Penfield Central School District

Fiscal Stress, Budget Forecast and Reserves

December 4, 2018
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Introduction

The past decade has been difficult for New York school districts as Boards of Education grappled with reduced state aid, the legislatively imposed tax cap, increased pension and healthcare costs, and increasing mandates including the Common Core curriculum and APPR. Recently, state aid has increased as New York State’s fiscal condition has improved. However, school budgets remain under stress. An analysis of school district spending by the Association of School Business Officials concluded:

Despite several years of school aid increases, the state share of education funding remains below pre-recession levels, the disparity between high and low need districts remains virtually the same, and spending on non-general education programs continues to consume a disproportionate share of school district resources.

These facts demonstrate that both the amount of funding for public schools and how that funding is spent are equally important to providing a sound basic education to all students in the state.

The state not only needs to meet its constitutional and legal commitments (i.e. CFE decision) to fund public schools, but to do so in a manner that both insures the equitable allocation of resources as well as the efficient use of those resources.

Tax caps, local government efficiency plans and rebates do little to address the underlying cost drivers of school spending. As mentioned in this study, the largest share of school spending (77%) is instructional (i.e. teacher) costs and fringe benefits. The largest increases in school spending over a ten year period were teacher pensions, employee health care and special education. Most, if not all, of these costs drivers are mandated by the state.

(NYSASBO, The Education Dollar: A Look at Spending and Funding Trends, Sept. 2015)

State imposed mandates remain a significant driver of school budgets. When the tax cap was enacted, the Governor promised significant mandate reform to enable Districts to live within the new tax structure without significant program reductions. To date, mandate relief remains an illusion. In 2014, a diverse statewide coalition representing business, local governments and school boards renewed the call for relief:

The property tax cap was an historic step to finally place a meaningful control on the cost of government in New York State and its burden on taxpayers,” said Brian Sampson, executive director, Unshackle Upstate. Unfortunately, the success of the cap was always predicated upon the enactment of meaningful and structural mandate relief. Not until New York gets serious about eliminating the cost drivers that keep our property taxes among the highest in the nation – the Scaffold Law, Wicks Law and the Triborough Amendment, among others – will New York actually achieve the real reform necessary to get the upstate economy moving and its population growing. (Let NY Work: A Common Agenda for the Common Good, Press Release June, 2014)

The reality of the tax cap and the failure of mandate relief, have increased the importance of long range financial and reserve planning to help ensure that current decisions are in the best long-term interest of schools.
Without planning, fiscally-stressed localities sometimes try to limp along from year to year, spending down reserve funds or using various one-time revenues to keep afloat. But the practicality of those strategies is limited. As local governments ranging in size from New York City to Troy have discovered, putting off painful decisions doesn't make problems disappear — in fact, it usually makes them worse. Financial problems that remain hidden for a long time have a way of emerging suddenly as full-blown financial crises. (Office of the New York State Comptroller — Multiyear Financial Planning 2007, pg. 1)

In addition to urging schools to focus on planning, the New York State Comptroller has introduced a fiscal stress monitoring system to identify school districts that are currently in fiscal stress and to provide an early warning system to identify districts that are susceptible to future fiscal stress. This report includes the most recent fiscal stress indicators for the Penfield Central School District.

In November 2015, the Comptroller released an audit of Penfield's budget practices and reserves. After a thorough review of the District's finances, there were no findings related to fraud, abuse or other serious infractions. Additionally, the audit did not contain any comments on the following reserves:

- Bus Purchase Reserve
- Capital Reserve
- Worker's Compensation Reserve
- Tax certiorari Reserve
- Employee Benefits Accrued Liability Reserve
- Unemployment Reserve

The audit did have findings in four areas related to reserves:

- Budgeting — an overly conservative budget did not use the budgeted appropriated fund balance
- The Debt Service fund should be used to reduce outstanding debt
- The Retirement Contribution Reserve may be overfunded and should be examined
- The Liability reserve may be overfunded and should be examined

The district has moved to address these comments. At the May 2016 budget vote the voters authorized transfer of $1,564,785 from the liability reserve to a capital reserve for future construction projects. This leaves approximately $500,000 in the liability reserve to address future uninsured liabilities. This is the amount recommended by the District's insurance advisor.

The debt service fund balance was reduced by $1,000,000 or 19% as part of a plan to refinance and prepay outstanding debt. This plan was finalized in October of 2016 and will generate $3.4 million dollars a budgetary savings over the next nine years.

The district has not added funds other than interest to the retirement contribution reserve since fiscal year ending 2014.
The final comment regarding budgeting is addressed as part of Penfield's long term budget planning process. Penfield Central School District has a long history of responsible and conservative budgeting, balancing the needs of the instructional program with the community's desires, aspirations and ability to pay. The District prides itself on its responsible stewardship of the taxpayer's money. This commitment is reflected in the Boards 2019-20 Goals, Assumptions and Guidelines:

*Long Range Planning and Use of Reserves* - The current school financial environment, characterized by reduced state aid, property tax limitations, and increasing costs, will continue in future budget years. These challenges make multi-year budget planning crucial to effective management of the district. Accordingly, the District will continue to utilize and refine its 5 year planning process to inform decision making. This process will include:

1. Projections of future revenues and expenditures
2. Estimates of the impact of the "tax cap"
3. A plan for use of fund balance and reserves

The plan for the use of fund balance and reserves will include all available funds and is intended to ensure compliance with both law and with applicable guidance by the Comptroller.

This report is intended to fulfill the requirement of the Board goal.

**Fiscal Stress**

Evaluation of the financial condition and identification of fiscal stress in a school district is a complex undertaking. There are a great number of variables which have an effect on the overall financial condition; these variables can change quickly, and many are outside the control of local decision makers. However, the early identification of potential trouble is critical to success:

A first step to helping local governments in New York State deal with these fiscal challenges is to identify clearly those local governments and school districts that are moving towards, or are already in, fiscal stress. Such monitoring of the fiscal health of local governments and school districts should allow for early actions to prevent these entities from ending up in severe fiscal stress. Such preventative actions should result in less cost and less disruption to vital services. (*Office of the New York State Comptroller – Fiscal Stress Monitoring System, Jan. 2013, pg. 1*)

More simply:

"The point at which you notice a problem is directly related to the number of viable options you will have to solve it"  *Cliff Myers – CMyers ALM Mgt.*
Selection of variables and determining the best way to measure and include them in an analysis is the central challenge of a financial evaluation model. The graphic below displays how environmental factors interact with the organization to produce financial results.

**FACTORS AFFECTING FINANCIAL CONDITION**

(Images of a diagram showing factors affecting financial condition)

The key point is that financial condition is a function of both environmental factors and the school district’s response to those factors.

In 2013 the New York State Comptroller implemented a fiscal stress monitoring system intended to provide the public with objective information regarding the financial condition of their school district. After four years of experience, the system was revised in 2017. The current system uses six fiscal indicators and six environmental indicators for the evaluation. These factors were selected based on two criteria: the indicators needed to say something meaningful about the financial condition of the school district and they needed to be easily obtainable from existing data sources.

The Comptroller has not yet released scores based on 2017-18 data. However, the following two pages project the result of this forthcoming analysis.

## Penfield Central School District Environmental Indicators Scoring

### Estimated

<table>
<thead>
<tr>
<th>Category</th>
<th>Environmental Indicator</th>
<th>Purpose</th>
<th>Scoring - Points</th>
<th>Max. Points</th>
<th>Year</th>
<th>Penfield Data</th>
<th>Fiscal Stress Score</th>
</tr>
</thead>
</table>
| Poverty           | Percentage of Economically        | The level of poverty within a school district provides important insight into the service needs within a district. Districts with a high number of economically disadvantaged students may need to provide a different mix/level of support services. | 25 Points for values ≥ 75%  
16.67 Points for values ≥ 65% But < 75%  
8.33 Points for values ≥ 55% But < 65%  
0 Points for values < 55% | 25          | Prior Year | 18%           | 0                   |
|                   | Disadvantaged Students            |                                                                                                                                           |                                                                 |             |        |              |                     |
| Class Size        | Common Branch Class Size          | A district's class size is a measure of demand for services and provides insight into future costs for a school district. A large class size can require districts to hire more teachers, build new buildings, etc. | 15 Points for values ≥ 26  
10 Points for values ≥ 24 But < 26  
5 Points for values ≥ 22 But < 24  
0 Points for values < 22 | 15          | Prior Year | 21            | 0                   |
| Teacher Turnover  | Turnover Rate of All Teachers     | Teacher turnover is a measure of workforce stability in a school district and provides insight into future costs of a district, in the near term. A high teacher turnover rate can lead to increases in personnel expenditures.  | 15 Points for values ≥ 18%  
10 Points for values ≥ 14% But < 18%  
5 Points for values ≥ 10% But < 14%  
0 Points for values < 10% | 15          | Prior Year | 8.0%          | 0                   |
| Tax Base          | Four Year Average Change in       | Property value is a useful gauge of local economy health. A decline in this area may adversely affect real property taxes, a major revenue source for school districts.  | 15 Points for values ≤ -4%  
10 Points for values ≤ -2% But > -4%  
5 Points for values ≤ -1% But > -2%  
0 Points for values > -1% | 15          | 4 Years Avg.| 2.8%          | 0                   |
|                   | Home Value                        |                                                                                                                                           |                                                                 |             |        |              |                     |
| Budget Support    | Budget Vote Approval Percentage   | The level of community support for a school district's budget directly affects the school district's ability to pay normal operating costs. Additionally, because of the tax cap, the level of community support for a school district's budget directly affects the district's ability to raise real property taxes. | 15 Points for values ≤ 60%  
10 Points for values ≤ 65% But > 60%  
5 Points for values ≤ 70% But > 65%  
0 Points for values > 70% | 15          | Current Year| 82.1%         | 0                   |
| English Language  | Percent of English Language       | The number of students with English as a secondary language provides insight into the school district's resource requirements. A high number of English-language learners can lead to increases in personnel expenditures.  | 15 Points for values ≥ 9%  
10 Points for values ≥ 5% But < 9%  
5 Points for values ≥ 3% But < 5%  
0 Points for values < 3% | 15          | Prior Year | 2.0%          | 0                   |
| Learners          | Learners                          |                                                                                                                                           |                                                                 |             |        |              |                     |

Total 100

0
# Penfield Central School District Financial Indicators Scoring

## Estimated

<table>
<thead>
<tr>
<th>Category</th>
<th>Financial Indicator</th>
<th>Purpose</th>
<th>Scoring - Points</th>
<th>Fiscal Year</th>
<th>Max. Points</th>
<th>Penfield Data</th>
<th>Fiscal Stress Score</th>
</tr>
</thead>
</table>
| **Year End Fund Balance**     | 1 Unassigned Fund Balance | Since fund balance is the accumulated result of financial operations over time, it is an important measure of financial condition. The level of year-end fund balance affects the ability to deal with revenue shortfalls and expenditure overruns. A negative or low level of fund balance can adversely impact expected services. | 25 Points = Less Than or Equal to 1%  
16.67 Points = Greater than 1% but Less Than or Equal to 2%  
8.33 Points = Greater than 2% but Less Than or Equal to 3%  
0 Points = Greater than 3%  
25 Points = Less Than or Equal to 0%  
16.67 Points = Greater than 0% but Less Than or Equal to 5%  
8.33 Points = Greater than 5% but Less Than or Equal to 10%  
0 Points = Greater than 10% | Current Year | 25 | 4%   | 0 |
|                               | 2 Total Fund Balance |                                                                 |                                                                                                           | Current Year | 25 | 42%  | 0 |
| **Operating Deficits**        | 3 Operating Deficit | Annual operating results are a measure of recent financial operations and the direction that finances are headed. School districts that have multiple years of operating deficits can face financial hardship. This suggests that a budget is not structurally balanced - recurring revenues are insufficient to support recurring expenditures. | 20 Points = Deficits in 3/3 Fiscal Years Less Than or Equal to -1%  
13.33 Points = Deficits in 2/3 Fiscal Years Less Than or Equal to -1%  
6.67 Points = Deficit in 1/3 Fiscal Years Less Than or Equal to -1%  
0 Points = No Deficits Less Than or Equal to -1% In Last Three Fiscal Years | 2 Years Prior | 20 | No Deficits In Last Three Fiscal Years | 0 |
|                               |                    |                                                                 |                                                                                                           | Prior Year  | 130% | 0 |
|                               |                    |                                                                 |                                                                                                           | Current Year | 0 |
| **Cash Position**             | 4 Cash Ratio       | Another method of evaluating fiscal stress is to determine whether an entity has enough cash on hand to pay its bills. These indicators evaluate the ability to liquidate current liabilities and as well as fund the ensuing fiscal year’s operations. A low level of cash and short-term investments may lead to difficulty paying normal operating costs. | 10 Points = Less Than or Equal to 50% Last Fiscal Year  
6.67 Points = Greater Than 50% But Less Than or Equal to 75% Last Fiscal Year  
3.33 Point = Greater Than 75% But Less Than or Equal to 100% Last Fiscal Year  
0 Points = Greater Than 100% Last Fiscal Year | Current Year | 10 | 130% | 0 |
|                               | 5 Cash as % of Monthly Expenditures |                                                                 |                                                                                                           | Current Year | 10 | 222% | 0 |
| **Reliance on Short Term Cash Flow Debt** | 6 Short Term Cash Flow Debt Reliance | This indicator reflects borrowing for cash-flow purposes, to pay for normal operating costs. An increasing reliance on this type of borrowing suggests cash-flow problems that are worsening and may not be a fiscally prudent practice. | 10 Points = Change in Cash Flow Debt Amount > 10% or First year of Issuance  
6.67 Points = Change in Cash Flow Debt Amount >6.67% but < 10%  
3.33 Points = Change in Cash Flow Debt Amount >3.33% but < 6.67%  
0 Points = Change in Cash Flow Debt Amount ≤3.33% or No Issuance | Current and Prior Year | 10 | No Issuance | 0 |

Total: 100
The anticipated fiscal stress score for 2018 is 0 points. According to the scoring methodology 0-44.9 points results in “No Designation.” Based on the Comptroller's criteria, Penfield is not in fiscal stress. However, this analysis is a snapshot of a single moment in time. It does not say anything about possible future stress.

For example, one of the Comptroller’s stress criteria is the issuance of short-term borrowing such as revenue anticipation notes (RANs). The issuance of short-term debt indicates that the school has cash flow issues. Continued or increased reliance on these borrowings could indicate that the underlying financial issues are not being resolved. However, the simple lack of current borrowing does not mean that the district is somehow immune to future stress. It does not mean that the Board is making decisions that are in the best interest of the long-term financial health of the district. It simply means that at this moment in time, the measure does not indicate fiscal stress.

**Five Year Forecast**

The five-year budget forecast makes the transition from the snapshot provided by the analysis of financial condition to an actionable plan for the future.

Planning is also particularly helpful in identifying one aspect of fiscal stress that affects many of New York’s local governments, regardless of apparent current fiscal health – structural imbalances between revenues and expenditures. Simply put, local government costs have been growing more quickly than revenues. Expenditures have grown, on average, at nearly twice the rate of inflation – fueled by upward pressures caused by wages and salaries, healthcare costs and other employee benefits. Yet, revenues have grown more slowly or even declined.…..(Office of the New York State Comptroller – Multiyear Financial Planning 2007, pg. 1)

Penfield has adopted the model recommended by the Office of the New York State Comptroller which forecasts future revenues and expenditures based upon historical data. However, the development of reasonable assumptions for future events is the key to this model. Accordingly, district administrators continually revisit assumptions as additional information becomes available or as conditions change. The following assumptions were made for this planning process:
### Revenues

<table>
<thead>
<tr>
<th></th>
<th>2019-20</th>
<th>2020-21</th>
<th>2021-22</th>
<th>2022-23</th>
<th>2023-24</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Taxes</td>
<td>3.00%</td>
<td>2.27%</td>
<td>2.06%</td>
<td>2.00%</td>
<td>2.00%</td>
</tr>
<tr>
<td>Payments in Lieu of</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td>Per Schedule till 22-23 Then Flat</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales Tax</td>
<td>1.00%</td>
<td>1.00%</td>
<td>2.00%</td>
<td>1.00%</td>
<td>1.00%</td>
</tr>
<tr>
<td>Interest</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
<td>2.00%</td>
</tr>
<tr>
<td>State Aid</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
</tr>
<tr>
<td>Other</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Medicaid</td>
<td>-5.0%</td>
<td>-5.0%</td>
<td>-5.0%</td>
<td>-5.0%</td>
<td>-5.0%</td>
</tr>
<tr>
<td>Use of ERS Reserve</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**Notes**
- 19-20 Based on Issued Growth Factor Cap at 2%, 2% Subsequent Years
- 20-21 Based on Issued Growth Factor Cap at 2%, 2% Subsequent Years
- Improving rates
- Estimated State Aid Increases
- Services to Other Districts, etc.
- Declining Per Rules Changes
- Per 5 Year Plan

### Expenditures

<table>
<thead>
<tr>
<th></th>
<th>2019-20</th>
<th>2020-21</th>
<th>2021-22</th>
<th>2022-23</th>
<th>2023-24</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>3.20%</td>
<td>3.20%</td>
<td>3.20%</td>
<td>3.20%</td>
<td>3.20%</td>
</tr>
<tr>
<td>Employee Retirement</td>
<td>-2.0%</td>
<td>7.0%</td>
<td>6.0%</td>
<td>6.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Teachers Retirement</td>
<td>-11.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Health Insurance</td>
<td>11.0%</td>
<td>11.0%</td>
<td>11.0%</td>
<td>11.0%</td>
<td>11.0%</td>
</tr>
<tr>
<td>Other Benefits</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Equipment</td>
<td>1.0%</td>
<td>1.0%</td>
<td>1.0%</td>
<td>1.0%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Utilities</td>
<td>1.0%</td>
<td>1.0%</td>
<td>1.0%</td>
<td>1.0%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Contractual</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>BOCES</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Transfer to School Lunch</td>
<td>-2.0%</td>
<td>7.0%</td>
<td>6.0%</td>
<td>6.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Supplies</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Bus Purchase</td>
<td>$480K</td>
<td>$560K</td>
<td>$560K</td>
<td>$560K</td>
<td>$560K</td>
</tr>
<tr>
<td>Appropriation for</td>
<td>$3</td>
<td>$3</td>
<td>$3</td>
<td>$3</td>
<td>$3</td>
</tr>
<tr>
<td>Potential Capital Project</td>
<td>Million</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt Service</td>
<td>Per Schedule &amp; Anticipated Elem. Addition Debt</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
This set of assumptions produces the following model:

It is important to understand the impact of the compounding effects of the model. The sooner changes are made to reduce expenditures or to increase revenues, the greater the future impact. However, many of the items that impact the forecast (such as state aid increases) are beyond the control of the school district. Other items, while within our control, are currently unknown. For example, this model is currently based on salary increases of approximately 3%. Increases which are smaller or larger than this will have a significant impact on the results. The impact of these and many other decisions will have a great impact on the future financial stability of the school district.

With the onset of the Great Recession, local governments in New York State faced new challenges that threatened their fiscal health. How well any municipality has dealt with these challenges is a matter of how fiscally healthy they were to begin with, the specific local circumstances of their finances, and how aggressively local officials have moved to address these issues. Some localities are facing and overcoming these challenges; others are finding it more difficult to do so. (Office of the New York State Comptroller – New Fiscal Realities Challenge Local Governments, Aug. 2012, pg. 1)

**Budget Assumptions:**

Since New York State law mandates that expenditures can be no greater than the budget approved by the voters in May, the Penfield Central School District budgets conservatively to ensure that unanticipated expenditures do not result in mid-year budget cuts which would have an immediate impact on students. This practice has allowed the district to weather mid-year sales tax reductions, state aid holdbacks and negative impacts without impacting instructional programs. However, conservative budgeting can also result in budget surpluses at year-end. The Board of Education reviews any budget surpluses and determines the best use of these surpluses including transfers to voter or Board of Education approved reserves or to a reduction in the ensuing years tax levy.
These budgeting practices have been endorsed by the Moody’s Rating Agency, which in 2016 reaffirmed Penfield’s Aa2 (High Quality) bond rating, noting:

The Aa2 rating reflects management’s conservative budgeting practices which have resulted in a healthy reserve position and strong liquidity levels. The high quality rating reflects a trend of strong financial performance, a moderately sized tax base with above average wealth and income levels, and a manageable debt burden.

The following table is based on the Comptroller’s model for analyzing budget performance.

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Revenues</td>
<td>$83,167,655</td>
<td>$85,070,685</td>
<td>$87,096,395</td>
<td>$89,174,836</td>
<td>$90,826,964</td>
<td>$93,310,838</td>
<td>$95,600,347</td>
<td>$624,248,022</td>
</tr>
<tr>
<td>Actual Revenues</td>
<td>$82,269,723</td>
<td>$87,361,175</td>
<td>$86,895,970</td>
<td>$88,558,219</td>
<td>$91,371,114</td>
<td>$93,980,555</td>
<td>$96,311,633</td>
<td>$626,748,399</td>
</tr>
<tr>
<td>Variance</td>
<td>$ (981,932)</td>
<td>$ 2,290,490</td>
<td>$ (200,414)</td>
<td>$ (616,617)</td>
<td>$ 544,150</td>
<td>$ 669,717</td>
<td>$ 711,286</td>
<td>$ 2,500,377</td>
</tr>
<tr>
<td>% Variance</td>
<td>-1.09%</td>
<td>2.62%</td>
<td>-0.23%</td>
<td>-0.70%</td>
<td>0.60%</td>
<td>0.71%</td>
<td>0.74%</td>
<td>0.40%</td>
</tr>
<tr>
<td>Budgeted Appropriations</td>
<td>$78,059,820</td>
<td>$75,904,105</td>
<td>$82,746,664</td>
<td>$84,899,289</td>
<td>$86,003,554</td>
<td>$88,277,280</td>
<td>$90,237,323</td>
<td>$590,127,835</td>
</tr>
<tr>
<td>Budgeted Transfers</td>
<td>$ 5,108,336</td>
<td>$ 5,166,580</td>
<td>$ 4,349,752</td>
<td>$ 4,275,547</td>
<td>$ 4,823,410</td>
<td>$ 5,035,558</td>
<td>$ 5,265,024</td>
<td>$ 34,020,187</td>
</tr>
<tr>
<td>Total Budget</td>
<td>$83,167,656</td>
<td>$85,070,685</td>
<td>$87,096,395</td>
<td>$89,174,836</td>
<td>$90,826,964</td>
<td>$93,310,838</td>
<td>$95,600,347</td>
<td>$624,248,022</td>
</tr>
<tr>
<td>Actual Expenditures</td>
<td>$73,085,462</td>
<td>$75,995,648</td>
<td>$77,831,422</td>
<td>$79,931,815</td>
<td>$80,897,469</td>
<td>$82,009,792</td>
<td>$84,319,528</td>
<td>$554,071,136</td>
</tr>
<tr>
<td>Actual Transfers</td>
<td>$ 7,347,721</td>
<td>$ 7,333,438</td>
<td>$11,921,343</td>
<td>$ 8,373,966</td>
<td>$ 9,843,711</td>
<td>$ 5,573,331</td>
<td>$12,280,750</td>
<td>$ 62,674,260</td>
</tr>
<tr>
<td>Total Actual Expense</td>
<td>$80,433,183</td>
<td>$83,329,086</td>
<td>$89,752,765</td>
<td>$88,305,781</td>
<td>$90,741,181</td>
<td>$87,583,123</td>
<td>$96,600,278</td>
<td>$616,745,396</td>
</tr>
<tr>
<td>Variance (Budgeted Appropriations-Actual)</td>
<td>$ 4,974,158</td>
<td>$ 3,908,457</td>
<td>$ 4,915,242</td>
<td>$ 4,967,474</td>
<td>$ 5,106,085</td>
<td>$ 6,267,488</td>
<td>$ 5,917,795</td>
<td>$ 36,056,699</td>
</tr>
<tr>
<td>% Variance</td>
<td>6.81%</td>
<td>5.14%</td>
<td>6.32%</td>
<td>6.21%</td>
<td>6.31%</td>
<td>7.64%</td>
<td>7.02%</td>
<td>6.51%</td>
</tr>
<tr>
<td>Variance (Total Budget-Total Actual Expense)</td>
<td>$ 2,734,773</td>
<td>$ 1,741,599</td>
<td>$ (1,656,369)</td>
<td>$ 869,055</td>
<td>$ 85,783</td>
<td>$ 5,727,715</td>
<td>$ (1,099,931)</td>
<td>$ 7,402,626</td>
</tr>
<tr>
<td>% Variance Total</td>
<td>3.40%</td>
<td>2.09%</td>
<td>-2.30%</td>
<td>0.98%</td>
<td>0.09%</td>
<td>6.54%</td>
<td>-1.14%</td>
<td>1.20%</td>
</tr>
</tbody>
</table>

Overall, during the past six years, the general operations of the school district generated a fairly consistent surplus of approximately 6%. After transfers to support voter approved capital projects and the school lunch fund, the variance is typically reduced to approximately 1%. During the year ended 6/30/17, the district did not offer a capital project in anticipation of the elementary additions project referendum. As a result, the variance grew to 7.6%. In that year, all available funds were directed to the capital reserve as part of the financing plan for that project.

The scope of the elementary additions project was greatly reduced when the proposed bus garage was eliminated from the project. The accumulated reserves will be used in conjunction with a future capital project, which should include a replacement bus garage. This will exhaust the funds in the reserve. Over the course of the subsequent years, the district will need to begin rebuilding those reserves.

By law, the District may not overspend its budget – good budget practice indicates that a budget should be conservative enough to meet its obligations. For example, state law allows contingency appropriations of up to 10% for counties, towns and villages. Education Law does not contain provisions relative to school district contingency accounts and no state agency has established guidance.
Further, the District’s auditor has indicated that best practice requires that the minimum budget variance should be proportionate to the amount appropriated for reduction of taxes. That is, a District which has a large appropriated fund balance needs to develop a budget with enough variance to sustain and support that appropriation. Penfield’s appropriated fund balance of $2,071,599 represents 2.1% of the 2018-19 budget. Accordingly, the range of reasonable budget variance is between 5% on the high side and 2.5-3% on the low side.

The 2017 – 18 goal variance goal was 5%. The budget generated 7.0% for the year. During Budget development for the 2019-20 school year, the district will again target a 5% variance. This goal should be achieved by deferring revenue within the boundaries of the Tax Cap and by budgeting less conservatively.

The following section discusses available reserves.
Reserves

Overview

The establishment and funding of reserves is an important consideration in the maintenance of a sound financial plan for any school district. While strict adherence to state law 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. This concept is recognized by the New York State Comptroller:

Saving for future projects, acquisitions, and other allowable purposes is an important planning consideration for local governments and school districts. 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. (Office of the New York State Comptroller – Local Government Management Guide – Reserve Funds, Pg. 1)

The Penfield Central School District believes that the judicious use of reserves greatly reduces long-term borrowing costs, smooths large fluctuations in tax rates and minimizes the possibility of draconian mid-year budget cuts which would have a direct impact on students. It believes it is in the best interest of both the students and taxpayers to prudently establish and use reserves to weather the financial storms and uncertainties that will occur. Again, the Comptroller notes:

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). (Office of the New York State Comptroller – Local Government Management Guide – Reserve Funds, Pg. 2)

This quote reflects the two purposes for the establishment of reserves:

1. Saving money for a large, one time future expenditure. A capital reserve for the replacement of a roof is an example.
2. Reserves which are intended to protect the district against a large, currently unknown risk. An insurance liability reserve is an example of this type.
Legally established reserves can provide many benefits to the school district and to its taxpayers. However, these reserves can also cause confusion when their purpose is not clearly understood by the community. The purpose of this document is to detail Penfield's ongoing plan for use and maintenance of reserves.
$32,509,458 Reserve and Other Balance Composition as of June 30, 2018

- Insurance Reserves, $504,368, 2%
- Employee Benefit Accrued Liability, $83,095, 0%
- Retirement Contribution Reserve, $5,443,065, 17%
- Tax Certiorari Reserve, $1,159,830, 4%
- Unemployment Insurance Reserve, $148,165, 0%
- Workers Compensation, $148,165, 0%
- Bus Purchase Reserve, $5,630,264, 17%
- Debt Service Fund Balance, $4,261,908, 13%
- Capital Reserve, $15,130,598, 47%
## Penfield Central School District – Reserves

### Restricted Fund Balance

<table>
<thead>
<tr>
<th>Reserve</th>
<th>Audited Balance June 30, 2017</th>
<th>2017-18 Interest</th>
<th>2017-18 Use and Transfers Out</th>
<th>Balance June 30, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bus Purchase</td>
<td>3,764,704</td>
<td>8,983</td>
<td>(378,719)</td>
<td>5,630,264</td>
</tr>
<tr>
<td>Capital</td>
<td>17,831,243</td>
<td>45,598</td>
<td>(7,000,000)</td>
<td>15,130,598</td>
</tr>
<tr>
<td>Insurance</td>
<td>503,361</td>
<td>1,007</td>
<td></td>
<td>504,368</td>
</tr>
<tr>
<td>Unemployment</td>
<td>147,869</td>
<td>296</td>
<td></td>
<td>148,165</td>
</tr>
<tr>
<td>Tax Certiorari</td>
<td>712,563</td>
<td>1,454</td>
<td>(28,985)</td>
<td>1,159,830</td>
</tr>
<tr>
<td>Employee Benefits Accrued Liability</td>
<td>79,091</td>
<td>158</td>
<td></td>
<td>83,095</td>
</tr>
<tr>
<td>Employee Retirement</td>
<td>5,531,872</td>
<td>11,193</td>
<td>(100,000)</td>
<td>5,443,065</td>
</tr>
<tr>
<td>Workers’ Compensation</td>
<td>654,793</td>
<td>1,310</td>
<td></td>
<td>148,165</td>
</tr>
<tr>
<td><strong>Total Reserved Fund Balance</strong></td>
<td><strong>29,225,496</strong></td>
<td><strong>69,999</strong></td>
<td>(7,507,704)</td>
<td><strong>28,755,488</strong></td>
</tr>
</tbody>
</table>

12/4/2018
## Penfield Central School District – Reserves

### Other Sources of Funds

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Service Fund</td>
<td>4,249,960</td>
<td>11,948</td>
<td></td>
<td></td>
<td>4,261,908</td>
</tr>
<tr>
<td>Total Other Sources</td>
<td>4,249,960</td>
<td>11,948</td>
<td><strong>(4,046,681)</strong></td>
<td>4,046,681</td>
<td>4,261,908</td>
</tr>
</tbody>
</table>

| 12/4/2018 |

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<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unassigned Fund Balance</td>
<td>3,820,014</td>
<td>0</td>
<td>0</td>
<td>107,317</td>
<td>3,927,331</td>
</tr>
<tr>
<td>Assigned Appropriated Fund Balance</td>
<td>2,071,599</td>
<td>0</td>
<td>(2,071,599)</td>
<td>2,071,599</td>
<td>2,071,599</td>
</tr>
<tr>
<td>Total Other Sources</td>
<td>5,891,613</td>
<td>0</td>
<td>(2,071,599)</td>
<td>2,178,916</td>
<td>5,998,930</td>
</tr>
</tbody>
</table>
WORKERS COMPENSATION RESERVE

Authority: The purpose of this reserve fund is to pay for compensation benefits and other expenses authorized by Article 2 of the Workers' Compensation Law, and for payment of expenses of administering this self-insurance program. The reserve may be established by board action and is funded by budgetary appropriations and such other funds as may be legally appropriated (General Municipal Law, §6-j).

Balance June 30, 2017 $654,794
Interest Earned: $1,309
Balance June 30, 2018 $656,103

Timing of Transactions: Adjusted at 6/30 to reflect outstanding liabilities.

Ideal Balance: 100% of District’s liability.

Authorization: Board Resolution - May 27, 2014

Discussion:

Penfield was one of the founding members of a consortium of Monroe County school districts established in 1987 for the provision of self-insured workers compensation benefits. As of the 2017-18 budget year, our participation in this consortium has resulted in $3.5 million of savings to Penfield taxpayers. Countywide, the consortium has saved all participating school districts $47.8 million.

However, in recent years there have been a number of changes to the New York State Workers Compensation Program affecting the potential costs of workers compensation cases. These changes include increased weekly benefits, new fee schedules for health providers, and changes in benefit for non-scheduled permanent cases. As a result of these changes, as well as changes in the industry best practice for appropriately reserving outstanding cases, in 2014 the Consortium Board of Directors began a review of old and outstanding cases to ensure that they are adequately reserved. Preliminary indications were that approximately 105 of 781 outstanding cases needed reserve adjustments. These adjustments resulted in a $4.6 Million deficit fund balance for the plan. As a result of this potential exposure, Penfield established a reserve for Workers’ Compensation. The reserve was subsequently funded at $653,000.

Over the past four years, the consortium plan has performed well. The deficit declined from $4.6 million in 2014 to $1.0 million in 2017. As of June 30, 2018 the plan has a $1.1 million positive balance.
As part of the budget process for the 2018-19 year, the district discontinued use of this reserve to balance the general fund budget. The district will evaluate the necessity of this reserve over the next two budget cycles. If it appears that the Worker’s Compensation consortium has stabilized, consideration should be given to liquidating the reserve. The board will consider this as part of capital planning – the funds from the Worker’s Compensation reserve could be used to establish reestablish a capital reserve. It is anticipated that the existing capital reserves will be liquidated over the course of the next few years as part of the long-range capital plan.

UNEMPLOYMENT INSURANCE RESERVE

Authority: This reserve fund is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants. The reserve may be established by board action and funded by budgetary appropriations or other funds as may be legally appropriated (General Municipal Law, §6-m).

Balance June 30, 2016: $147,722
Interest Earned: $148
Balance June 30, 2017: $147,869
Interest Earned: $296
Balance June 30, 2018: $148,165

Timing of Transactions: Adjusted at 6/30 if necessary.

Ideal Balance: Approximately 1% of payroll or $432,000.

Authorization: Board Resolution (Re-adoption) September 9, 2014
Discussion: In the past six years, unemployment claims have ranged between $60,495 and $1,368. The ten-year average is $45,600. Because of the small size of this reserve, District practice has been to fund claims from the general fund, while maintaining the reserve for unusual increases in unemployment claims. Accordingly, there will be little year-to-year activity in the reserve. If used as the sole revenue for claims, the reserve would only be sufficient to absorb about 13 employees claiming 26 weeks of unemployment eligibility. ($420 x 26 weeks x 13 people = $141,960).

EMPLOYEE BENEFIT ACCRUED LIABILITY RESERVE

Authority: The governing board of any school district, by resolution, may establish a reserve for the purpose of funding the monetary value of accrued but unused sick leave, personal leave, vacation time, and any other forms of payment of accrued but unliquidated time earned by employees. Establishing or expending the reserve does not require voter approval. Expenditures may only be made for allowed cash payments earned by employees due upon their termination of employment (General Municipal Law, §6-p).

<table>
<thead>
<tr>
<th>Year</th>
<th>Balance</th>
<th>Interest Earned</th>
<th>Adjustments</th>
<th>New Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>$78,532</td>
<td>$79</td>
<td>$479</td>
<td>$79,090</td>
</tr>
<tr>
<td>2017</td>
<td>$79,090</td>
<td>$158</td>
<td>$3,846</td>
<td>$83,094</td>
</tr>
</tbody>
</table>

Timing of Transactions: Adjusted at 6/30 to reflect outstanding obligations.

Ideal Balance: Amount of the outstanding obligation.

Authorization: Board Resolution - June 16, 2009

Discussion: This reserve is for contractual entitlements that will be paid directly upon an employee’s termination. It does not include post-employment health benefits.

The Governmental Accounting Standards Board (GASB) has adopted standards requiring that Districts recognize their liability for retiree health insurance benefits on the school financial statements. Prior to this standard, the cost of retiree benefits was recognized on a “pay as you go” basis, with only the current year’s cost for retiree benefits expressed as an expense. The new rule requires that districts recognize the total obligation for retiree health as it is earned. That is, as employees work and earn credit toward their retirement, the value of those benefits must be recognized. The June 30, 2018 actuarial calculation of this obligation for Penfield is $143,830,619. This obligation is now reflected on the District’s balance sheet. However, there is no mechanism in place for districts to fund...
this outstanding obligation. Although the legislation authorizing municipalities to establish the required trust mechanism has been drafted and recommended by the Comptroller, it has not been adopted by the state legislature. Accordingly, there is no current mechanism to address the funding of this obligation.

In contrast, General Municipal Law §6-p permits certain post-retirement benefits based on compensated absences such as accumulated sick days to be reserved in the Employee Benefits Accrued Liability Reserve. In Penfield's case, one bargaining unit has the right to a payment based on accumulated unused sick days at retirement. The liability these sick days represent may properly be reserved and paid from an EBLAR.

The similarity between the trust required for funding the retiree health liability and a reserve for EBLAR has caused a confusion. The Comptroller found that many districts have overfunded an EBLAR, believing it could be used for the retiree health benefits. Penfield's EBLAR reserve was established in June of 2009 and benefited from the Comptroller's guidance on this topic. The reserve meets with all Comptrollers' guidance on this topic and has been reviewed by our auditor.

TAX CERTIORARI RESERVE

Authority: The governing board of any school district, by resolution, may establish a reserve to refund taxes of the current year in tax certiorari proceedings. Establishing or expending the reserve does not require voter approval. Amounts not necessary to refund taxes must be returned to the unreserved fund balance of the general fund by the first day of the fourth fiscal year following the year in which the amounts were deposited into the reserve. (Education Law §3651, Sub.1a, 3a)

<table>
<thead>
<tr>
<th>Balance June 30, 2016:</th>
<th>$767,493</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Earned:</td>
<td>$848</td>
</tr>
<tr>
<td>Disbursements:</td>
<td>$0</td>
</tr>
<tr>
<td>Transfers to General Fund</td>
<td>($55,778)</td>
</tr>
<tr>
<td>Balance June 30, 2017:</td>
<td>$712,563</td>
</tr>
<tr>
<td>Interest Earned:</td>
<td>$1,454</td>
</tr>
<tr>
<td>Disbursements:</td>
<td>$0</td>
</tr>
<tr>
<td>Transfer to General Fund</td>
<td>($28,985)</td>
</tr>
<tr>
<td>Board Authorized Transfer</td>
<td>$474,798</td>
</tr>
<tr>
<td>Balance June 30, 2018:</td>
<td>$1,159,830</td>
</tr>
</tbody>
</table>

Timing of Transactions: Funds for settled claims will be withdrawn from the reserve upon board resolution. The reserve funding will be adjusted by board resolution at 6/30 to reflect outstanding obligations.

Ideal Balance: Board determined percentage of outstanding cases, not to exceed 100%.

Authorization: Board Resolution - August 14, 2001
Discussion: This reserve was established by Board resolution in September of 2001. The District reserves between 50% and 100% of the outstanding tax certiorari cases. The amount of outstanding cases is examined in June of each year and a decision is made by the Board of Education regarding the appropriate level of funding.

The district increases the reserve when it falls below 50% of the outstanding claims and returns funds over a five year basis to the taxpayers if settlements resolved in the reserve becoming overfunded. The June 2018 analysis of the reserve showed that the value of outstanding cases had increased. Accordingly, the board authorized an increase to the reserve of $474,798 to bring the reserve balance to 75% of the outstanding liabilities.

The number of outstanding cases has continued to increase. As of December 2018, the value of outstanding cases is $2,457,268. Accordingly, the reserve is currently funded at the 47% level. However, at least two cases may be moving toward settlement. Based on the information at hand, the reserve balance should be increased. Fully funding the reserve would require $1,297,438. Funding to the 75% level would require a contribution to reserve of $683,121. The District should fund to at least this level.

In the future, it is expected that additional adjustments will be necessary based on new filing, discontinuances, etc. Accordingly the plan should be revisited in June and adjusted as appropriate.

CAPITAL RESERVE

Authority: The Capital Reserve Fund is used to pay the cost of any object or purpose for which bonds may be issued. Voter authorization is required for both the establishment of the reserve and for payments from the reserve. The form of the required legal notice for the vote on establishing the reserve and the form of the proposition to be placed on the ballot are set forth in §3651 of the Education Law.

The District has used voter approved capital reserves to fund projects on a pay as you go basis for many years. Most recently, $7,000,000 was used from the 2014 Capital Reserve was used to assist funding the 2018 Elementary Additions Project.

The District currently maintains capital reserves under two authorizations: The “2014 Capital Reserve” and the “2016 Capital Reserve”.

The 2014 Capital reserve was established by public vote (February 13, 2014 - 763 Yes/121 No) as follows:

BE IT RESOLVED, by the Board of Education of the Penfield Central School District, New York, as follows:
Section 1. Pursuant to Section 3651 of the Education Law there is hereby established a capital reserve fund for the Penfield Central School District, New York, which shall be designated as the “2014 Capital Reserve Fund” of said School District.
Section 2. Such 2014 Capital Reserve Fund is hereby established for financing, in whole or in part, the following objects or purposes of said School District:
Construction, reconstruction and improvement of school buildings and facilities, including original furnishings, equipment, machinery or apparatus incidental thereto, and the purchase of furnishings, equipment, machinery or apparatus separately; provided that such capital costs are an
object or purpose that would be eligible for financing under the Local Finance Law, and costs incidental thereto.

Section 3. The ultimate amount of such Fund shall be $13,000,000 plus earnings thereon.

Section 4. The probable term of such Fund shall be ten (10) years, after which time no further funds may be transferred to such Fund, unless previously extended by the voters, but such Fund shall continue in existence until liquidated in accordance with the Education Law or until the funds are exhausted.

Section 5. The source from which the funds for such Fund will be obtained is as follows: (i) an initial deposit consisting of the outstanding balance in the existing 2006 Capital Reserve Fund, plus earnings thereon (approximately $6,755,237), and (ii) amounts from budgetary appropriations from time to time, and (iii) unappropriated fund balance made available by the Board of Education from time to time, and (iv) New York State Aid received and made available by the Board of Education from time to time, all to the extent permitted by law.

Section 6. This resolution shall take effect upon the approval thereof by a majority of the qualified voters of said School District voting on a proposition therefor submitted at a special district meeting of said School District, the details of which shall be specified by a further resolution of this Board of Education. Upon such approval, no further action of this Board of Education will be required to perfect the establishment of such 2014 Capital Reserve Fund.

The 2016 Capital reserve was established by public vote (May 17, 2016 959 - Yes/ 335 No) as follows:

Resolved, that the Board of Education of the Penfield Central School District is hereby authorized to establish a Capital Reserve Fund pursuant to Section 3651 of the Education Law (to be known as the "2016 Building Capital Reserve Fund") with the purpose of such fund being to finance construction, reconstruction, improvement and equipping of school buildings and facilities, and the acquisition of land, or rights in land; such capital costs being of a type that would be eligible for financing under the local finance law, and costs incidental thereto, the ultimate amount of such fund to be $15,000,000, plus earnings thereon, the probable term of such fund to be 10 years, but such fund shall continue in existence until liquidated in accordance with the Education Law or until the funds are exhausted, and the sources from which the funds shall be obtained for such Reserve are (i) an initial deposit of $1,564,785 from the existing Insurance Reserve Fund, and (ii) amounts from budgetary appropriations from time to time, and (iii) unappropriated fund balance made available by the Board of Education from time to time, and (iv) New York State Aid received and made available by the Board of Education from time to time, all as permitted by law.

**Combined Reserve Balances**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Reserves Balance June 30, 2015</td>
<td>$9,878,195</td>
</tr>
<tr>
<td>Interest Earned</td>
<td>$4,902</td>
</tr>
<tr>
<td>Voter Authorized Project Funding</td>
<td>($199,000)</td>
</tr>
<tr>
<td>Board Authorized Transfer</td>
<td>$1,100,740</td>
</tr>
<tr>
<td>Transfer from Insurance Reserve</td>
<td>$1,564,785</td>
</tr>
<tr>
<td>Capital Reserves Balance June 30, 2016</td>
<td>$12,349,622</td>
</tr>
<tr>
<td>Interest Earned</td>
<td>$9,602</td>
</tr>
<tr>
<td>Voter Authorized Project Funding</td>
<td>$0</td>
</tr>
<tr>
<td>Board Authorized Transfer</td>
<td>$5,472,020</td>
</tr>
<tr>
<td>Capital Reserves Balance June 30, 2017</td>
<td>$17,831,244</td>
</tr>
</tbody>
</table>

25
Interest Earned: $45,599
Voter Authorized Project Funding: ($7,000,000)
Board Authorized Transfer: $4,253,757

Capital Reserves Balance June 30, 2018: $15,130,600

Timing of Transactions: Funds for voter approved projects will be transferred to the capital fund in the month following the referendum. Funding to the reserve will be made based on the original authorization and will be transferred by board resolution at 6/30.

Ideal Balance – may not exceed the voter authorized limit, plus accumulated interest earnings.

Discussion: The Penfield Central School District has used capital reserves to its advantage for many years. A capital reserve allows the District to save money in anticipation of a renovation or addition to a building. Funding building projects in this fashion offers the district two advantages:

1. The use of cash financing avoids the interest charges associated with borrowing to accomplish the same result.
2. The current building aid formula provides state aid to the District for cash expenditures as if it had borrowed. That is, state aid is provided on interest expenses, even though those expenses were avoided. This provides a future revenue stream to the budget.

In short, the use of cash financing through capital reserves is prudent financial planning, avoids the expense of bond interest and increases state aid to the district.

The need for future capital projects are driven by the state required Building Condition survey, by the District’s Five Year Plan and by enrollment changes.

The Regulations of the Commissioner of Education require that school districts periodically complete a Building Condition Survey and Five Year Capital Facilities Plan. The goal of the five-year plan is to collect, coordinate, analyze, and prioritize facility infrastructure and building program needs on a district-wide basis. The Building Condition Survey presented to the Board of Education at the December 8, 2015 meeting indicated that the District’s potential future needs and desires total $104,027,313. One significant priority of that (and several previous) building condition surveys is the replacement of the District’s inadequate bus garage and buildings and grounds facilities on 5 Mile Line Road.

Additionally, after several years of decline, enrollment in the district has begun to rise. The increasing number of students, combined with programmatic changes including the implementation of full day kindergarten and AIS has resulted in space constraints at the elementary schools.

Accordingly, the district worked during the 2018-19 school year toward a referendum to address those issues. The eventual $42,310,000 plan called for elementary school additions, the purchase of land and the construction of a new shared transportation/buildings and grounds facility on that site. The financing plan called for a
$17,000,000 withdrawal from the capital reserve, in addition to funding from the debt service fund and from new debt.

However, difficulties with the proposed building site led to the cancellation of the planned vote. After review, the Board elected to offer a project for approval that would address the elementary space needs. In May of 2018 the voters approved $22,588,000 for elementary renovations and additions as well as items related to the building condition survey at the High School and Bay Trail. This reduced plan was supported by $7 million from the capital reserve.

The District utilizes a board established Facilities Committee to guide and advise on necessary capital projects. This committee is currently meeting to plan for the next building condition survey (which is due in 2021) as well as develop alternatives for the bus garage/maintenance building. If suitable land can be acquired, the district intends to pursue future development of a bus garage/maintenance facility. It is expected that the existing capital reserves will be needed to offset the local share of this project.

**CAPITAL RESERVE - BUS PURCHASE RESERVE**

**Authority:** The Bus Reserve Fund is a capital reserve specified to be used to pay for bus purchases. Voter authorization is required for both the establishment of the reserve and payments from the reserve. The form of the required legal notice for the vote on establishing the reserve and the form of the proposition to be placed on the ballot are set forth in §3651 of the Education Law.

The District has maintained a bus purchase reserve for many years. This reserve is used to stabilize the impact of variations in bus purchase on the taxpayers. In each year, a specified portion of the year’s bus purchase is supported by general fund, with the remainder from the bus purchase reserve. The voters reauthorized the reserve in May 2017 as follows:

Resolved that the Board of Education of the Penfield Central School District is hereby authorized to establish a Capital Reserve Fund pursuant to Section 3651 of the Education Law (to be known as the “2017 School Bus Reserve Fund”), with the purpose of such fund being to finance the purchase of school buses, vehicles and equipment, and costs incidental thereto, the ultimate amount of such fund to be $6,000,000, plus earnings thereon, the probable term of such fund to be 10 years, and the sources from which the funds shall be obtained for such Reserve are (i) an initial deposit of the outstanding balance of the 2011 School Bus Reserve Fund (approximately $2,704,429 as of March 2, 2017) plus interest thereon, and (ii) amounts from budgetary appropriations from time to time, and (iii) unappropriated fund balance made available by the Board of Education from time to time, and (iv) New York State Aid received and made available by the Board of Education from time to time, all as permitted by law.

<table>
<thead>
<tr>
<th>Balance June 31, 2016</th>
<th>$2,704,429</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Earned</td>
<td>$2,101</td>
</tr>
<tr>
<td>Voter Authorized Transfer</td>
<td>($544,174)</td>
</tr>
</tbody>
</table>
Balance June 30, 2017: $3,764,704
  Interest Earned: $8,982
  Voter Authorized Transfer ($378,719)
  Board Authorized Transfer $2,235,296
Balance June 30, 2018: $5,630,263

**Timing of Transactions:** Funds voter approved bus purchases will be transferred to the capital fund in the month following the referendum. Funding to the reserve will be made based on the original authorization and will be transferred by board resolution at 6/30.

**Ideal Balance** – may not exceed the $6,000,000 voter authorized limit, plus accumulated interest earnings.

**Authorization:** Public Vote, May 16, 2017 - 1,142 Yes/263 No

**Discussion:** The district implemented the use of the current reserve plan with the 2013-14 budget. This plan relies heavily on the bus purchase reserve in the short term, while gradually transitioning the expense back into the general fund. Future budgets would continue to use the reserve while gradually building the expense back into the general fund. The hope was that this phased plan would assist the District in managing difficult budgets while maintaining the fleet and providing for future replacements when the reserve was exhausted. Eventually, the plan would both deplete the reserve while gradually building the necessary bus purchases back into the general fund budget. This plan is shown graphically below.
This plan is being reevaluated. Consideration needs to be given to budget management under the tax cap – it may be prudent to consider revising the plan to increase the general fund appropriation during years when there is cap space. This would result in a more dynamic plan than the current plan based on a scheduled increase. However, it would allow for increased flexibility and better budget management.

**INSURANCE RESERVE**

**Authority:** This reserve fund is used to pay uninsured losses, judgments, actions or claims, as well as incidental costs and professional services connected with the investigation and settlement of claims. The reserve is funded by budgetary appropriations or amounts transferred from other reserve funds established under the General Municipal Law subject to permissive referendum. The amount that can be paid into the reserve during each fiscal year is limited to 5% of the annual budget. (General Municipal Law, §6-n).

<table>
<thead>
<tr>
<th>Year</th>
<th>Balance June 30</th>
<th>Interest Earned</th>
<th>Disbursements</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>$502,071</td>
<td>$1,290</td>
<td>($0)</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>$503,361</td>
<td>$1,007</td>
<td>($0)</td>
<td></td>
</tr>
</tbody>
</table>

29
Ideal Balance: $500,000 plus any known outstanding potential losses.

Timing of Transactions: Adjusted at 6/30 if necessary.

Authorization: Board Resolution - June 4, 1996

Discussion: This reserve is not intended for use on an ongoing basis; rather, it protects the District in the case of a catastrophic event. However, minor disbursements have been made in recent years as the district has used the reserve to fund uninsured, unanticipated losses.

One of the recommendations of the 2015 comptrollers audit was to examine the level of funding in this reserve based on exposure and historical usage. The District’s insurance advisor recommends that a minimum of $500,000 be retained to cover potential uninsured costs. The remaining funds (approximately $1,564,785) were transferred to begin funding the newly created 2016 Capital reserve.

The balance in this reserve should be reviewed annually in light of any settlements. The reserve should be maintained at $500,000 plus an amount adequate to cover any potential known uninsured losses.

RETIREMENT CONTRIBUTION RESERVE

Authority: The governing board of a school district, by resolution, may establish a reserve for the purpose of financing retirement contributions made to the NY State and Local Employees’ Retirement System. Establishing or expending the reserve does not require voter approval. Expenditures may only be made pursuant to a board resolution and must be used to finance retirement contributions (General Municipal Law, §6-1).

Balance June 30, 2016: $5,775,971
Interest Earned: $5,901
BOE Transfer from General Fund: $0
Appropriated to the 2016-17 budget: ($250,000)
Balance June 30, 2017: $5,531,872
Interest Earned: $11,193
BOE Transfer from General Fund: $0
Appropriated to the 2017-18 budget: ($100,000)
Balance June 30, 2018: $5,443,065

Ideal Balance: In previous years, the district attempted to calculate an ideal balance based on anticipated ERS rates and estimated contributions. In an effort to improve this methodology, Monroe County districts were surveyed to determine best practices. The majority of districts target their ideal balance based on 3-5 years of average contributions. This methodology is more transparent and reflects the best practice the county. Accordingly, the reserve target
will be set at four times the five-year average contribution. For 2018-19 this target is $5,750,136.

**Timing of Transactions:** Adjusted at 6/30 if necessary.

**Authorization:** Board Resolution - June 21, 2005

**Discussion:** The purpose of this reserve is to set aside available surplus to provide a source of funds to limit the property tax impact of increases in employer contribution rates for the Employees Retirement System. This reserve was authorized by the state legislature in reaction to the significant increases in retirement contribution rates that municipalities and school districts were facing.

The expected long term contribution rate for the Employees Retirement System is approximately 11% of salary, if the retirement fund earns 8.0% on its investments. The system has recently lowered its expected rate of return to 7%, which will ultimately increase employer contributions. The District’s intent is to reserve against short term increases in the rate.

Retirement system rates (the required employer contribution) have been a significant source of budget stress in recent years. The Employees Retirement fund lost 26.3% of its value for the year ended March 31, 2009. This loss was followed by several years of very significant rate increases. However, this trend appears to have moderated – the rate has been gradually declining. Rates for the 2019-2020 budget year will continue to decline, from 14.9% in 2018-19 to 14.6 in 2019-20.

This reserve is appropriately funded. Usage over the next five years should depend upon future ERS rates and the overall status of the District’s budget. The district should plan on using additional funds from the reserve in a raising rate environment in times of fiscal stress. The actual use will depend on budget performance in any given year. As budgets tighten and as rates rise, the reserve use will accelerate.
Although not a reserve, the District does maintain a Debt Service fund which may be used for the payment of long term obligations.

DEBT SERVICE FUNDS

Authority: Penfield maintains a debt service fund. A Debt service fund is separate from the general fund and is used to account for the accumulation of resources for the payment of principal and interest on long term debt. These funds are primarily derived from interest earnings on monies obligated to capital project. These funds may only be used for the reduction of debt.

Balance June 30, 2017: $4,249,961
  Interest Earned: $11,947
  Disbursements: $0
Balance June 30, 2018: $4,261,908

Discussion:

This fund increased significantly through interest earnings on the funds used for the district’s $73,025,000 capital project. Our financial advisor had previously recommended that the District maintain funds against potential state aid changes until final cost reports were filed. The last of these reports were filed during the 2014-15 school year. Accordingly, this reserve may be released for reduction of the debt associated with the project.

In early 2016-2017 the district refinanced $28,275,000 of debt associated with the $73,025,000 project. This debt had been issued in 2009 and 2010 and had an average interest rate of 3.9%. The refinancing closed in October 2016 with a new average interest rate of 1.4%. The district used $1,000,000 of debt service funds and $1,000,000 of current funds to prepay outstanding bonds. As a result of the interest rate reduction and the prepayment, the refinancing will generate $3,387,114 in budgetary savings over the next nine years. The refinancing reduced the debt service reserve by approximately $1 million as shown above.
In addition to reserves the district also has an Appropriated, Undesignated and Non-Spendable fund balance. Fund balances are used for the following purposes:

**ASSIGNED APPROPRIATED FUND BALANCE**

Purpose: Planned reduction in fund balance to reduce the property tax levy necessary to support the current budget.

<table>
<thead>
<tr>
<th>Year</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30, 2016</td>
<td>$2,071,599</td>
</tr>
<tr>
<td>June 30, 2017</td>
<td>$2,071,599</td>
</tr>
<tr>
<td>June 30, 2018</td>
<td>$2,071,599</td>
</tr>
</tbody>
</table>

Ideal Balance: The designation of fund balance represents a “one-shot” revenue that cannot be anticipated to be available in the ensuing year's budget. Overuse can cause the depletion of available fund balance, ultimately leading to spikes in the property tax rate. It is projected the current designated fund balance is sustainable for the foreseeable future. Generally, best practice dictates that appropriated fund balance should not exceed 1-2% of the budget.

Currently, the assigned appropriated fund balance represents 2.1% of budget.

**UNASSIGNED FUND BALANCE**

Purpose: Used to fund expenditures from July through September of the ensuing year, prior to the inflow of property tax receipts. Also provides a source of funds for unanticipated increases in expenditures, decreases in revenue and interruptions in cash flow.

The June 2018 balance represents 4.0% of budget.

<table>
<thead>
<tr>
<th>Year</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30, 2016</td>
<td>$3,732,433</td>
</tr>
<tr>
<td>June 30, 2017</td>
<td>$3,820,014</td>
</tr>
<tr>
<td>June 30, 2018</td>
<td>$3,927,331</td>
</tr>
</tbody>
</table>

Ideal Balance: By law, the undesignated fund balance is limited to 4% of the ensuing year’s budget. This is generally considered to be the ideal balance.

**NON-SPENDABLE FUND BALANCE**

Purpose: This consists of assets that are inherently non-spendable in the current period. This includes prepaid items and the long-term portions of loans receivable. Penfield uses this to reserve pre-paid amounts for Federal grants.

Balance June 30, 2016: $751,115
Balance June 30, 2017: $751,115
Balance June 30, 2018: $823,859

Ideal Balance: The non-spendable balance is set based on an estimate of receivables due from the Federal government.

The following reserves are not currently funded by the School District:

REPAIR RESERVE

Authority: 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. Voter approval is required to fund this reserve. Expenditures from this reserve may be made only after a public hearing has been held, 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 (General Municipal Law, §6-d).

Discussion: Penfield Central School District does not maintain this reserve. However, it is worthwhile to consider this reserve for anticipated repairs to the District Office which requires significant maintenance due to its age.

PROPERTY LOSS RESERVE AND LIABILITY RESERVE

Authority: This reserve fund is used to pay for property loss and liability claims incurred. Separate funds for property loss and liability claims are required and these reserves may not in total exceed 3% of the annual budget or $15,000 whichever is greater. (Education Law, §1709, Subdivision 8-c).

Discussion: The district does not currently have a property loss reserve.
Appendix A

Tax Certiorari
<table>
<thead>
<tr>
<th>Petitioner(s)</th>
<th>Town</th>
<th>Year</th>
<th>Atty.</th>
<th>Parcel ID Number</th>
<th>Assessment</th>
<th>Claimed Assessment</th>
<th>Alleged Overassessment</th>
<th>Rate</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clover Blossom</td>
<td>Brighton</td>
<td>2018-2019</td>
<td>HSE</td>
<td>122.16-1-2.11</td>
<td>10,244,300</td>
<td>2,561,075</td>
<td>7,683,225</td>
<td>24.72</td>
<td>189,945</td>
</tr>
<tr>
<td>Clover Blossom</td>
<td>Brighton</td>
<td>2018-2019</td>
<td>HSE</td>
<td>122.16-1-2.12</td>
<td>2,846,100</td>
<td>711,525</td>
<td>2,134,575</td>
<td>24.72</td>
<td>52,771</td>
</tr>
<tr>
<td>Deal Road Associates (520 Panorama)</td>
<td>Penfield</td>
<td>2016-2017</td>
<td>HSE</td>
<td>123.20-2-38</td>
<td>1,332,500</td>
<td>500,000</td>
<td>832,500</td>
<td>25.48</td>
<td>21,213</td>
</tr>
<tr>
<td>Deal Road Associates (520 Panorama)</td>
<td>Penfield</td>
<td>2017-2018</td>
<td>HSE</td>
<td>123.20-2-38</td>
<td>1,332,500</td>
<td>500,000</td>
<td>832,500</td>
<td>25.44</td>
<td>21,181</td>
</tr>
<tr>
<td>Grand Vie Village Wood</td>
<td>Penfield</td>
<td>2018-2019</td>
<td>HSE</td>
<td>139.10-2-5.WATR</td>
<td>1,730,200</td>
<td>432,550</td>
<td>1,297,650</td>
<td>26.02</td>
<td>33,769</td>
</tr>
<tr>
<td>Grand Vie Village Wood</td>
<td>Penfield</td>
<td>2018-2019</td>
<td>HSE</td>
<td>139.10-2-5.MAIN</td>
<td>4,870,000</td>
<td>1,217,500</td>
<td>3,652,500</td>
<td>26.02</td>
<td>95,049</td>
</tr>
<tr>
<td>Hidden Creek Development (2250 Penfield Road)</td>
<td>Penfield</td>
<td>2017-2018</td>
<td>HSE</td>
<td>140.01-1-10</td>
<td>20,286,000</td>
<td>9,030,000</td>
<td>11,256,000</td>
<td>25.44</td>
<td>287,145</td>
</tr>
<tr>
<td>Hidden Creek Development (2250 Penfield Road)</td>
<td>Penfield</td>
<td>2018-2019</td>
<td>HSE</td>
<td>140.01-1-10</td>
<td>20,286,000</td>
<td>8,550,000</td>
<td>11,736,000</td>
<td>26.02</td>
<td>395,463</td>
</tr>
<tr>
<td>Home Depot</td>
<td>Penfield</td>
<td>2015-2016</td>
<td>HSE</td>
<td>138.08-1-41.1</td>
<td>7,766,000</td>
<td>5,000,000</td>
<td>2,766,000</td>
<td>25.55</td>
<td>70,883</td>
</tr>
<tr>
<td>Home Depot</td>
<td>Penfield</td>
<td>2016-2017</td>
<td>HSE</td>
<td>138.08-1-41.1</td>
<td>7,766,000</td>
<td>5,000,000</td>
<td>2,766,000</td>
<td>25.48</td>
<td>70,480</td>
</tr>
<tr>
<td>Home Depot</td>
<td>Penfield</td>
<td>2017-2018</td>
<td>HSE</td>
<td>138.08-1-41.1</td>
<td>7,766,000</td>
<td>5,000,000</td>
<td>2,766,000</td>
<td>25.44</td>
<td>70,374</td>
</tr>
<tr>
<td>Home Depot</td>
<td>Penfield</td>
<td>2018-2019</td>
<td>HSE</td>
<td>138.08-1-41.1</td>
<td>7,766,000</td>
<td>4,750,000</td>
<td>3,016,000</td>
<td>26.02</td>
<td>78,485</td>
</tr>
<tr>
<td>Limestone Development (100 Elderwood Cl.)</td>
<td>Penfield</td>
<td>2017-2018</td>
<td>HSE</td>
<td>125.03-2-55.1</td>
<td>8,920,400</td>
<td>4,789,000</td>
<td>4,131,400</td>
<td>25.44</td>
<td>105,114</td>
</tr>
<tr>
<td>Limestone Development (100 Elderwood Cl.)</td>
<td>Penfield</td>
<td>2018-2019</td>
<td>HSE</td>
<td>125.03-2-55.1</td>
<td>8,920,400</td>
<td>4,549,550</td>
<td>4,370,850</td>
<td>26.02</td>
<td>113,743</td>
</tr>
<tr>
<td>Limestone Development (300 Elderwood Cl.)</td>
<td>Penfield</td>
<td>2017-2018</td>
<td>HSE</td>
<td>125.03-2-55.2</td>
<td>676,500</td>
<td>100,000</td>
<td>576,500</td>
<td>25.44</td>
<td>14,668</td>
</tr>
<tr>
<td>Limestone Development (300 Elderwood Cl.)</td>
<td>Penfield</td>
<td>2018-2019</td>
<td>HSE</td>
<td>125.03-2-55.2</td>
<td>676,500</td>
<td>95,000</td>
<td>581,500</td>
<td>26.02</td>
<td>15,132</td>
</tr>
<tr>
<td>Nalge Nunc</td>
<td>Penfield</td>
<td>2018-2019</td>
<td>HSE</td>
<td>138.08-1-50</td>
<td>105,600</td>
<td>47,500</td>
<td>58,100</td>
<td>26.02</td>
<td>1,512</td>
</tr>
<tr>
<td>Nalge Nunc</td>
<td>Penfield</td>
<td>2018-2019</td>
<td>HSE</td>
<td>138.08-1-51</td>
<td>415,500</td>
<td>190,000</td>
<td>225,500</td>
<td>26.02</td>
<td>5,868</td>
</tr>
<tr>
<td>Nalge Nunc</td>
<td>Penfield</td>
<td>2018-2019</td>
<td>HSE</td>
<td>138.08-1-52</td>
<td>23,100</td>
<td>9,500</td>
<td>13,600</td>
<td>26.02</td>
<td>354</td>
</tr>
<tr>
<td>Nalge Nunc</td>
<td>Penfield</td>
<td>2018-2019</td>
<td>HSE</td>
<td>138.08-1-54</td>
<td>425,000</td>
<td>190,000</td>
<td>235,000</td>
<td>26.02</td>
<td>6,115</td>
</tr>
<tr>
<td>Nalge Nunc</td>
<td>Penfield</td>
<td>2018-2019</td>
<td>HSE</td>
<td>138.08-1-56.1</td>
<td>9,278,200</td>
<td>4,750,000</td>
<td>4,528,200</td>
<td>26.02</td>
<td>117,387</td>
</tr>
<tr>
<td>Nalge Nunc</td>
<td>Penfield</td>
<td>2018-2019</td>
<td>HSE</td>
<td>138.08-1-56.1</td>
<td>64,700</td>
<td>9,500</td>
<td>55,200</td>
<td>26.02</td>
<td>1,436</td>
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<td>New Monroe Real Estate, LLC (1672 Penfield Rd. - Vet.)</td>
<td>Penfield</td>
<td>2018-2020</td>
<td>HSE</td>
<td>139.05-1-57</td>
<td>459,200</td>
<td>218,500</td>
<td>240,700</td>
<td>26.02</td>
<td>6,264</td>
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<tr>
<td>Regional Retail Properties (PopEyes)</td>
<td>Penfield</td>
<td>2015-2016</td>
<td>HSE</td>
<td>138.08-1-60</td>
<td>406,800</td>
<td>150,000</td>
<td>256,800</td>
<td>25.55</td>
<td>6,562</td>
</tr>
<tr>
<td>Property Name</td>
<td>Region</td>
<td>Address</td>
<td>Year/Year</td>
<td>Code/Code</td>
<td>Value(Value)</td>
<td>Value(Value)</td>
<td>Value(Value)</td>
<td>Value(Value)</td>
<td>% Reserve % Reserve</td>
</tr>
<tr>
<td>---------------------------------------------------</td>
<td>---------</td>
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</tr>
<tr>
<td>Regional Retail Properties (PopEyes)</td>
<td>Penfield</td>
<td>138.08-1-60</td>
<td>2016-2017</td>
<td>HSE</td>
<td>406,800</td>
<td>150,000</td>
<td>256,800</td>
<td>25.48</td>
<td>6,543</td>
</tr>
<tr>
<td>North Forest Properties (Penn Fair Office Park)</td>
<td>Penfield</td>
<td>140.01-1-1.111</td>
<td>2010-2011</td>
<td>HSE</td>
<td>3,023,300</td>
<td>2,391,300</td>
<td>632,000</td>
<td>24.36</td>
<td>15,397</td>
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<tr>
<td>North Forest Properties (Penn Fair Office Park)</td>
<td>Penfield</td>
<td>140.01-1-1.111</td>
<td>2011-2012</td>
<td>HSE</td>
<td>3,023,300</td>
<td>2,126,800</td>
<td>896,500</td>
<td>24.02</td>
<td>21,531</td>
</tr>
<tr>
<td>North Forest Properties (Penn Fair Office Park)</td>
<td>Penfield</td>
<td>140.01-1-1.111</td>
<td>2012-2013</td>
<td>HSE</td>
<td>3,023,300</td>
<td>2,126,800</td>
<td>896,500</td>
<td>24.30</td>
<td>21,783</td>
</tr>
<tr>
<td>North Forest Properties (Penn Fair Office Park)</td>
<td>Penfield</td>
<td>140.01-1-1.111</td>
<td>2013-2014</td>
<td>HSE</td>
<td>3,023,300</td>
<td>2,126,800</td>
<td>896,500</td>
<td>25.25</td>
<td>22,639</td>
</tr>
<tr>
<td>North Forest Properties (Penn Fair Office Park)</td>
<td>Penfield</td>
<td>140.01-1-1.111</td>
<td>2014-2015</td>
<td>HSE</td>
<td>3,693,600</td>
<td>2,126,800</td>
<td>1,566,800</td>
<td>25.49</td>
<td>39,939</td>
</tr>
<tr>
<td>North Forest Properties (Penn Fair Office Park)</td>
<td>Penfield</td>
<td>140.01-1-1.111</td>
<td>2015-2016</td>
<td>HSE</td>
<td>3,908,700</td>
<td>2,126,800</td>
<td>1,781,900</td>
<td>25.55</td>
<td>45,535</td>
</tr>
<tr>
<td>North Forest Properties (Penn Fair Office Park)</td>
<td>Penfield</td>
<td>140.01-1-1.111</td>
<td>2016-2017</td>
<td>HSE</td>
<td>4,115,600</td>
<td>2,126,800</td>
<td>1,988,800</td>
<td>25.48</td>
<td>50,676</td>
</tr>
<tr>
<td>North Forest Properties (Penn Fair Office Park)</td>
<td>Penfield</td>
<td>140.01-1-1.111</td>
<td>2017-2018</td>
<td>HSE</td>
<td>4,115,600</td>
<td>2,126,800</td>
<td>1,988,800</td>
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<td>North Forest Properties (Penn Fair Office Park)</td>
<td>Penfield</td>
<td>140.01-2-70.121</td>
<td>2016-2017</td>
<td>HSE</td>
<td>2,837,000</td>
<td>283,700</td>
<td>2,553,300</td>
<td>25.48</td>
<td>65,060</td>
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<td>Panera, LLC</td>
<td>Penfield</td>
<td>140.01-2-70.121</td>
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<td>2,837,000</td>
<td>283,700</td>
<td>2,553,300</td>
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<td>283,700</td>
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<tr>
<td>RCM Elmwood (Penfield Village Apartments)</td>
<td>Penfield</td>
<td>139.09-1-25</td>
<td>2015-2016</td>
<td>HSE</td>
<td>2,709,300</td>
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<td>Penfield</td>
<td>139.09-1-25</td>
<td>2016-2017</td>
<td>HSE</td>
<td>2,709,300</td>
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<td>709,300</td>
<td>25.48</td>
<td>18,074</td>
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<td>RCM Elmwood (Penfield Village Apartments)</td>
<td>Penfield</td>
<td>139.09-1-25</td>
<td>2018-2019</td>
<td>HSE</td>
<td>2,709,300</td>
<td>1,900,000</td>
<td>809,300</td>
<td>26.02</td>
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<td>Shadow Lake Properties</td>
<td>Penfield</td>
<td>124.01-2-45.1</td>
<td>2017-2018</td>
<td>Ferrera</td>
<td>2,925,000</td>
<td>2,450,000</td>
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<td>Willow Pond</td>
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<td>HSE</td>
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<td>1,021,550</td>
<td>3,064,650</td>
<td>26.02</td>
<td>79,751</td>
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</table>

| Total                                             |         |                         |           |               |              |              |              |              | 2,457,268         |
| Reserve balance @ 6/30/18                          |         |                         |           |               |              |              |              |              | 1,159,830         |
| Needed for reserve                                 |         |                         |           |               |              |              |              |              | 1,297,438         |
| % reserved                                        |         |                         |           |               |              |              |              |              | 47%               |
Appendix B

Board Policy
The management of reserve funds shall be done in accordance with the laws and regulations of the State of New York. The Board recognizes that as fiduciaries, it must also review and rely on the work of independent experts and the professionals it employs to assure that it has an understanding of the funding and limitations of established reserves. To ensure public confidence, the Board and Administration will work to ensure the transparency of all decision-making in this regard.

To achieve the goals stated above, the Board will conduct an annual review of all reserve funds at a regular meeting. This review will include but not be limited to:

a) The statutory authority for each reserve including current and updated limitations on the funding and spending of those funds;

b) The current funding level of each reserve;

c) Changes to reserve levels during the past 12 months; and

d) An analysis of projected needs for the reserves in the upcoming fiscal year and a recommendation of how to fund those needs.

This review will become part of the supplemental file associated with the minutes of the Board meeting at which the review is conducted. The review and report will be included on and coincide with the regular budget calendar.

The information in the report of reserve funds will assist the Board in making the necessary decisions required to adequately fund all reserves, manage the fund balance and ensure the overall budgetary integrity of the district.

The District shall comply with the reporting requirements of Article 3 of the General Municipal Law of the State of New York and the Governmental Accounting Standards Board (GASB) issued GASB Statement Number 54, Fund Balance Reporting and Governmental Fund Type Definitions. Pursuant to GASB 54:

1. Encumbrances at year end will be considered “Assigned funds.” The purchasing agent is responsible for all purchasing activities and is therefore designated as having the authority to designate amounts for specific purposes.
2. The Board has the authority to assign fund balance for the purpose of tax reduction on an annual basis. ( Appropriation of fund balance for ensuing years budget)
3. Resources will generally be spent from Budgetary Appropriations first. Utilization of reserve funds will be determined based on the legal appropriation of such funds which require either the Board of Education and/or the District voter approval. Furthermore, assigned amounts will be considered expended when the transaction for which the assignment was made occurs.

REFERENCES:
1) LEGAL:
2) PCSD POLICY
3) PCSD REGULATION:

Adoption Date: 6/15/2010, Revised: 6/14/2011
5000 - Non-Instructional Business Operations
Appendix C

Powerpoint Presentation
Fiscal Stress

Begins with judgment of financial condition
Its one end of a continuum

Fiscal Stress
Fiscal Health
Fiscal Stress

- Cash Solvency – Can you pay the bills over 30 or 60 days?
- Budget Solvency – Do revenues equal expenditures?
- Long Run Solvency – Can you meet all obligations including those in the future
- Service Level Solvency – Can you continue to provide the level and quality of services required

NYS Comptrollers Fiscal Stress Monitoring System

Six Environmental Indicators
- % Economically Disadvantaged Students
- Class Size
- Teacher Turnover
- % Change Property Value
- Budget Vote Approval %
- % English Language Learners

Six Financial Indicators
- Unassigned Fund Balance
- Total Fund Balance
- Operating Deficits
- Cash Ratio
- Cash as a # of Monthly Expenditures
- Short Term Debt
NYS Comptrollers Fiscal Stress Monitoring System

Budget Approval %

% of English Language Learners

NYS Comptrollers Fiscal Stress Monitoring System

Six Environmental Indicators

- % Economically Disadvantaged Students
- Class Size
- Teacher Turnover
- % Change Property Value
- Budget Vote Approval %
- % English Language Learners

Six Financial Indicators

- Unassigned Fund Balance
- Total Fund Balance
- Operating Deficits
- Cash Ratio
- Cash as a # of Monthly Expenditures
- Short Term Debt
Fiscal Stress

The Comptroller's 2017 Fiscal Stress Monitoring System Scores for Penfield were:
Fiscal 0 pts., Environmental 5 pts.

A district begins to be susceptible to fiscal stress at 25 points. "Moderate" fiscal stress begins at 45 points.

The system does not consider Penfield to be under stress. However, the system does not consider the Instructional Program - it is possible to remain at "No Designation" while significantly reducing program.
Fiscal Stress

"Board Penfield Schools will continue a commitment to prudent financial planning - balancing the needs of all students, maintaining programs and facilities and minimizing the impact on taxpayers."

Service Level Solvency - Can we continue to provide an instructional program at the level and quality our community expects, given our current understanding of fiscal constraints?

Penfield CSD
2018-19 Areas of Expense

- Salary and Benefits: 26%
- All Else: 74%
Penfield CSD
2018-19 Sources of Revenue

- Real Property Tax: 64%
- State Aid: 28%
- Other Revenue, Reserves & Fund Balance: 8%

Tax Levy and Rate History
Levy 1.9% Eleven Year Average

<table>
<thead>
<tr>
<th>Year</th>
<th>Levy</th>
<th>Rate (Penfield)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018-19</td>
<td>2.6%</td>
<td>2.4%</td>
</tr>
<tr>
<td>2017-18</td>
<td>1.9%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>2016-17</td>
<td>1.2%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>2015-16</td>
<td>2.2%</td>
<td>0.3%</td>
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<tr>
<td>2014-15</td>
<td>2.0%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2013-14</td>
<td>4.8%</td>
<td>3.9%</td>
</tr>
<tr>
<td>2012-13</td>
<td>1.6%</td>
<td>1.2%</td>
</tr>
<tr>
<td>2011-12</td>
<td>0.0%</td>
<td>-1.4%</td>
</tr>
<tr>
<td>2010-11</td>
<td>2.9%</td>
<td>2.3%</td>
</tr>
<tr>
<td>2009-10</td>
<td>0.5%</td>
<td>-8.2%</td>
</tr>
<tr>
<td>2008-09</td>
<td>0.8%</td>
<td>-0.3%</td>
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2019 Tax Base Growth Factor

Key Budget Assumptions

<table>
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<tr>
<th></th>
<th>Tax Base Growth Factor</th>
<th>Allowable Levy Growth</th>
<th>Rate of Inflation</th>
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<tr>
<td>2019-2020</td>
<td>0.77%</td>
<td>2%</td>
<td>?</td>
</tr>
<tr>
<td>2018-2019</td>
<td>0.54%</td>
<td>2%</td>
<td>2.13%</td>
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<tr>
<td>2017-2018</td>
<td>0.48%</td>
<td>1.26%</td>
<td>1.26%</td>
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<tr>
<td>2016-2017</td>
<td>1.12%</td>
<td>0.12%</td>
<td>0.12%</td>
</tr>
<tr>
<td>2015-2016</td>
<td>0.36%</td>
<td>1.62%</td>
<td>1.62%</td>
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<tr>
<td>2014-2015</td>
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<td>1.46%</td>
<td>1.46%</td>
</tr>
<tr>
<td>2013-2014</td>
<td>0.65%</td>
<td>2%</td>
<td>2.1%</td>
</tr>
<tr>
<td>2012-2013</td>
<td>1.09%</td>
<td>2%</td>
<td>3.2%</td>
</tr>
</tbody>
</table>
What is a surplus and why have one?

- NYS law mandates that, unlike some municipalities, school districts cannot expend more than the budget the voters authorized. Regardless of known or unknown events, expenditures can be no greater than the budget approved by the voters.

- Therefore, the District uses a conservative budget plan that is inherent with some degree of uncertainty to stave off mid-year cuts to instructional programs.
  - During these very uncertain economic times, there are several external forces that can swiftly and adversely impact a budget projection made one year previous.

- This practice has allowed the District to weather certain mid-year events without significantly impacting instructional programs:
  - Sales Tax Reductions
  - State Aid Reductions
  - Expense hikes – fuel, utilities, retirement systems, health insurance, Federal & State Mandates

- The Board of Education and the District’s auditors annually review any year-end surpluses and determine the best use, including:
  - Transfers as permitted by law to an authorized reserve fund
  - And/or to be used to reduce the ensuing year’s Tax Levy
What is a surplus and why have one?

- This budgeting practice has been endorsed by Moody’s Rating Agency, (counterpart to an individual’s credit rating) which affirmed the District’s Aa2 Bond Rating (High Quality, Investment Grade) in 2016, noting:

“The Aa2 rating reflects management’s conservative budgeting practices which have resulted in a healthy reserve position and strong liquidity levels. The high quality rating reflects a trend of strong financial performance........”

- This is the type of comment and advice a person would be looking for if they were considering investing in a corporation. The Board of Education knows that the community invests in their school annually and the Board is committed to protecting that investment while delivering the best educational value possible.
Recommended Target Variance

- State Law for Towns – 10%
- No Formal Guidance for schools
- Auditor – Proportional to Appropriated Fund Balance
- Range of 2.5 -5 %
- 5% for 2019-20
- Future Years
Reserves, why are they needed?

**District Overview**

- The establishment and funding of reserves is vital to promoting fiscal and tax stability in uncertain times.

- Strict adherence to laws governing specific reserves is required. Different reserves require different combinations of voter or Board of Education authorization to:
  - Establish the reserve
  - Fund the reserve
  - Spend from/use the reserve

- The District's philosophy is supported and encouraged by the NYS Comptroller, as evidenced by his “Local Government Guide – Reserve Funds.”

**New York State Comptroller**

- “Saving for future projects, acquisitions, and other allowable purposes is an important planning consideration for school districts. Reserve funds provide a mechanism for legally saving money to finance all or part of future infrastructure, equipment, or other requirements.”

- “Reserve funds can also provide a degree of financial stability by reducing reliance on indebtedness and/or levying additional tax to finance capital projects.”

- “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.”

Reserves need to be managed

**District Philosophy**

- The judicious use of reserves is prudent financial management for a school district just as it is for the private sector and savings accounts are for individuals.

- The district does not view reserves as a way to stockpile over-collected revenue, but to plan conservatively and manage costs aggressively to provide unexpended year-end funds to be placed in reserves to:
  - Provide future tax stability
  - Stave off potential mid-year reductions during times of unanticipated reduced revenue and/or cost spikes

- The District believes that when the voters approve a budget in May and pay the resultant taxes in September they expect to receive the programs and services contained in that budget. The District is committed to delivering on that agreement and needs reserves as a contingency plan for unforeseen events.

**New York State Comptroller**

- “The practice of planning ahead and systematically saving for capital acquisitions and other contingencies is considered prudent management.”

- “Saving for future needs can reduce or eliminate interest and other costs associated with debt issuances.”

- “Certain reserve funds can be utilized to help protect the budget against known risks (i.e., lawsuit) or unknown risks (i.e., natural disaster).”
Reserve Fund Inventory & Definitions

- **Capital Bus Purchase Reserve** — *Ed Law 3651*
  - To replace buses without levying additional taxes and/or issuing debt
  - Required Approvals:
    - Voter to establish and expend from
    - Board of Education to fund within the voter authorized maximum amount
  - Reestablished in 2017, maximum deposit $6.0 million, term 10 yrs

- **Capital Reserve** — *Ed Law 3651*
  - For the refurbishment and replacement of facilities, infrastructure and equipment, without levying additional taxes or issuing debt
  - Required Approvals:
    - Voter to establish and expend from
    - Board of Education to fund within the voter authorized maximum amount
  - Reestablished in 2014, maximum deposit $13 million, term 10 yrs
  - Established in 2016, maximum deposit $15 million, term 10 yrs

Reserve Fund Inventory & Definitions

- **Insurance Reserve** — *GML, section 69.6
  - To pay losses and claims not covered by an insurance policy.
  - Allows the District to cover higher deductibles on insurance thus reducing annual budget insurance premium costs.
  - The Board of Education may establish, fund and by resolution expend from for legal purposes or if excess funds, may transfer to other reserves.
  - Reduced to $500K in 2016

- **Unemployment Insurance Reserve** — *GML, section 69.6
  - To pay unemployment claims made to the NYS Unemployment.
  - Promotes budget stability by:
    - During times of budget staffing reductions, the budget does not have to inherit the unemployment expense, thus maximizing the full favorable impact of the budget reductions.
  - The Board of Education may establish, fund and by resolution expend from for legal purposes or if excess funds, may transfer to other reserves.

- **Workers Compensation Reserve** — *GML, section 69.6
  - To pay compensation benefits and other expenses authorized by Workers Compensation Law.
  - Established based on previous deficit balance in the County wide self funded plan, promotes budget stability in the event of potential assessments.
Reserve Fund Inventory & Definitions

- **Tax Certiorari** — Ed Law 3571-a
  - To pay the reasonably estimated costs of pending property tax assessment challenges (tax certiorari) after taxes have been collected.
  - Protects the budget from often expensive and unanticipated expenses to refund property owners for taxes paid in prior years.
  - The Board of Education may establish, fund and by resolution expend from for legal purposes or if excess funds, may transfer to the General Fund.

- **Employee Benefits Accrued Liability** — GML 5-g
  - To fund earned but unused sick and vacation time (compensated absences) that an employee is due per their Collective Bargaining Agreement upon leaving service.
  - Promotes budget stability:
    - During difficult times, the budget does not have to inherit the compensated absence expense, thus maximizing the full favorable impact of savings attributed to retirements.

- **Employee Retirement Contribution Reserve**
  - To fund cost spikes in the District's portion of NYS Employee's Retirement System costs, thereby providing annual budget stability by absorbing these cost increases without raising taxes.
  - The NYS Comptroller establishes annually a rate that the employer must pay to ERS for every dollar of salary on ERS member employee earns.

Penfield Central School District — Reserves

Restricted Fund Balance

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<td>8,930</td>
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<td>2,235,296</td>
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<td>Capital</td>
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<td>Insurance</td>
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<td>1,007</td>
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<td>Unemployment</td>
<td>147,869</td>
<td>296</td>
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<td>Tax Certiorari</td>
<td>712,563</td>
<td>1,454</td>
<td>(28,985)</td>
<td>474,798</td>
<td>1,159,830</td>
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<td>Employee Benefits Accrued Liability</td>
<td>79,091</td>
<td>158</td>
<td></td>
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<td>83,095</td>
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<td>Employee Retirement</td>
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<td>11,193</td>
<td>(100,000)</td>
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<td>5,443,065</td>
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<td>Workers’ Compensation</td>
<td>654,793</td>
<td>1,310</td>
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<td></td>
<td>148,165</td>
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<tr>
<td>Total Reserved Fund Balance</td>
<td>29,225,496</td>
<td>69,999</td>
<td>(7,507,704)</td>
<td>6,367,697</td>
<td>28,755,488</td>
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## Other Sources of Funds

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<td>Debt Service Fund</td>
<td>4,249,960</td>
<td>11,948</td>
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<td>4,261,908</td>
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<td>Total Other Sources</td>
<td>4,249,960</td>
<td>11,948</td>
<td>(4,046,681)</td>
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## Unassigned Fund Balances

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<td>Unassigned Fund Balance</td>
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<td>Total Other Sources</td>
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<td>(2,071,599)</td>
<td>2,178,916</td>
<td>5,998,930</td>
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Penfield Central School District
$32,509,458 Reserve and Other Balance Composition as of June 30, 2018

- Insurance Reserves, $504,368, 2%
- Employee Benefit Accrued Liability, $83,095, 0%
- Retirement Contribution Reserve, $5,443,065, 17%
- Workers Compensation, $148,165, 0%
- Debt Service Fund Balance, $4,261,908, 13%
- Capital Reserve, $15,130,598, 47%
- Unemployment Reserve, $1,159,830, 4%
- Unemployment Insurance Reserve, $148,165, 0%
- Bus Purchase Reserve, $5,630,264, 17%

Reserve Status and Recommendations

Reserve

- Unemployment
  - Limited Amount, Adequate for 13 people
  - Maintained to buffer spikes in claims
- Employee Benefit Accrued Liability
  - Maintained for 1 small unit
  - Meets all Comptroller Guidelines
  - Adjusted Annually to audited liability
- Tax Certiorari Reserve
  - Represents 47% of Currently Outstanding Cases
  - Two cases may begin to move toward settlement

Recommendation

- Unemployment
  - Maintain Current Reserve
- Employee Benefit Accrued Liability
  - Adjust at year end to reflect retirements and outstanding liabilities
- Tax Certiorari Reserve
  - Reserve should be increased to 75% of outstanding cases.
  - Review outstanding cases at the end of the fiscal year.
Reserve Status and Recommendations

**Reserve**

- Workers Compensation Reserve
  - Established based on a total deficit fund balance in the cooperative plan.
  - Good plan performance has eliminated deficit.
  - Available funds exceed current deficit.

- Bus Purchase Reserve
  - Current plan implemented with the 13-14 school year.
  - Plan will transition purchases back to the General Fund.

**Recommendation**

- Workers Compensation Reserve
  - Maintain for 1-2 years to ensure plan performance continues to be good.
  - Consider using to begin process of reestablishing capital reserves.

- Bus Purchase Reserve
  - Evaluate plan during 2019-20 budget cycle, consider revising plan to include impact of tax cap.
  - Review bus purchase schedule annually, consider impacts of enrollment increases.
  - Consider impacts of driver shortage.

---

Reserve Status and Recommendations

**Reserve**

- Retirement Contribution Reserve
  - Reserve against short term increases in rates.
  - $100,000 used in 17-18.
  - $100,000 used in 18-19.

- Debt Service Fund
  - May be used for reduction of debt.
  - Reduced by $1,000,000 to prepay debt during 2016-17.

**Recommendation**

- Retirement Contribution Reserve
  - Determine appropriate level of budgetary appropriation during 2019-20 budget cycle.
  - Review balance at end of fiscal year.

- Debt Service Fund
  - Use for reduction of debt
    - Include as part of planning for new issuance
    - Additional funds may be used as part of financing for Elementary Additions Project.
<table>
<thead>
<tr>
<th>Reserve</th>
<th>Recommendation</th>
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</thead>
<tbody>
<tr>
<td>Insurance Reserve</td>
<td>Insurance Reserve</td>
</tr>
<tr>
<td>Reduced during 2015-16 to current level.</td>
<td>Review annually in light of settlements and outstanding cases.</td>
</tr>
<tr>
<td>Authorized purposes limited by law</td>
<td>Review balance at end of fiscal year.</td>
</tr>
<tr>
<td>Capital</td>
<td>Capital</td>
</tr>
<tr>
<td>$15,130,598 is available in existing reserves</td>
<td>A significant portion of the existing reserves will be needed for an eventual bus garage project.</td>
</tr>
<tr>
<td></td>
<td>Include in ongoing planning for projects in development.</td>
</tr>
</tbody>
</table>