

Finance Report  
4/13/09

Undesignated Fund Balance:

- The Undesignated Fund Balance as of 6/30/08 was \$3,568,432.
- The auditors identified this fund balance in the Management Letter to the management of the South Portland School Department dated 10/31/08.
- The audit did not identify any significant deficiencies for the School Department.
- The audit did identify opportunities for strengthening internal controls and among those was the Title 20-A consideration regarding excess unallocated balances (Undesignated Fund Balance).
- The audit identified that the unallocated balance in excess of the 3% permitted by Title 20-A should be disbursed over a period not to exceed 3 years.
- The FY 2010 budget includes a beginning balance of \$1,200,000. These are funds in the undesignated fund balance that will be used in FY 2010 to reduce the needs from taxes. The beginning balance represents more than 1/3 of the existing undesignated fund balance.

Accumulation of unallocated funds:

- The budget is a projection based on the information that is available when it is developed.
- 82% of the School Department budget is made up of salaries and benefits.
- The salary of each employee is calculated, one by one, as well as any benefits that are a percentage of salary.
- For benefits such as health and dental insurances, amounts needed in the budget are estimates until the actual increases are known.
- In the 2008-09 budget, the rate increases were not known until too late in the time line to make adjustments to the budget. The rates for health insurance were less than projected. Any money saved as a result of the lower rates will lapse into the undesignated fund balance at the end of the fiscal year, unless the Board of Education explicitly votes to use the funds for another purpose.
- For the 2009-2010 budget, the health insurance rates were announced early in the year, were less than projected and the Board voted to reduce the budget by \$417,986 to reflect the known costs.
- Another area in which projections are used is for the price of fuels.
- In 2008-09, the School Department and the City used a projection for the costs of fuels. When the bid amounts were known, the prices were significantly higher than the projection. Again, these were known too late to change the budget so savings are necessary to offset the higher costs.
- For 2009-2010, the School Department and the City used projections for fuel cost in the initial development of the budget. This winter, bids were opened for fuels and the bids were lower than the amounts projected in the budget. The Board reduced the budget to reflect the lower costs.

- The undesignated fund balance also accumulates when revenues are higher than projected.
- As of 6/30/08, the School Department had received \$47,705 more money in revenue than had been budgeted. This represents about .12% of the budget. Revenue that exceeds the amount budgeted lapses into surplus.
- Many of our revenues are not known at the time the budget is developed so they are based on projections. Even when we have final enactment of our state subsidy in time for it to be known during the budget process, the State can curtail that subsidy during the course of the year as was done this fall to the amount of \$874,260.
- In previous years, there have also been serious efforts to curtail funding for State Agency Clients and Maine Care at the state and federal levels respectively.
- Other revenue estimates can only be projected, such as admissions to student activities.

#### Use of Undesignated Fund Balance:

- The undesignated fund balance may be used as a beginning balance to reduce the needs from taxes as has been done for the budget every year. That amount is adjusted depending upon the amount of undesignated fund balance identified in the prior year audit.
- Other uses of these funds must be approved by the City Council and must be used for education.
- The City Council has been very careful over the years to grant permission for the use of these funds only for those items that do not create future obligations that may cause increases in taxes.