authorization by a majority of the voters. The forms of the required legal notice for the vote on establishing and funding the reserve and of the proposition to be placed on the ballot are both set forth in Section 3651 of Education Law. Limited to term or life approved by voters; may extend term only before end date.

Reserve(s) defunct after term(s) expire, except to spend remaining funds with voter approval.

This reserve is accounted in the **General Fund**. (A 878)

2. **Repair Reserve** (GML § 6-d)

The Repair Reserve Fund is used to pay the cost of repairs to capital improvements or equipment, which repairs are of a type not recurring annually or at shorter intervals. Sources of funds include budgetary appropriations or other revenues that may be legally appropriated and are not required by law to be paid into any other fund or account

Voter approval is required to fund this reserve (See Opinion of the State Comptroller 81-401).

Unexpended balance may be transferred to Capital, Tax Certiorari, or Retirement Contribution Reserves pursuant to Section 3651 of the Education Law and GML Section 6-r. Expenditures from this reserve may be made only after a public hearing has been held requiring 2/3 majority vote of BOE, except in emergency situations. If no hearing is held, the amount expended must be repaid to the reserve fund over the next two subsequent fiscal years.

This reserve is accounted in the **General Fund**. (A 882)

3. **Workers' Compensation Reserve** (GML § 6-j)

The purpose of this reserve fund is to pay for Workers Compensation and benefits, related medical/hospital expenses, and self-insurance administrative costs as authorized by Article 2 of the Workers' Compensation Law.

Districts that qualify as a self-insurer may establish reserve by board action under Section 50[4] of the Workers' Compensation Law.

The reserve is funded by budgetary appropriations and such other source(s) as may be legally appropriated. Funds remaining in excess of requirements to pay all pending claims, may be transferred, within sixty days of the close of the fiscal year, to other reserve(s) or applied to the next succeeding fiscal year's budget.

This reserve is accounted in the in the **General Fund** (A 814)

4. **Unemployment Insurance Reserve** (GML § 6-m)

This reserve fund is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the school district or BOCES has elected to use the benefit reimbursement method, in lieu of contributions under Article 18 of the Labor Law.

The reserve may be established by board action and is funded by budgetary appropriations or funds from other reserves subject to permissive referendum. The BOE may terminate if district converts to tax contribution method of funding.

If the district elects to convert to tax contribution basis, excess of fund over the sum sufficient to pay pending claims may be transferred, to other reserve fund(s) authorized by GML or ED § 3651. Within sixty days after the end of the fiscal year, excess amounts may either be transferred to other reserve fund(s) or applied to the appropriations of the next succeeding fiscal year's budget.

This reserve is accounted in the **General Fund**. (A 815)

5. **Reserve for Tax Reduction** (ED § 1604 [36])
(ED § 1709 [37])

This reserve is for the gradual use of the proceeds of the sale of school district real property where such proceeds are not required to be placed in a mandatory reserve for debt service. Specifically, the district is permitted to retain the proceeds of the sale for a period not to exceed ten years and to use them during that period for tax reduction.

This reserve is accounted in the **General Fund**. (A 891)

6. **Mandatory Reserve for Debt Service** (GML § 6-l)

This reserve is used to cover debt service payments on outstanding obligations (bonds, BANS) after the sale of district capital assets or improvements. Expenditures are for debt service only or for the purpose of retiring the outstanding obligations. Remaining balance of sale in excess of indebtedness may be expended for any other lawful district purpose.

The funding of the reserve as defined in GML § 6-c is from (1) the proceeds of the cash sale of capital assets and improvement (including, but limited to land, buildings, equipment, and vehicles), and (2) State and Federal Aid received on account of a capital improvement to the retirement of outstanding obligations issued to finance such improvement.

This reserve is accounted in the **Debt Service Fund.** (A, V 884)

7. **Insurance Reserve** (GML § 6-n)

This reserve is used to pay liability, casualty, and other types of uninsured losses, except losses incurred for which the following types of insurance may be purchased: life, accident, health, annuities, fidelity and surety, credit, title residual value, and mortgage guarantee.

The reserve is funded by budgetary appropriations or funds from other reserves subject to permissive referendum. May not be used for any purpose for which a special reserve may be established pursuant to law e.g., Unemployment Compensation Insurance.

There is no limit on the amount that may be accumulated in the reserve balance; however, the annual contribution(s) to this reserve may not exceed the greater of \$33,000 or 5 percent of the budget. Settled or compromised claims up to \$25,000 may be paid from the reserve without judicial approval.

This reserve is accounted in the **General Fund.** (A 863)

8. **Property Loss Reserve** (ED § 1709 [8-c]), and
Liability Reserve (ED § 1950 [4][cc])

These funds are used to establish and maintain a program of reserves to cover property loss and liability claims incurred. Separate funds for property loss and liability claims are required. This type of reserve fund may be utilized only by school districts, except city school districts with a population greater than 125,000. Annual contribution(s) limited to 3 percent of the annual budget or \$15,000, whichever is greater. (A separate bank account required for BOCES).

Funds cannot be used for another purpose without voter approval except BOE may use monies not required to settle pending claims, to purchase insurance policies to cover losses previously self-insured. Balances may not be reduced below amounts required to settle all pending claims.

Property Loss Reserve: (A 861)
Liability Reserve: (A 862)

These reserves are accounted in the **General Fund.**

9. **Tax Certiorari Reserve** (ED § 3651 [1-a])

Chapter 588 of the Laws of 1988 amended Section 3651 of the Education Law to permit the establishment of a reserve fund for tax certiorari and to expend from the fund without voter approval of the qualified voters of the school district.

The new chapter further stipulates that the total of the monies held in the reserve fund shall not exceed the amount which might reasonably be deemed necessary to meet anticipated judgments and claims arising out of tax certiorari proceedings in accordance with Article 7 of the Real Property Tax Law.

Any monies deposited to such a reserve fund which are not expended for tax certiorari proceedings in the year such monies are deposited must be returned to the general fund on or before the first day of the fourth fiscal year after deposit of these monies into the reserve unless claim(s) are still open and not finally determined or otherwise terminated or disposed of.

This reserve is accounted in the **General Fund.** (A 864)

10. **Reserve for Insurance Recoveries** (ED § 1718 (2))

This account is used at the end of the fiscal year to account for unexpended proceeds of insurance recoveries. They will be held here pending action by the Board of Education on their disposition. This account will not be used if the insurance recovery is expended in the same fiscal year it was received.

This reserve is accounted in the **General Fund.** (A 887)

11. **Reserve for Encumbrances** (A 821)

The balance of this account represents the amount of outstanding encumbrances at the end of the fiscal year.

12. **Reserve for Inventory** (A 845)

The purpose of this account is to limit the maximum investment in inventory and to restrict that portion of fund balance, which is not available for appropriation.

13. **Reserve for Employee Benefit Accrued Liability** (GML § 6-p)

The purpose of this account is to reserve funds for the payment of accrued 'employee benefits' due employees upon termination of service for vacation, sick leave, personal leave, etc.

This reserve fund may be established by a majority vote of the Board of Education and is funded by budgetary appropriations and such other reserves authorized in the GML, subject to permissive referendum.

Upon termination by BOE, balance not required to satisfy all incurred or accrued liabilities may be transferred to any other reserve fund(s) authorized in the General Municipal Law. (May not be used to fund health or other post-retirement benefits.)

The reserve is accounted for in the **General Fund** (A 830)

14. **Reserve for Career Education Instructional Equipment – BOCES** (ED § 1950[4][ee])

The purpose of this account is to reserve funds to finance all or part of the cost of the replacement and purchase of advanced technology equipment used in instructional programs conducted by BOCES. (A separate bank account is required.)

This reserve is created by resolution of the BOCES governing board and approved by the boards of education of a majority of the school districts participating in the instructional program of the BOCES.

Proceeds from the sale of career education instructional equipment used in the instructional programs of the BOCES and, subject to limitation imposed by regulations of the Commissioner of Education, by including depreciation expenses for the career education instructional equipment used in providing instructional services on a cooperative basis in computation of the cost of such services pursuant to Education Law Section 1950 [4][d], concerning “aidable shared services.”

The Commissioner of Education has promulgated regulations pertaining to this reserve (Regulations of the Commissioner of Education, Section 170.3[k]).

In the event this reserve is liquidated, the moneys must be allocated to the school districts participating in the instructional programs of the BOCES in proportion to the value of their contributions to the fund.

15. **Retirement Contribution Reserve Fund** (GML § 6-r)

The purpose of this account is to fund employer retirement contributions i.e., any portion of the amount(s) payable by an eligible school district to the New York State and Local Employees’ Retirement System (ERS), pursuant to Sections 17 or 317 of the Retirement and Social Security Law.

This reserve is created, and expenditures authorized, by resolution of the governing board to finance retirement contributions (except a school district in a city with a population of 125,000 or more). A referendum is not required either to create or expend moneys from the reserve. Transfers from or back to other reserve funds require a public hearing with 15 days’ notice published in official newspaper(s).

- (a) Budgetary appropriations or taxes raised for the reserve
- (b) Revenues not required or restricted by law to be paid into another fund or account
- (c) Transfers from Tax Certiorari, Capital or Repair Reserves

This reserve is accounted in the **General Fund**. (A 827)

16. **Reserve for Excess Tax Levy** (Chapter 97 of the Laws of 2011)

The tax cap legislation states that if the actual tax levy of a local government or a school district exceeds the maximum allowable tax levy limit, the local government or school district must place the excess amount in reserve and use the excess and any interest earned to offset the tax levy for the following fiscal year.

Accounting Requirements:

When an excess tax levy has been identified, the following series of accounting entries will be required. These entries assume that the local government or school district has already recorded the real property taxes levied for the current fiscal year’s budget. The local government or school district will need to defer the recognition of revenues associated with the excess tax levy until the following fiscal year as required by the tax cap legislation. This deferral of revenue serves as the accounting mechanism for placing excess tax levy in reserve as required by the legislation. The amount of revenue deferred for excess tax levies should be placed in a separate interest-bearing bank account.

1. To reclassify the excess amount of taxes levied from revenues to deferred revenues:

Account	Sub-account	Debit	Credit
230 Cash, Special Reserves - Excess Tax Levy		\$250	
1001 Real Property Taxes	\$1,000		\$250
695 Deferred Tax Revenue – Reserve for Excess Tax Levy			

2. To reclassify collections already received in payment of real property taxes that represent amounts attributable to excess tax levies.

Account	Sub-account	Debit	Credit
230 Cash, Special Reserves - Excess Tax Levy		\$250	
200 Cash			\$250

3. To record ongoing collection of taxes that represent amounts attributable to excess tax levies:

Account	Sub-account	Debit	Credit
230 Cash, Special Reserves - Excess Tax Levy		\$750	
250 Taxes Receivable, Current			\$750

4. In the next fiscal year, the entry to record the annual budget in the accounting records would include the amount of deferred revenues that represent amounts attributable to excess tax levies collected in the previous year:

Account	Sub-account	Debit	Credit
510 Estimated Revenues		\$1,000	
1001 Real Property Taxes	\$1,000		

960 Appropriations			\$1,000
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5. At the start of the next fiscal year, to reclassify the deferred revenues as revenues:

Account	Sub-account	Debit	Credit
695 Deferred Tax Revenue – Reserve for Excess Tax Levy		\$1,000	
980 Revenue			\$1,000
1001 Real Property Taxes	\$1,000		

6. At the start of the next fiscal year, amounts set aside in Cash, Special Reserves would be reclassified to Cash to be used by the local government without restriction:

Account	Sub-account	Debit	Credit
200 Cash		\$1,000	
230 Cash, Special Reserve (Excess Tax Levy)			\$1,000

NOTE: Any capital gains or interest earned shall become part of the respective reserve fund. A separate bank account is not necessary; however a separate identity for each reserve fund must be maintained.