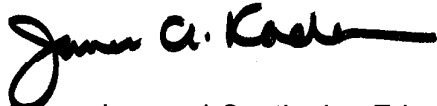




THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY,
NY 12234

TO: The Honorable the Members of the Board of Regents

FROM: James A. Kadamus 

COMMITTEE: Elementary, Middle, Secondary and Continuing Education

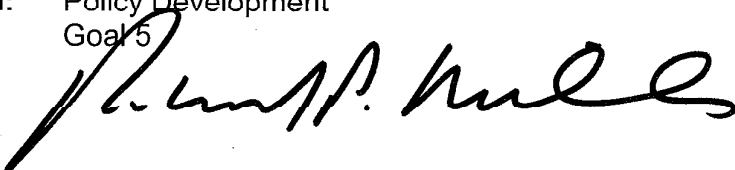
TITLE OF ITEM: Helping School Districts Maintain Good Financial Condition

DATE OF SUBMISSION: March 13, 2003

PROPOSED HANDLING: Discussion

RATIONALE FOR ITEM: Policy Development

STRATEGIC GOAL: Goal 5

AUTHORIZATION(S): 

SUMMARY:

The attached report presents data compiled from the last three years on the financial condition of school districts as well as a conceptual framework for developing and implementing a State strategy for promoting school district fiscal health.

Key findings of the data reveal:

- ✓ Statewide General Fund revenues and expenditures showed steady increases.
- ✓ Statewide overall school district savings had increased modestly.
- ✓ Financial condition showed some persistence over time. The majority of school districts with the lowest savings in the first year had the lowest savings in the third year. The majority of school districts with the highest savings in the first year had the highest savings in the third year.
- ✓ The Large Four City School Districts had below-standard liquidity when examining district assets in relation to liabilities.
- ✓ High need urban-suburban resource capacity districts (primarily small cities) had the next lowest liquidity.
- ✓ Sixteen school districts showed signs of fiscal stress.

Attachment A presents the conceptual framework for a State strategy to help school districts maintain good financial condition. The mission of the strategy is to improve school district fiscal health by promoting fiscally responsible practices through a State and local partnership. The strategy would involve key stakeholders; focus simultaneously on weak and strong districts; share district-specific information with the public; and use research to increase awareness, develop tools and share best practices.

This report raises the following policy questions for consideration by the Regents:

1. Is the proposed conceptual framework headed in the right direction?
2. Will implementing a State strategy resulting from the proposed conceptual framework promote fiscally responsible policies and practices in school districts? What is lacking?
3. How do we balance taxpayer and student equity?
4. Is program evaluation a part of maintaining good financial condition?
5. How can data best be used to improve financial condition? What data should be made public?
6. How can the State use outside resources to help school districts maintain fiscal health?

Attachments

Helping School Districts Maintain Good Financial Condition

**REPORT TO THE COMMITTEE ON ELEMENTARY,
MIDDLE, SECONDARY AND CONTINUING EDUCATION
OF THE NEW YORK STATE BOARD OF REGENTS**

MARCH 2003



Office of Audit Services
School Operations and Management Services

874 EBA * 89 Washington Avenue * Albany, NY 12234

Helping School Districts Maintain Good Financial Condition

This paper presents data on school district financial condition for three school years ending June 2002. It includes a conceptual framework for a State strategy to help school districts maintain good financial condition and raises policy questions for consideration by the Board of Regents.

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New York State school districts have made unprecedented gains in student achievement.¹ However, the State of New York is facing a large budget deficit. This will increase the challenges that school districts face in educating all students to the learning standards, regardless of economic background, disability, or English proficiency. In order to deliver the best education possible with a reasonable tax effort in all the school districts of the State, the State Education Department has embarked on a comprehensive effort to help school districts maintain good financial condition.

This paper presents data for three school years ending June 2002 on school district financial condition. It includes a conceptual framework for a State strategy to help school districts maintain good financial condition and raises policy questions for consideration by the Board of Regents. Key concepts and terms are defined in Attachment B.

School District Financial Condition—for the Three School Years Ending June 2002

Data² compiled by the Office of Audit Services report indicators of school district financial condition for the three schools years ending June 2002. These data show that financial condition for most districts in the State was good and stable during this period, but some districts have experienced fiscal stress or deteriorating financial conditions. There is some evidence of stress in the large city districts, the high need urban-suburban districts and the average need school districts. The New York City school district was excluded from the analysis because its unique size and governance makes comparisons with other districts difficult.

Statewide School District General Fund Revenues and Expenditures Show Steady Increases

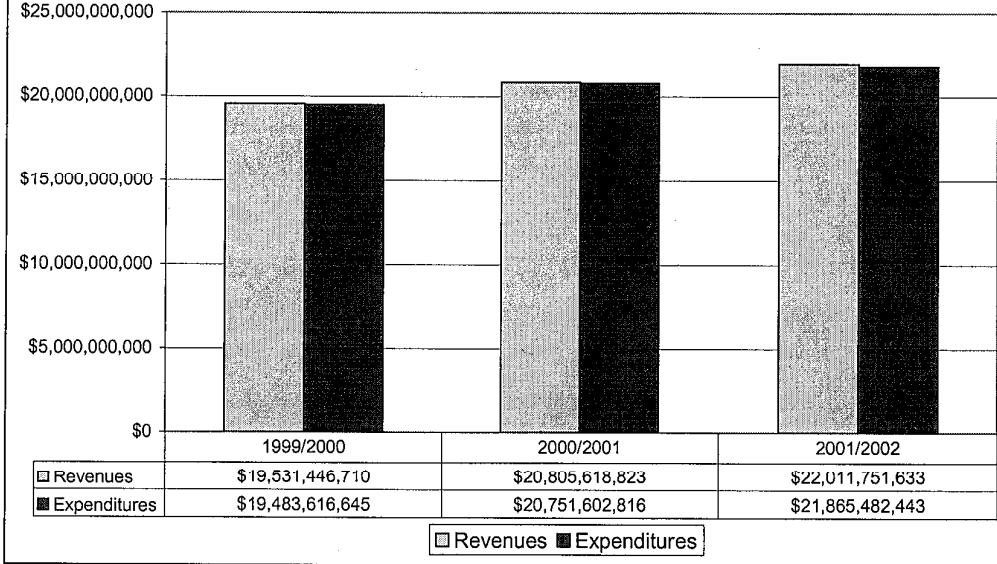
On a statewide basis, Figure 1 shows that revenues increased from \$19.5 to \$22.0 billion (13 percent) and expenditures increased from \$19.5 to \$21.9 billion (12 percent) over the 1999 to 2002 school years. Revenues exceeded expenditures in each of the three years noted.

Although revenues exceeded expenditures statewide, there are some districts that spent more than they received in revenue. Reserves and fund balances designated for use in the coming year were, for the most part, used to make up the difference. The number of districts that experienced expenditures exceeding revenues has declined as illustrated in Figure 2. This measure alone cannot be viewed as an indicator of fiscal stress since it may simply reflect the use of reserves or savings. In subsequent sections, beginning on page 8, we discuss districts that show signs of fiscal stress.

¹ See Commissioner of Education Richard P. Mills' testimony to the joint legislative hearing in Albany, February 25, 2003, for highlights of New York State's student achievement results.

² The data source is the school districts' audited financial statements and Annual Financial Report (ST-3) data as of 1-30-03.

**Figure 1. New York State School District
General Fund Revenues and Expenditures
Show Steady Increases**
(Excluding NYC Department of Education)



**Figure 2. The Number of Districts with
Expenditures Greater than Revenues (Not Including Savings)
Has Been Declining**

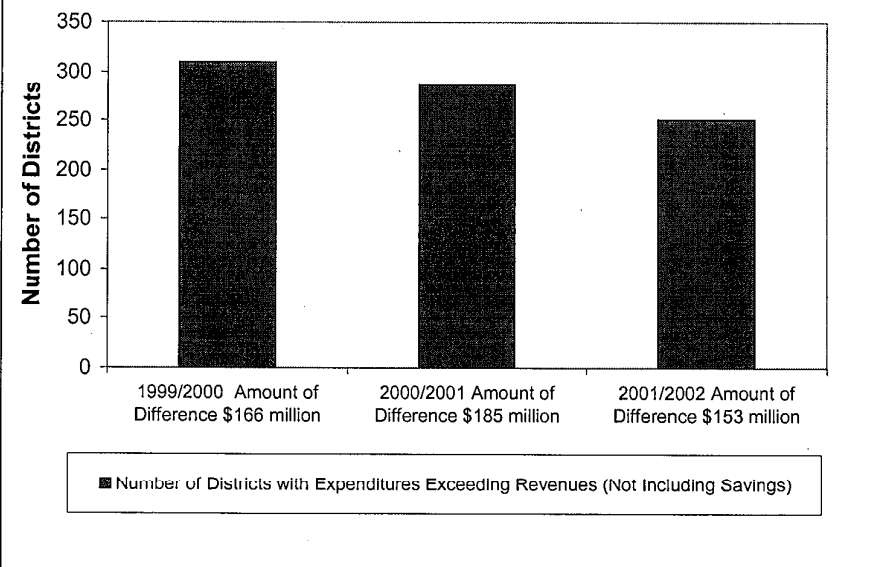
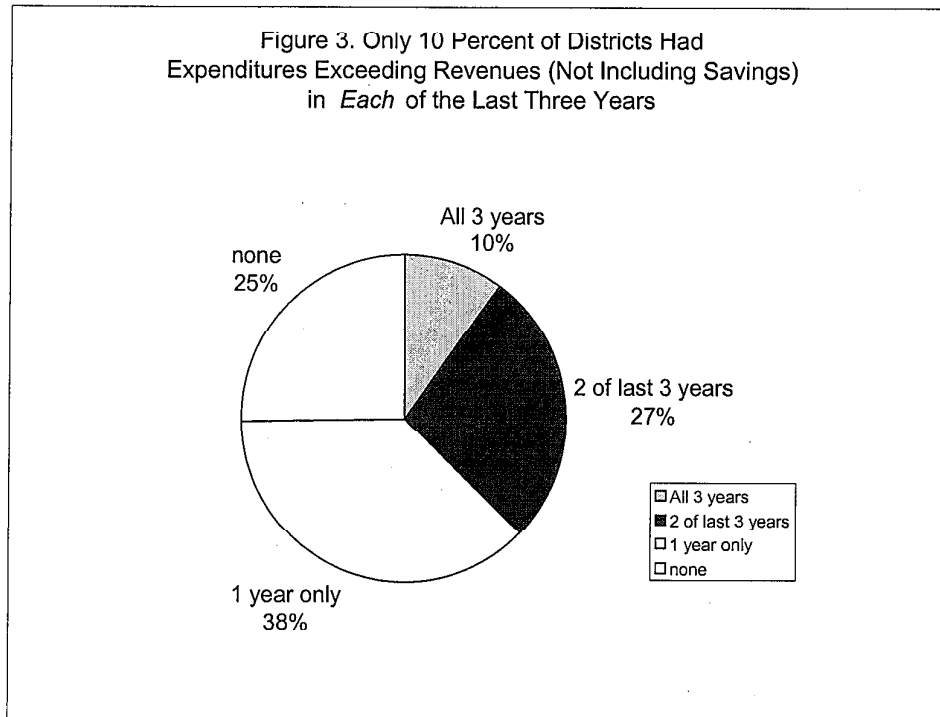


Figure 3 shows that a small percent (10 percent) of districts had expenditures exceeding revenues in each of the last three years.



School District Savings Have Increased Modestly

The total fund balance represents the net difference between a district's General Fund total assets and total liabilities. Districts can reserve these funds, appropriate a portion for next year's budget or set aside an amount for savings.

These reserves or savings can be set aside or restricted to fund potential future liabilities such as workers' compensation benefits, unemployment insurance, tax certiorari claims and other purposes that are specifically permitted by statute. In 2000, the State Comptroller changed the accounting policy for capital reserves. This change resulted in capital reserves being transferred from the Capital Fund to the General Fund.

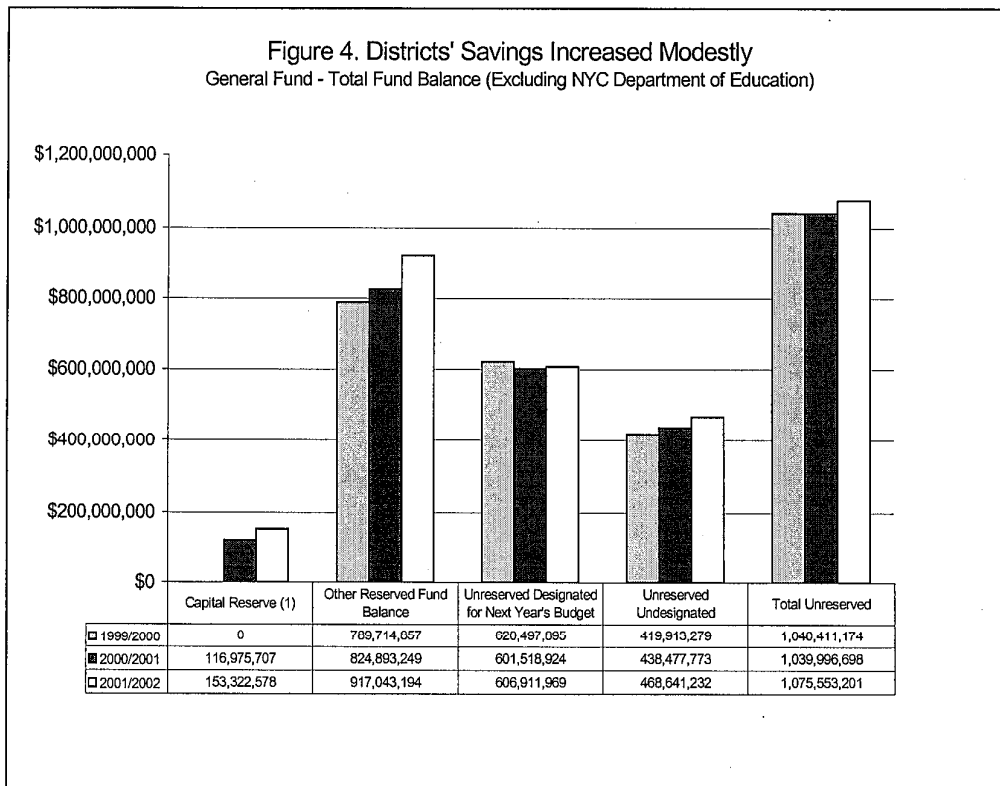
The unreserved portion of the total fund balance can be designated to fund a portion of next year's budget. The designated amount is reflected in the popular budget approved by the school board and presented to the voters.

The remaining unreserved portion, if any, represents the amount the school board has not set aside for any specific use, but can be used in certain cases to address revenue shortfalls, unanticipated increases in expenditures and other contingencies. By statute, school districts are allowed to retain at year-end pure savings (unreserved/undesigned balances) up to two percent of the school district's upcoming

budget. The Regents have proposed that this cap be increased in order to allow school districts more flexibility when dealing with revenue fluctuations.

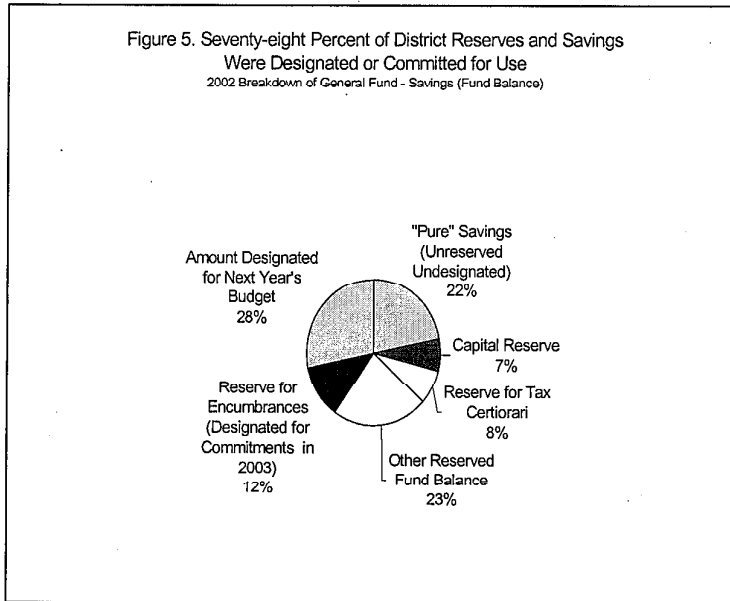
Laws authorize school districts to create more than a dozen reserve funds for different specific purposes. Reserve accounts are generally established with voter approval or board of education action. They help school districts manage their resources and meet their commitments through planning and setting aside funds for known commitments. See Attachment E for more information on these reserve accounts.

Figure 4 shows that Capital Reserves and Other Reserved Fund Balance experienced the largest annual increase, growing from \$116.9 to \$153.2 million (31 percent) and \$419.9 to \$468.6 (11.6 percent) respectively. Capital reserve growth corresponds to large increases in school building renovations and construction being experienced in New York State.



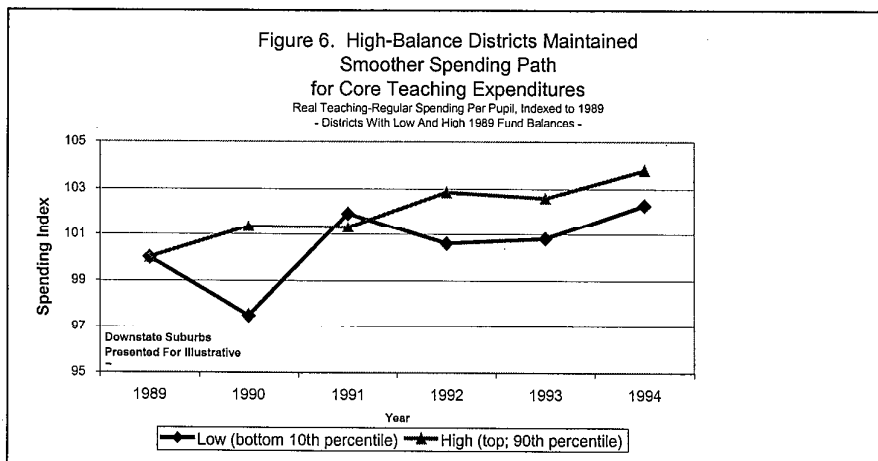
The Unreserved Fund Balance experienced minor increases. When combined, unreserved balances increased from \$1.040 billion to \$1.075 billion (3.3 percent).

Figure 5 illustrates how total fund balance is distributed by certain reserve accounts. In total, 78 percent of district savings is reserved or designated for a specific use. Only 22 percent of savings is unreserved and not designated for a specific use.



High Total Fund Balance Districts Maintained Smoother Spending on Core Teaching

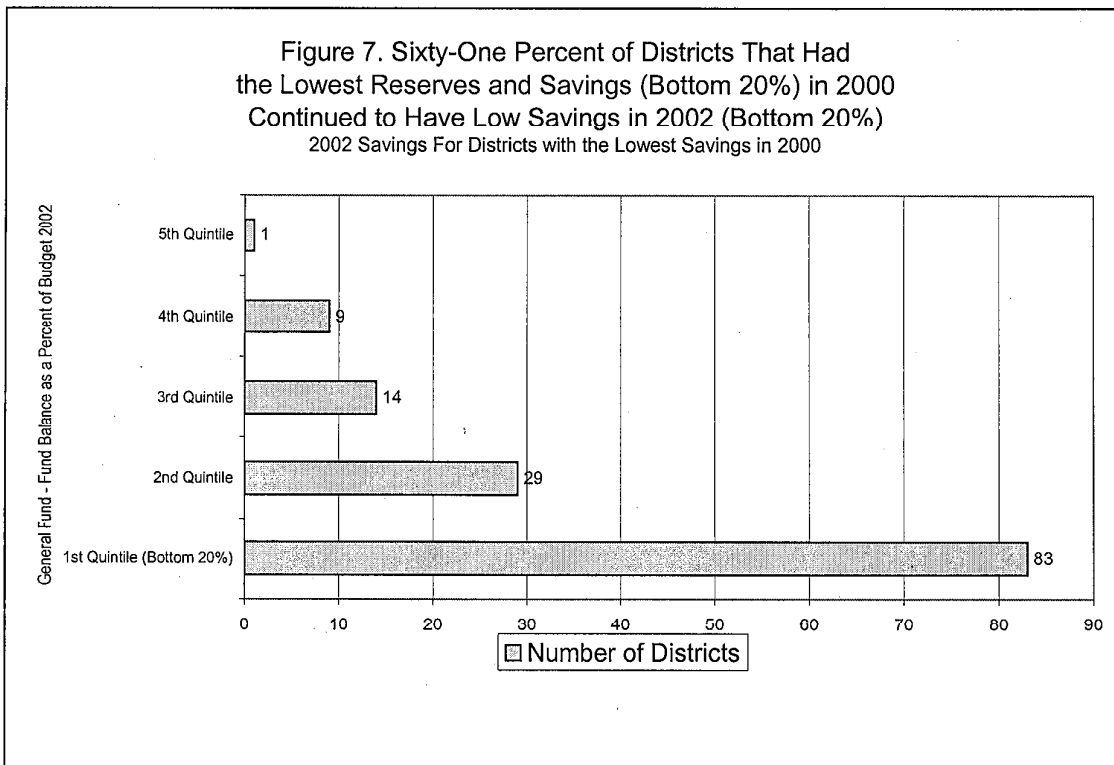
A historical review of school district expenditures and fiscal stress showed that New York State districts with different financial conditions responded differently in periods of fiscal stress (Boyd, Lankford and Wyckoff, 2002). The authors identified 1989 through 1994 as a period of fiscal stress for many school districts. Figure 6 compares spending on teaching for regular instruction during this period for school districts with high total



fund balances (top 10 percent) and districts with low total fund balances (bottom 10 percent). The authors conclude: "The data suggest that high-fund-balance districts smoothed their spending during this period by drawing down fund balances-balances that may have been too small to be used for this purpose in other districts (page 22)."

Financial Condition Shows Some Persistence over Time

Reserves and savings were examined for two groups of school districts: the 20 percent of districts with the lowest reserves and savings and the 20 percent with the highest reserves and savings. The consistency in reserves and savings for a group of specific districts is evidenced by Figure 7. There were 136 districts that had the lowest reserves and savings (bottom 20 percent) in 2000. Sixty-one percent (83) continued to have low reserves and savings and remained in the bottom 20 percent.



This consistency is also evident when examining those districts that have relatively high reserves and savings. Figure 8 shows that 70 percent (95) of school districts with the highest reserves and savings in 2000 remained in that category in 2002.

Figure 8. Seventy Percent of Districts with Highest Reserves and Savings (Top 20%) in 2000 Continued to Have High Savings in 2002 (Top 20%)
2002 Savings for Districts with the Highest Savings in 2000

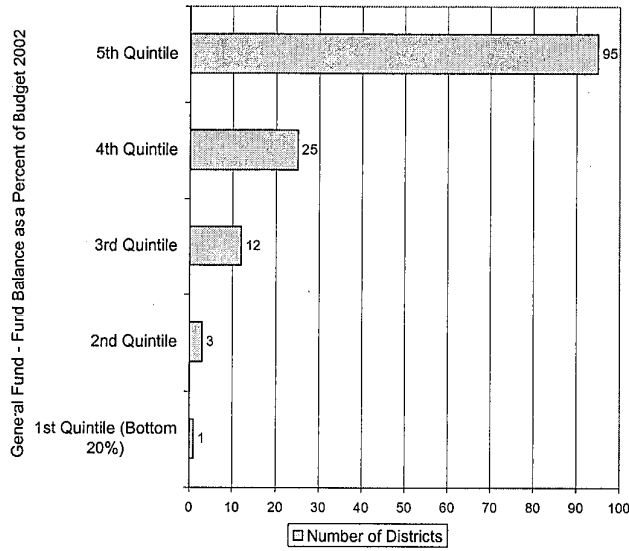
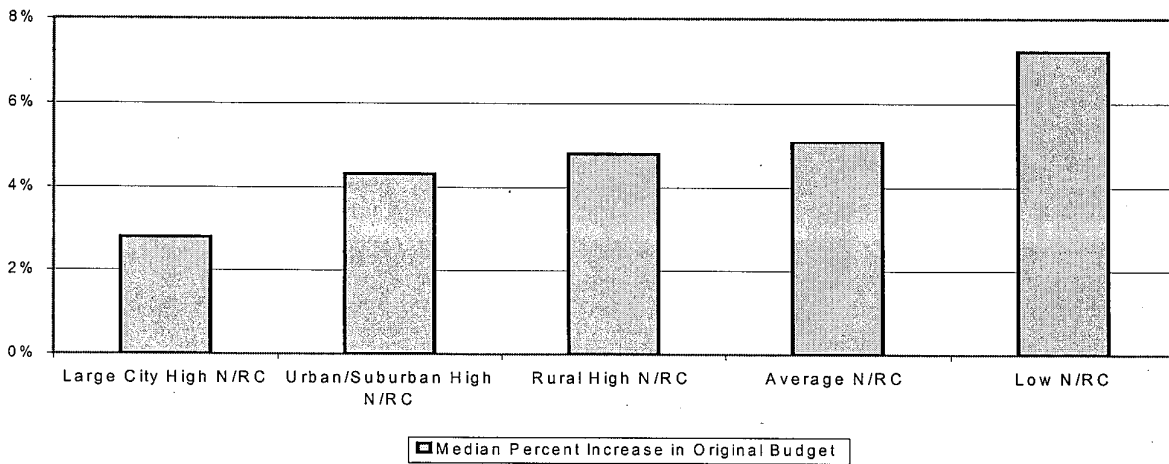


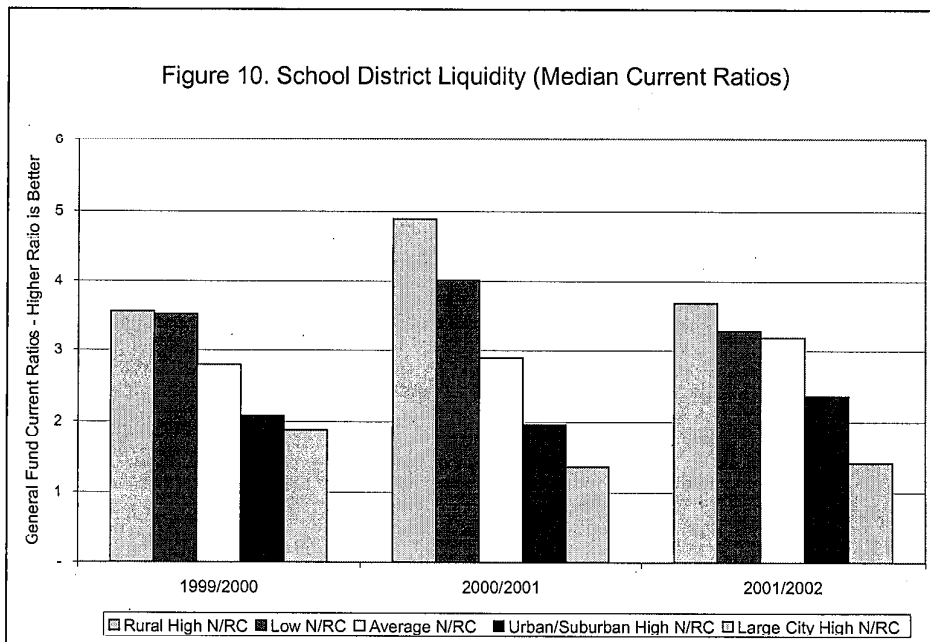
Figure 9 shows that budget increases for school districts grouped by need/resource capacity category ranged from just under 3 percent for large city districts to slightly over 7 percent for low need/resource capacity districts.

Figure 9. Low Need/Resource Capacity Districts Had the Largest Budget Increases
General Fund - Median Percent Increase in Original Budget 2001 to 2002



The Large Four City School Districts Had Below-Standard Liquidity

A school district needs to be concerned with whether it has sufficient current assets in the form of cash, investments and receivables to pay for current liabilities. This is commonly known as liquidity. The literature and common business practice suggests that an entity have \$2 in current assets for every \$1 in current liabilities. Liquidity with school districts remained close to or above the 2:1 ratio, except for large city districts. The liquidity ratio for large city districts declined to about a 1.4 ratio for school year 2002. Figure 10 illustrates school district liquidity ratios grouped by need/resource capacity.



Sixteen School Districts Show Signs of Fiscal Stress

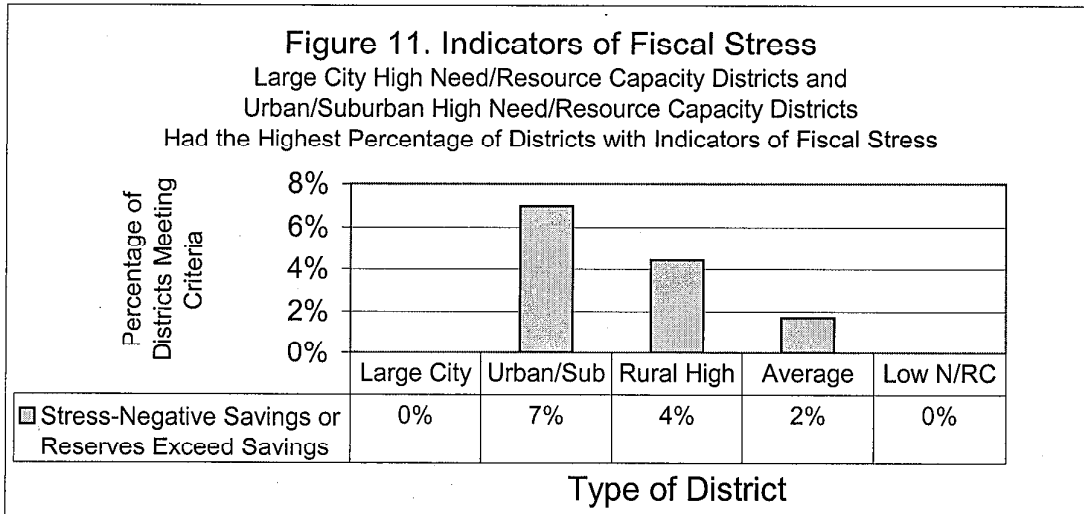
A small number (16) of school districts have indicators of fiscal stress. The Department identifies school districts in fiscal stress as those with: 1) total net savings (Total Fund Balance) are negative; or 2) established reserves that are not sufficiently funded. The latter group represents those districts that have set aside or designated more funds than are available in their net savings producing a negative amount in the Unreserved portion of the Fund Balance. Attachment G lists these school districts.

Additionally, the Department is studying the following indicators as potential risks to a school district's financial condition.

- Very Small Fund Balance – The total fund balance is less than that of 95 percent of school districts.

- Declining Total Fund Balance – Net three-year expenditures exceeded revenues by greater than six percent of the budget and total fund balance is less than five percent of the budget.
- Low Liquidity – Current ratio less than or equal to 1.25:1 and total fund balance is less than five percent of the budget.

Figure 11 illustrates the percent of these 16 school districts by need/resource capacity that demonstrates these stress indicators.



Is a State Strategy Needed to Help School Districts Maintain Good Financial Condition? What are Possible Elements of Such a Strategy?

Given the economic downturn in our State and Nation and the challenges that school districts are likely to face in continuing student achievement gains, a State strategy to help school districts is needed. Attachment A depicts how various stakeholders will be engaged at local, regional and State levels. It also presents a draft conceptual framework for a State strategy and lists actions that should be undertaken to implement it.

The mission of the strategy is to improve school district fiscal health by promoting fiscally responsible practices through a State and local partnership. The framework:

- Involves leaders in the education community as partners in the development and implementation of the strategy;
- Focuses simultaneously on districts with fiscal stress and districts with financial success and promotes sharing of best practices;
- Would share district specific information on financial condition with the public; and
- Uses research to increase awareness, develop tools and share best practices.

What are Key Policy Questions for Consideration by the Board of Regents?

1. Is the proposed conceptual framework headed in the right direction?
2. Will implementing a State strategy resulting from the proposed conceptual framework promote fiscally responsible policies and practices in school districts? What is lacking?
3. How do we balance taxpayer and student equity?
4. Is program evaluation a part of maintaining good financial condition?
5. How can data best be used to improve financial condition? What data should be made public?
6. How can the State use outside resources to help school districts maintain fiscal health?

Conceptual Framework for a State Strategy for Promoting School District Fiscal Health

Mission

To improve school district fiscal health by promoting fiscally responsible practices through a State and local partnership.

The State Education Department will work with school districts to provide an education to all students that gives a reasonable opportunity for meeting State learning standards with a reasonable level of State and local resources in a manner that allows for continuity of programming, sustainability in funding and acceptable student achievement.

We will:

- * Involve our partners in the development and implementation of the strategy.
- * Focus the strategy simultaneously on districts with financial difficulties and districts with ongoing financial strength and promote sharing among them.
- * Build local capacity to achieve and maintain fiscal health.
- * Share district-specific financial information with the public.
- * Use research to increase awareness, develop tools and share best practices.
- * Inform the public on the fiscal health of school districts in New York State.
- * Educate the public on what constitutes a fiscally sound school district.

Involve Our Partners

Partners include district superintendents, school boards, superintendents, business officials, higher educational administration program educators, certified public accountants (CPAs), the Office of the State Comptroller (OSC), researchers and statewide educational associations such as NYSSBA, NYSCOSS, NYSASBO and others.

- * Develop ownership and responsibility with school officials for school district fiscal health.
- * Have the Commissioner raise the visibility of the issue with school, community and political leaders.
- * Use outside experts (recruit the smartest people).
- * Ensure that the best and the brightest school leaders support our solutions.
- * Ensure regular reviews of progress in implementing the State strategy by the Department's Fiscal Advisory Board including

representatives of:

- Certified public accountants (CPAs);
- School business officials;
- School superintendents;
- School board members;
- District superintendents;
- State Comptroller's Office; and
- Educators of business administrators.

Build Local Capacity

- * Do not depend on Department assets and resources that do not exist for technical assistance to school districts on financial management practices.
- * Partner with others to get the job done.
- * Review school leadership preparatory programs to ensure the curriculum includes vital knowledge and skills for effectively running a multi-million dollar business such as a school district.
- * Review Commissioner's Regulations relating to pre-service and in-service education and training and certification requirements for business officials and superintendents.

Share Information with the Public

- * Share district-specific data in public that leads to valid comparisons of school districts with valid financial benchmarks.
- * Highlight successes as well as weaknesses and focus on improvement by sharing successful practices.
- * Inform the public on the fiscal health of school districts in New York State.
- Educate the public as to what constitutes a fiscally sound school district.

Use Research

- * Use research to increase awareness, develop tools and share best practices.
- * Participate in collaborative research with Syracuse University and LeMoyne College to develop a financial indicator system for school district financial health, a two-year project as part of the Education Finance Research Consortium involving regular reviews by a Financial Management Advisory Board of practitioners.
- * Continue research and interaction with school districts showing signs of fiscal stress by the Department's Office of Audit Services.
- * Conduct a possible 2004-05 symposium on school district fiscal health.
- * Publish a 2003 article on school district fiscal health to raise public awareness.

Actions and Products

Foster Leadership on School District Fiscal Health and Performance

1. Draft State Strategy reviewed by Financial Management Advisory Board and the Regents – short-term.
2. Commissioner's and Chancellor's letter to each school board member that explains in simple terms the fiscal information they should be getting or asking for. The letter would heighten members' awareness of the need to closely monitor each district's financial condition especially in light of the current economic climate. – short-term.
3. Brochure on monitoring school districts' financial health for school board members – medium-term.
4. Public tutorial for school board members, superintendents and business officials – medium-term.
 - Review the tutorial on "How the Board of Education Monitors the Fiscal Health of the District."
 - Run a pilot tutorial with the New York State School Boards Association.
5. Review regulations concerning the preparation of school superintendents and business officials to ensure that requirements are included related to effective capital and financial management practices.
6. Review topics related to effective school district financial management with the NYS School Business Officials' Advisory Panel and the NYS District Superintendent's School Support Services Subcommittee.

Share Best Practices and Encourage Self-Assessment

7. Develop a model monthly financial report (expenditures and revenues) – short-term.
 - ✓ Meet with CPAs and business officials to review reports that already exist.
8. Develop a school district financial self-assessment checklist – short-term.
9. Develop a model budget plan – long-term.
10. Develop a manual of best practices to address: budget development, budget implementation, monitoring

revenue and expenses, fund balance management, analytical review, long range planning,

11. Use the financial management system to identify school districts with exemplary practices for sharing success—long-term.

Provide Technical Assistance on Financial Management

12. Fiscal Support Team for Big Five City School Districts – on-going.
 - Ensure a unified Department response to specific fiscal problems and provide for a timely and collaborative resolution of problems.
13. Provide a training sequence to assist school board members in monitoring school finances. The training is for the school district leadership team including the superintendent, business official and board members.
14. Continue to interact with school districts about financial data resulting from Audit Services' early warning system.

Participate in Research to Enhance Fiscal Health and Performance

15. Develop a school fiscal health framework with the help of a research team – long-term.
16. Survey school district business officials concerning financial and capital management practices – long-term.
17. Prepare public reports:
 - Data, including medians, on school districts' financial condition – short-term.
 - Districts in fiscal stress – short-term.
 - Districts with successful practices – long-term.
 - Districts that should be watched – long-term.
 - Publish an article on helping school districts stay fiscally healthy (School Operations and Support Services and Audit Services) – short-term.

FRAMEWORK FOR SCHOOL DISTRICT COST-EFFECTIVENESS EFFORTS

STATEWIDE FOCUS

Virtual Learning Space (VLS)/School Business Management

- ✓ On-line training, e.g., budgeting, purchasing, internal controls
- ✓ Fiscal management - Video
- ✓ Best Practices/Checklists/Self-Evaluation Tools
- ✓ Cost-Effectiveness Models
- ✓ On-line fiscal data, medians and averages
- ✓ Fiscal Benchmarks
- ✓ Collaborative networks

REGIONAL FOCUS

Support for Big 5

- ✓ Fiscal Support Team
- ✓ Single Point of Contact
- ✓ Urban Forums
- ✓ Leadership
- ✓ Partnerships with stakeholders

Support for Schools Outside Big 5

- ✓ School Management Team
- ✓ Leadership
- ✓ Partnerships with stakeholders (business officials, superintendents, school board members, BOCES, State Comptroller's office, School Auditors, Higher Education Institutions, teacher associations and others)
- ✓ BOCES Business Officials and Co-Sers

LOCAL: DISTRICT FOCUS

Budget Planning

- ✓ Multi-year strategic plan
- ✓ Use of fiscal benchmarks
- ✓ Consultation with key stakeholders
- ✓ Big 4 Partnership Agreements

Professional Development

- ✓ Cost-Effectiveness
- ✓ Program evaluation
- ✓ Qualified staff
- ✓ Continuing education
- ✓ New superintendents/business officials training

Fiscal Improvement

- ✓ Target assistance to school districts in financial stress
- ✓ Target assistance to districts trending towards financial stress

Key Terms and Concepts

What do we mean by financial condition of school districts?

School district financial condition has been interpreted to mean different things to different people.

Some consider it to be a school district's financial standing at a given point in time. Some think it is a district's ability to make ends meet. Others look at it as a district's capacity to raise revenue. (Mead, p. 59)

Given the Board of Regents interest in providing an education so that all children will meet higher learning standards, it is important to consider financial condition in terms of the education to be provided.

Financial condition is affected by a wide variety of circumstances including the financial decisions school districts make, the fiscal capacity of the district, the educational needs of pupils, and economic circumstances of the district, region or State. Financial decisions school districts make include how much debt to incur, how much to tax, and how much savings (or fund balances) to retain.

What does it mean to be in good financial condition?

Good financial condition implies a combination of factors and circumstances:

- A structurally balanced budget. The money a district receives each year to fund its operation is sufficient to meet its needs. Good budgeting has been described as securing the greatest educational return from every local, State and federal tax dollar.³
- Sufficient cash to pay bills. The district maintains cash resources necessary to pay on-going commitments in a timely fashion.
- Use of reserves, or setting aside funds for specific purposes, is established to fund appropriate expenses.
- Adequate savings to handle emergencies. The district needs savings to cover revenue shortfall such as a drop in State aid or for unforeseen expenses such as an increase in energy costs or a natural disaster such as an ice storm.
- Manageable long-term debt. Long-term debt is typically limited to borrowing to finance capital projects, such as school buildings or buses. The district must ensure that total long-term debt is not only within the statutory limit, but also manageable given the district's tax base and estimated aid.

³ New York State Education Department. Budgeting Handbook 3 (<http://www.emsc.nysed.gov/mgtserv/intro1-02.htm#TopOfPage>, 2003).

- Adequate resources to sustain quality education programs over the long term. The district must be able to provide quality educational programs in a stable and predictable manner so that students benefit from the continuity of programming and taxpayers contribute at a reasonable and consistent level.

Other Key Terms and Concepts

To have a discussion of school district financial condition requires an understanding of some basic fiscal terms and concepts. Some of these include:

Lay Term	Fiscal Term	Definition
Spending	Expenditures	The funds a school district spends for the operation of its programs.
Income	Revenues	The funds a school district receives for the operation of its programs.
Reserves and Savings	Fund Balance	Districts can retain fund balances designated for specific purposes (e.g., capital expenses or expenses associated with employee absences), or designated to help with operating expenses for the next school year. They can also retain a limited amount for savings that are not designated for any specific purpose. This last is referred to as unreserved, undesignated fund balance, and in lay terms, pure savings. The law limits these pure savings to a maximum of two percent of the subsequent year's budget.
Negative Savings	Negative Fund Balance	Negative fund balance occurs when school district spending exceeds the district's income and there are no savings to address the situation.
Liquidity	Current ratio	Liquidity refers to the ability of a school district to pay its current bills. One measure of liquidity is the current ratio which is calculated by dividing cash, investments and other liquid assets by the amount owed currently. Finance practitioners recognize a standard of 2:1; for every dollar owed in the short term, a district should have at least \$2 of liquid assets on hand.
What You Have	Assets	Items of value owned by the district including cash, investments, buildings, school buses, savings, furnishings and equipment, etc.
What You Owe	Liabilities	Amounts owed by the district for goods and services purchased including debt on school buildings, contracts for equipment, BOCES services, workers compensation benefits, unemployment insurance, etc.

Who Should Be Concerned About a School District's Financial Condition and Why?

School district financial condition is a concern of:

- ✓ The school business officer who is charged with the day-to-day management of school finances.
- ✓ The school superintendent and the school board who have ultimate local responsibility and authority for the operation of the school district.
- ✓ The regional district superintendent in cases of component school districts.
- ✓ Teachers and staff of the school district to the extent that good financial condition will ensure continuity of programs and jobs.
- ✓ The community at-large who want children educated and want to contribute to the cost of this education in a fair and consistent manner.
- ✓ The State Legislature and Governor to assure the community that public resources are fairly and well spent.
- ✓ The Board of Regents and the State Education Department who have responsibility for general supervision of all educational institutions in New York State. Regents goal 5 in their strategic plan states that "resources under our care will be used or maintained in the public interest."

Early Warning Signs

How do you know when a school district is beginning to experience stress? What are some early warning signs? The Office of Audit Services has compiled data on school district financial condition and has begun to make some judgments and identify indicators showing school districts experiencing fiscal stress or those likely to experience it in the near future. This work is resulting in fruitful discussions with the education community and is creating a greater awareness of school district financial condition among different stakeholders.

The task of predicting financial stress is a complex one and this work can only be viewed as preliminary. Additional research is needed to provide both short- and long-term estimates of school district fiscal health, and to reveal the impact of specific financial and capital management practices on maintaining good financial condition.

The Office of Audit Services has identified five fiscal stress indicators. The two most significant indicators are:

- Negative Savings (Fund Balance) – 11 districts had negative savings as of June 30, 2002; and
- Planned Uses Exceed Savings – Five districts had reserved funds in excess of the amount available (negative total unreserved fund balance).

Additional potential indicators of fiscal stress include:

- Very Small Fund Balance – The total fund balance is less than that of 95 percent of school districts.
- Declining Savings (Fund Balance) – Net three-year expenditures exceeded revenues by greater than six percent of the budget and fund balance was less than five percent of the budget.
- Low Liquidity – Current ratio less than or equal to 1.25:1 and fund balance less than five percent of the budget.

**Reserve and Unreserved Accounts
Authorized for School Districts**

ATTACHMENT E

<i>Name of Reserve/Account</i>	<i>Authority</i>	<i>Purpose</i>	<i>Action Required</i>	<i>Accounting</i>
Reserved Funds				
Capital	EL, Section 3651	To pay for the cost of any object or purpose for which bonds may be issued.	Voter approval	General Fund
Repair	GML, Section 6-d	To pay for the cost of repairs to capital improvements or equipment (not recurring annually).	Voter approval	General Fund
Workers' Compensation	GML, Section 6-j	To pay for compensation benefits and other expenses authorized by Article 2 of the Workers' Compensation Law.	Board action	General Fund
Unemployment Insurance	GML, Section 6-m	To pay the cost of reimbursement to the State Unemployment Insurance Fund.	Board action	General Fund
Tax Reduction	EL, Section 1604(36) and EL, Section 1709(37)	For the gradual use of the proceeds of the sale of school district real property, up to ten years, for property tax reduction.	Board action	General Fund
Debt Service (mandatory)	GML, Section 6-l	Upon the sale of district property that was financed by obligations, which remain outstanding at the time of sale, a reserve must be established for the purpose of retiring the outstanding obligations.	Board action	Debt Service Fund
Insurance	GML, Section 6-n	To pay liability, casualty and other types of losses for insurance (except for specific types of insurance).	Board action	General Fund
Property Loss Reserve and Liability Reserve	EL, Section 1709(8)(c) ED, Section 1709(8)(c)	To pay for property loss and liability claims incurred.	Board action	General Fund
Tax Certiorari	EL, Section 3651.1-a	To pay amounts required for judgments and claims arising out of tax certiorari proceedings.	Board action	General Fund
Insurance Recoveries	EL, Section 1718(2)	To account for unexpended proceeds of insurance recoveries.	Board action	General Fund
Encumbrances	OSC Uniform System of Accounts	To pay outstanding encumbrances at the end of the fiscal year.	Board action	In the appropriate fund
Inventory	OSC Uniform System of Accounts	To limit the maximum investment in inventory and to restrict that portion of fund balance which is not available for appropriation.	Board action	School Lunch Fund or General Fund if applicable
Employee Benefit Accrued Liability	GML 6-p	To pay any accrued employee benefit due an employee upon termination of the employee's service.	Board Action	General Fund
Unreserved Funds				
Unreserved Designated	OSC Uniform System of Accounts	Funds set aside for next year's budget.	Board Action (with Budget approval)	General Fund
Unreserved Undesignated	OSC Uniform System of Accounts	Funds set aside as pure savings of the school district.	Board action	General Fund

For more information see: <http://www.emsc.nysed.gov/mgtser/Reserve%20Funds.PDF>

**NEED/RESOURCE CAPACITY
CATEGORY DEFINITIONS⁴**

The need/resource capacity index, a measure of a district's ability to meet the needs of its students with local resources, is the ratio of the estimated poverty percentage⁵ (expressed in standard score form) to the Combined Wealth Ratio⁶ (expressed in standard score form). A district with both estimated poverty and Combined Wealth Ratio equal to the State average would have a need/resource capacity index of 1.0. Need/resource capacity (N/RC) categories are determined from this index using the definitions in the table below.

Need/Resource Capacity Category	Definition
High N/RC Districts	
New York City	New York City
Large City Districts	Buffalo, Rochester, Syracuse, Yonkers
Urban-Suburban	All districts at or above the 70th percentile (1.1855) which meet one of the following conditions: 1) more than 100 students per square mile; or 2) have an enrollment greater than 2,500 and more than 50 students per square mile.
Rural	All districts at or above the 70th percentile (1.1855) which meet one of two conditions: 1) fewer than 50 students per square mile; or 2) fewer than 100 students per square mile and an enrollment of less than 2,500.
Average N/RC Districts	All districts between the 20th (0.7693) and 70th (1.1855) percentile on the index.
Low N/RC Districts	All districts below the 20th percentile (0.7693) on the index.

⁴ **Source:** New York State Board of Regents. (June 2002). 2002 Chapter 655 Report: Annual Report to the Governor and Legislature on the Educational Status of the State's Schools.

⁵ **Estimated Poverty Percentage:** A weighted average of the 1998-99 and 1999-2000 kindergarten through grade 6 free-and-reduced-price-lunch percentage. (An average was used to mitigate errors in each measure.) The result is a measure that approximates the percentage of children eligible for free- or reduced-price lunches.

⁶ **Combined Wealth Ratio:** The ratio of district wealth per pupil to State average wealth per pupil, used for 1998-99 aid.

**School Districts with Signs of Fiscal Stress
Based on Data as of June 2002**

School District	County
Andover Central School District	Allegany
Dansville Central School District	Livingston
Delhi Central School District	Delaware
Elmont Union Free School District	Nassau
Holley Central School District	Orleans
Hudson City School District	Columbia
Liberty Central School District	Sullivan
Little Falls City School District	Herkimer
Monroe Woodbury Central School District	Orange
Niagara Falls City School District	Niagara
Putnam Valley Central School District	Washington
Roosevelt Union Free School District	Nassau
Spencer Van Etten Central School District	Tioga
Troy City School District	Rensselaer
Warrensburg Central School District	Warren
Westfield Central School District	Chautauqua

References

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- Mead, Dean. 2001. "Assessing the Financial Condition of Public School Districts." *Selected Papers in School Finance, 2000-01*. Washington, DC: National Center for Education Statistics.