

## No. 3: COVID – Impact on Unreserved Fund Balance

“**Unreserved Fund Balance**” is an important amount in our budget to understand since that represents the amount “returned” to the taxpayers every year in the form of a reduction in tax assessments for the following year.

Unanticipated expenses associated with COVID-19 have reduced the amount available to be returned this year and recent state guidance allows Districts to retain more of that than normally allowed.

This article will explain that reduction. The next article in this series will provide details on the allocation of the tax assessments to the towns which are in the process of preparing your property tax bills.

### **COVID and Unanticipated Costs**

In our previous article, we talked about some of the unanticipated costs associated with COVID-19 and about some of the ways our federal and state governments are providing financial assistance to school districts. Providing additional revenue is one way getting help. Several programs were described in the previous article.

Our state government is also helping by modifying some of the many stringent procedural requirements that must be adhered to in normal times. One good example of that is the decision to allow Districts to reschedule certain special education requirements that could not be performed during the recently completed school year. We discussed that in the last article.

**State of New Hampshire Emergency Order #38** also provides some relief by providing flexibility in the use of “fund balances”.

That states (in part): “If a school district’s budget is insufficient to fund expenditures associated with addressing the COVID-19 pandemic, the governing body (i.e. the School Board) is authorized...to make such expenditure, to the extent other revenues or unrestricted fund balance are available to meet those expenses.”

What does that mean and how will it impact our budget – and your tax bill?

For the following discussion, you may find it helpful to refer to Figure 1 at the end of this article. That includes some key financial information from our “MS-25 School Financial Report for the Year ended June 30, 2020” that was recently submitted to the state.

### **Unreserved Fund Balance**

One of the sources of “revenue” that shows up in our financial statements in any given fiscal year is the amount of any surplus, non-committed funds remaining from the previous fiscal year. This amount directly reduces the amount of the district tax assessment (the amount to be raised with local property taxes) that is calculated late each calendar year.

The prudent way to put together a budget – for the school district or for your family – is to plan to spend less than you take in. The amount of “excess” actually realized by the District each year is usually higher but can be lower than the \$\$ estimated when the proposed budget was developed (we typically include \$250,000 for this).

Unlike at home when the use of any excess is discretionary, our “excess” must be “returned to the towns” - unless the voters or the School Board have approved otherwise. Funding of the various District Trust Funds is an example of a voter approved exception. Encumbrances are Board approved. Both are discussed below.

### **Reserves for Amounts Voted**

The use of Trust Funds provides the District with the opportunity to plan for the longer term and to avoid or reduce some year to year variance that might otherwise occur in the school budget.

Voters must approve the amounts put into these Trust Funds each year and have given the School Board the authority to spend. Public Hearings must be held before any such expenditure.

The School District ballot will typically include one or more Warrant Articles that are similar to Article 02 from this past March:

“Shall the Contoocook Valley School District vote to raise and appropriate the sum of \$550,000 to be added to the Contoocook Valley School District Capital Reserve Fund, previously established? This sum to come from June 30, 2020 fund balance available for transfer on July 1, 2020, with no amount to be raised from taxation.”

This past March District voters approved this and two similar Warrant Articles - \$25,000 each for our Athletic Trust and Health Trust Funds. \$600,000 total.

### **Encumbrances**

Every fiscal year there are some commitments the District has made that cannot be completed in that fiscal year. One example would be the purchase of equipment that is ordered in April and delivered and actually paid for in August. Although the budgeted funds are committed in one year, they aren't actually spent until the following year. Associated funds must be formally transferred (encumbered) by the School Board (public vote) by June 30 each year – or those funds end up in the Fund Balance.

A total of \$1,853,165 was encumbered in FY 2019-20 as shown in the MS-25. Included in the total were the unfulfilled Special Education requirements mentioned previously.

### **Reserve for Special Purposes**

Certain revenues for the District are tied to specific expenses. Examples include grants from individuals or outside organizations. Another example is efficiency rebates. For FY2019-20, the total reserve was \$491,122.

### **Unassigned Fund Balance**

The amount remaining after deducting for the various Reserves (Amounts Voted, Encumbrances, and Special Reserves) for FY 2019-20 was \$570,836.58.

### **Emergency Order 38**

As discussed previously, the state has made an exception to the normal use of the unassigned fund balance. Rather than being required to “return” this balance to the towns, the School District was

provided with the option to retain any portion or all of \$570,836 to offset some of the unanticipated costs associated with COVID-19.

During the October 27<sup>th</sup> Board meeting, we voted to retain \$320,836.58 which will be used for certain personnel related COVID expenses. The NH Department of Education has since approved this retention.

The balance of \$250,000 remaining after this deduction matches the amount included in the proposed budget voters approved this past March - but it is significantly lower than we returned in previous years.

Table 1 includes the amounts for Unreserved Fund Balance that were budgeted (“Proposed”) and realized (“Approved”) for the past several years.

Recall that the budget for any given school year is set in March for the following school year and includes an estimate of the unreserved fund balance from the ongoing school year. Note that ConVal has used a conservative estimate (\$250,000) for several years and has been able to “return” more than budgeted. Until this year.

<b>Proposed Budget</b>		<b>Approved Fund Balance</b>		<b>Tax Bill</b>
<b>FY2017-18</b>	<b>\$250,000</b>	<b>\$1,372,508</b>	<b>FY16-17</b>	
FY2018-19	\$250,000	\$851,339	FY17-18	December 2018
FY2019-20	\$250,000	\$1,294,239	FY18-19	December 2019
FY2020-21	\$250,000	\$250,000	FY19-20	December 2020
FY2021-22	TBD	TBD	FY20-21	December 2021

Table 2 – Unreserved Fund Balance by Year

The “Approved” amount in the Table represents the unreserved fund balance revenue that is used in the District Tax Assessment calculation each fall. This amount also included in the Annual Report distributed before the Deliberative Sessions in February and **March**.

### **Tax Assessments**

Once the \$250,000 FY19-20 fund balance was finalized, the “District Assessment” could be calculated and apportioned to the nine towns of the District.

There are several prescribed calculations involved in determining how much each town must raise for the District through local property taxes. We’ll cover this in the next article.

