

Establishing and Accounting for Reserves

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Benefits of Using Reserves

- Save for future contingencies.
- Help with long-term capital and operational planning.
- Could reduce need to borrow.
- Can help stabilize effects from fluctuations in the economy.



Sources of Funds

- Annual budget
- Transfer from appropriations
- Surplus fund balance
- Other “one-shot” revenues
 - Sale of property
 - Gifts and/or donations



Legal Reserves

- Term used to describe portions of fund equity generally representing cash resources that are legally segregated for a specific future use and are not available for current operations.



Accounting Reserves

- Restriction of Equity or specific revenues or appropriations.
- Includes Reserves for:
 - Encumbrances (Assigned Unappropriated Fund Balance)
 - Inventory of Supplies (Non-Spendable Fund Balance)



Administration for Legal Reserves

- Need adequate records to account for investments, earnings and uses.
- Governing board members are trustees.
- Separate general ledger cash and equity accounts are needed:
 - Cash – 230 and 231
 - Equity – 800 code series



Reserve Fund Records

- Separate records must be kept for each reserve fund:
 - Date and amount of each payment in;
 - Interest earned by the fund;
 - Capital gains or losses;
 - Amount and date of each withdrawal;
 - Cash balance and schedule of investments.



How to Determine Need and Funding Levels

- Multi-Year Financial Plan
- Multi-Year Capital Plan
- Board adopted Fund Balance Policy
- Resolutions passed by the Governing Board



Investment of Reserve Fund Moneys

- Moneys must be invested in accordance with GML §11.
- Reserve moneys may be commingled with other municipal moneys for investment purposes.
- In accordance with the municipality's investment policy.
- Interest earned becomes part of the reserve fund.



Legal Reserves for Counties

- Capital Reserves - GML §6-c
- Repair Reserves - GML §6-d
- Contingency and Tax Stabilization Reserve - GML §6-e
- Snow and Ice Removal and Road Repair Reserve - GML §6-f
- Reserve for Payment of Bonded Indebtedness - GML §6-h
- Airport Amortization and Development - GML §6-l (required)
- Workers' Compensation Reserve - GML §6-j
- Electric Utility Depreciation Reserve - GML §6-k (required)
- Depreciation Reserve - GML §6-k (required)
- Mandatory Reserve - GML §6-l (required)



Legal Reserves for Counties

- Unemployment Insurance Payment - GML §6-m
- Insurance Reserve - GML §6-n
- Solid Waste Management reserve - GML §6-o
- Employee Benefit Accrued Liability Reserve - GML §6-p
- Retirement Reserve - GML §6-r
- Tax and Revenue Anticipation Fund - County Law §372



Capital Reserves (GML§6-c)

- To finance, in whole or in part, the cost of any object or purpose for which a County may issue bonds pursuant to Local Finance Law.
- Should be linked to long-term capital plans.
- Must maintain the separate identity of each such fund.



Capital Reserves (GML§6-c)

- Accounted for in the fund that is providing financing- Not authorized in Capital Projects Fund.
- Transferred to Capital Projects Fund as needed.
- Funds may be expended by authorization of legislative body only for the specific purpose for which the fund was established.



“Type” Capital Reserves

- Examples: Buildings, land, equipment
- Separate resolution for each reserve fund authorized by the legislative body.
 - Sample resolution in OSC LGMG Reserve publication.
- Funds may be expended by authorization of legislative body only for the “type” purpose for which the fund was established.



“Specific” Capital Reserves

- Examples: Highway barn, snow plow, off-street parking lot, etc.
- Separate resolution for each reserve fund authorized by the legislative body.
 - Must contain estimated maximum cost of the improvement or item.
 - Sample resolution in OSC LGMG Reserve publication.
- Funds may be expended by authorization of legislative body only for the specific purpose for which the fund was established.



Capital Reserve – Residual Balances

- “Type” Capital Reserves
 - After completion – Board may transfer balance to another capital reserve.
- “Specific” Capital Reserves
 - After completion – Board may transfer balance to another capital reserve; appropriate toward an object or purpose for which bonds may be issued; or use for payment principal and interest on debt.
 - Never Utilized – Board may transfer to another capital reserve; or to a Retirement Contribution Reserve Fund (GML §6-r) after public hearing.



Repair Reserves (GML§6-d)

- To pay for the cost of certain repairs of capital improvements or equipment.
- Public hearing needed before reserve is appropriated and spent - 5 days must pass following publication of notice.
 - Unless in an emergency (requires 2/3 vote and at least 1/2 of expenditure must be paid back in following fiscal year, and remainder must be repaid in the 2nd fiscal year following.



Use of Unneeded Balances

- In general, all or part of a Repair Reserve may be transferred to:
 - a capital reserve fund (GML §6-c);
 - a Contingency and Tax Stabilization Reserve Fund (GML §6-e);
 - a Retirement Contribution Reserve (GML §6-r) after a public hearing.



Mandatory Reserve (for Debt) (GML§6-I)

- Sale of capital improvement with debt still outstanding.
- Receipt of State and/or Federal aid after bonds were issued for capital projects.
- Using the Debt Service Fund (V).



Retirement Contribution Reserve (GML§6-r)

- For payments of retirement contributions to NYS Retirement System.
- Established by board resolution.
- May transfer from certain other reserves after public hearing.
- Expended by board resolution.
- May terminate by resolution of legislative body and transfer to other authorized reserve funds.



Employee Benefit Accrued Liability (EBALR) (GML§6-p)

- To provide for the cash payment of the monetary value of accumulated or accrued and unused leave time and benefits due to a municipal employee upon termination of municipal employment.
- Unexpended balances can be transferred to any other reserve fund authorized by GML (within the same tax base).
 - To the extent they are not needed to pay all liabilities incurred or accrued against the employee benefit accrued liability fund.



Reserve for Other Post Employment Benefits

- Currently no statutory authorization to finance an OPEB reserve.
- Currently no statutory authorization to transfer to a Trust Fund.



Contingency and Tax Stabilization Reserve Fund

- To finance certain unanticipated expenditures or revenue losses.
- Board resolution; subject to permissive referendum.
- Limited 10% eligible portion of budget.
- Amount exceeding 10% of current budget must be used to reduce property taxes.
- Limitations on the amount that can be spent - Refer to OSC's Local Government Management Guide (LGMG).



Use of Unexpended Balances

- May be transferred to a Retirement Contribution Reserve Fund- Subject to a Public Hearing on 15 days notice.



Budgetary Entry for Financing Reserves

Date	Account and Explanation	Subsidiary	Debits	Credits
	510 Estimated Revenues		\$360,000	
	599 Appropriated Fund Balance		\$10,000	
	960 Appropriations			\$350,000
	962 Other Budgetary Purposes (Equipment Reserve)			\$20,000

- To fund a reserve at budget adoption.



Budgetary Entry to Appropriate Reserves

Date	Account and Explanation	Subsidiary	Debits	Credits
	510 Estimated Revenues		\$300,000	
	511 Appropriated Reserves		\$20,000	
	599 Appropriated Fund Balance		\$50,000	
	960 Appropriations			\$370,000

- To appropriate reserve funds in the budget adoption.



Common OSC Audit Findings

- No evidence of Board action establishing reserves.
 - All legal reserves must have a Board resolution establishing them.
- Failure to keep adequate accounting records.
 - Moneys identified as reserves and legally established are not recorded on the books using the proper account codes.



Common OSC Audit Findings

- Failure to use as a financing source in budget.
 - Expenditures relating to the purpose of the reserve do not use reserve moneys to finance.
- Lack of activity (spending).
 - Constantly funding and building reserves without a spending plan for many years.
 - Often leading to overfunded reserves.



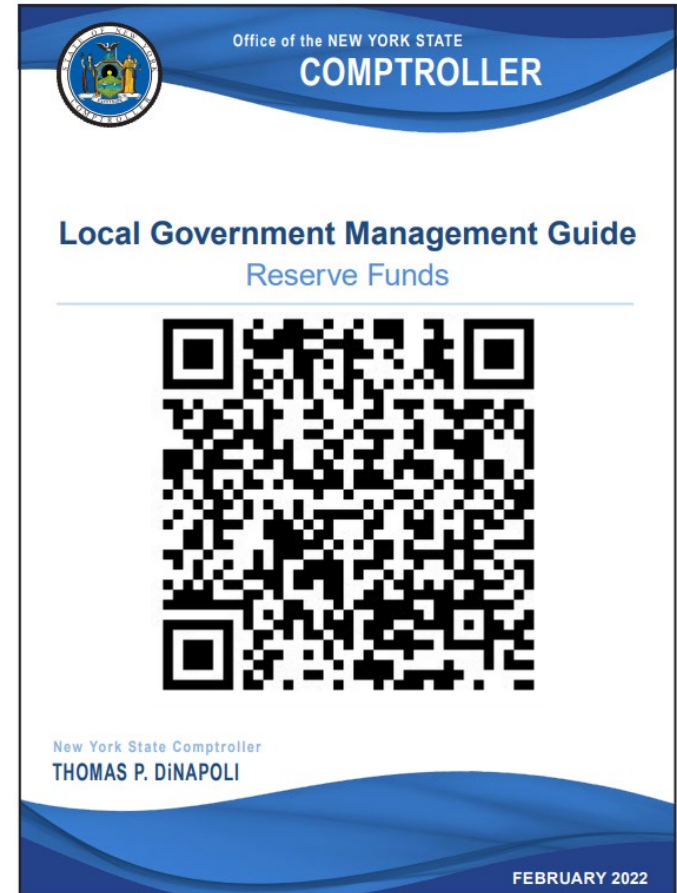
Common OSC Audit Findings

- Improper expenditures/transfers.
 - Transferring/spending without amending the budget.
 - Transferring to unauthorized fund balance.
 - Spending for improper purpose.
- Failure to allocate interest earned to reserve.



Resources

- Local Training
 - <https://www.osc.ny.gov/local-government/academy>
- Publications
 - <https://www.osc.ny.gov/local-government/publications>



Questions?

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