



# Clymer Central School District Financial Management

## Report of Examination

Period Covered:

July 1, 2012 – April 1, 2016

2016M-187



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

August 2016

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Clymer Central School District, entitled Financial Management. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## Background

The Clymer Central School District (District) is located in the Towns of Clymer, French Creek, Mina and Sherman in Chautauqua County. The District is governed by the Board of Education (Board), which is composed of five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction. The Board, Superintendent and Business Manager are responsible for the District's annual budget. The Business Manager is also responsible for maintaining the District's financial records.

The District operates one school with approximately 425 students and 100 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$10.2 million and were funded primarily with State aid and real property taxes.

## Objective

The objective of our audit was to review the District's financial management practices. Our audit addressed the following related question:

- Did the Board and District officials appropriately use unrestricted fund balance and maintain reserve funds at reasonable amounts?

## Scope and Methodology

We examined the financial management of the District for the period July 1, 2012 through April 1, 2016. We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

## Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective

action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

## Financial Management

In preparing the budget, the Board and District officials should accurately estimate how much the District will likely spend, what it will receive in revenue (e.g., State aid) and how much fund balance will be available at the fiscal year-end to help fund the budget. Accurate budget estimates help ensure the tax levy is not greater than necessary. The Board and District officials should ensure the remaining amount of unrestricted fund balance does not exceed the amount allowed by law. New York State Real Property Tax Law currently limits unrestricted fund balance to no more than 4 percent of the subsequent year's budget. Any unrestricted fund balance over this percentage should be used to reduce the upcoming fiscal year's tax levy or to fund reserves. School districts are legally allowed to establish reserves and accumulate funds for certain future purposes (e.g., capital projects, retirement expenditures). District officials should plan for the funding and use of these reserves.

Although the District's budget estimates were reasonable, the Board and District officials allowed unrestricted fund balance to exceed the statutory limit for the past three fiscal years. As of June 30, 2015, unrestricted fund balance totaled \$1.4 million and was 14 percent<sup>1</sup> of the 2015-16 budgeted appropriations, exceeding the statutory limit by 10 percentage points. Furthermore, the District has two reserves totaling \$967,000 that may be overfunded. During fiscal years 2012-13 through 2014-15, District officials have increased the tax levy by an average of \$82,000, or 2 percent annually, and increased the tax levy 1.5 percent for 2015-16.

### Fund Balance

Fund balance represents the cumulative residual resources from prior years that can, and in some cases must, be used to lower property taxes for the ensuing fiscal year. During the budget process, the Board must estimate the amount of fund balance that can be applied as a financing source in the adopted budget.

The District's unrestricted fund balance annually exceeded the statutory limit of 4 percent of the subsequent year's budget by 4 to 9 percentage points (Figure 1). According to the Business Manager, the District appropriates fund balance as a financing source in the annual budget to limit the increase in the real property tax levy to 2 percent annually. District officials increased the tax levy by an average of \$82,000, or 2 percent annually, from 2012-13 through 2014-15 and increased the tax levy 1.5 percent for 2015-16. District officials and Board members stated that they were aware that unrestricted fund

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<sup>1</sup> See Figure 2

balance exceeded the statutory limit and had planned to reduce it by funding reserves. However, the Board ultimately decided to retain unrestricted fund balance in excess of the statutory limit.

**Figure 1: Unrestricted Fund Balance at Year-End**

	2012-13	2013-14	2014-15
Beginning Fund Balance	\$2,489,596	\$2,321,749	\$2,506,776
Plus: Operating Surplus/(Deficit)	(\$167,847)	\$185,027	\$132,665
Less: Use of Reserves			\$99,025
Ending Fund Balance	\$2,321,749	\$2,506,776	\$2,540,416
Less: Appropriated Fund Balance	\$129,524	\$145,500	\$65,500
Less: Restricted Fund Balance (Reserves)	\$1,298,346	\$1,299,792	\$1,071,232
Less: Encumbrances	\$144,845	\$117,902	\$39,776
Unrestricted Fund Balance at Year-End	\$749,034	\$943,582	\$1,363,908
Ensuing Year's Budgeted Appropriations	\$9,750,795	\$10,024,268	\$10,196,794
Unrestricted Fund Balance as a Percentage of Ensuing Year's Appropriations	8%	9%	13% <sup>a</sup>

<sup>a</sup> A tax certiorari reserve was liquidated on June 6, 2015 when \$129,370 was transferred from this reserve to unrestricted fund balance in the general fund. District officials indicated they may need to reestablish the reserve depending on the outcome of an anticipated tax assessment grievance. If re-established, it would reduce the unrestricted fund balance from its current level.

In 2013-14 and 2014-15, District officials improperly accounted for two bond anticipation notes (BANs) and the corresponding expenditures in the general fund, rather than in the capital projects fund as required. We adjusted the balances in Figure 1 to the extent they were impacted by the misclassifications. The Business Manager indicated she would record adjusting journal entries in the accounting records to correct the errors.

The District appropriated an average of \$113,500 in fund balance as a financing source in the annual budgets for 2013-14 through 2015-16. This appropriation of fund balance reduced the level of reported unrestricted fund balance at the end of each fiscal year. However, the District did not use any of the appropriated fund balance for 2013-14 and 2014-15 to finance operations because the District realized operating surpluses in those fiscal years. In addition, we project the District will realize an operating surplus of approximately \$80,000 for 2015-16 and, therefore, will not use any of the \$65,500 of appropriated fund balance. When the unused appropriated fund balance is added back to unrestricted fund balance in the year in which it was appropriated, the recalculated unrestricted fund balance exceeded the statutory limit by 5 to 10 percentage points (Figure 2).

<b>Figure 2: Recalculated Unrestricted Fund Balance at Year-End</b>			
	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Unrestricted Fund Balance at Year-End	\$749,034	\$943,582	\$1,363,908
Plus: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	\$129,524	\$145,500	\$65,500
Recalculated Unrestricted Fund Balance at Year-End	\$878,558	\$1,089,082	\$1,429,408
Ensuing Year's Budgeted Appropriations	\$9,750,795	\$10,024,268	\$10,196,794
Unrestricted Fund Balance as a Percentage of Ensuing Year's Appropriations	9%	11%	14%

District officials have consistently underutilized fund balance as a financing source in annual budgets. As a result, the annual property tax levy may have been higher than necessary.

We compared budgeted revenues and appropriations against operating results for 2012-13 through 2014-15 and found budget estimates were reasonable. According to District officials, the operating surpluses resulted from various favorable factors, some of which were unplanned, such as a savings of approximately \$98,000 from advance bond refunding (2013 and 2015), unanticipated revenue of approximately \$100,000 for sharing of services with a neighboring school district (2015) and savings of \$100,000 in salaries (2014). In addition, the Business Manager stated she typically includes an additional \$40,000 of appropriations in the adopted budgets for unanticipated health insurance costs, but these additional appropriations were not needed.

**Reserve Funds**

School districts are legally allowed to establish reserves and accumulate funds for certain future purposes (e.g., capital projects, retirement expenditures). Reserve money set aside must be used in compliance with statutory provisions that determine how reserves are established, funded, expended and discontinued. Generally, school districts are not limited in the levels they can maintain in reserves. However, funding reserves at greater than reasonable levels contributes to higher than necessary real property tax levies because excessive reserve balances are not used to fund operations.

The District had four reserves with reported balances totaling approximately \$1.1 million as of June 30, 2015. Two reserves totaling approximately \$967,000 may be overfunded.<sup>2</sup>

Retirement Contribution Reserve – General Municipal Law (GML) authorizes a school district to establish and fund such a reserve to pay

<sup>2</sup> The District's two other reserves were a capital reserve (\$79,022) and an unemployment insurance reserve (\$24,266).

employer retirement contributions to the New York State and Local Retirement System. As of June 30, 2015, the District's reserve balance was \$508,000, which represented approximately three times the District's three-year annual average cost of \$181,000 for retirement contributions. The Board's targeted funding levels or the conditions under which the Board intends to use or replenish the reserve are unclear; however, with a balance of three times the average annual cost, it appears overfunded. The Board has appropriated a portion of the reserve to fund retirement contributions, but the majority of these costs continue to be funded with current revenue sources.

Employee Benefit Accrued Liability Reserve (EBALR) – GML authorizes a school district to create this reserve to fund the cash payment of accrued and unused sick, vacation and certain other leave time owed to employees when they separate from school district employment. The balance in this reserve should not exceed the total liability associated with eligible employees.

District officials provided a 2014-15 schedule identifying the leave balances for employees entitled to a payout at retirement and recent retirement liabilities. We reviewed the schedule, employee contracts and collective bargaining agreements provided by District officials to determine the potential liability costs for the District. We calculated the potential liability to be approximately \$352,000. As of June 30, 2015, the EBALR had a balance of approximately \$459,000, which exceeded the amount necessary to pay employees for accrued and unused sick and vacation leave time at separation by approximately \$107,000 (30 percent).

The District adopted a reserve fund policy in 2011. The policy provides guidance on how to establish and maintain various reserves. However, the policy does not discuss targeted funding levels or conditions under which reserves are to be used or replenished.

Funding reserves at greater than reasonable levels contributes to real property tax levies that are higher than necessary because the excessive reserve balances are not being used to fund operations.

## **Recommendations**

The Board and District officials should:

1. Ensure that unrestricted fund balance is in compliance with the statutory limit and develop a plan to use the surplus funds as a financing source for:
  - Funding one-time expenditures;
  - Funding needed reserves; and

- Reducing District property taxes.
2. Review all reserves at least annually to determine if the amounts are necessary and reasonable. Any excess funds should be transferred to unrestricted fund balance (where allowed by law) or to other reserves established and maintained in compliance with statutory directives.
  3. Periodically review and update the written reserve fund policy to ensure it addresses targeted funding levels and conditions under which reserves will be used or replenished.

The Business Manager should:

4. Account for BANs and the related purchases in the capital projects fund.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

The District officials' response to this audit can be found on the following pages.

Annette Rhebergen  
Business Official

Brynne Hinsdale  
Director of Technology



Emily Harvey  
Director of Instruction

Kristin Irwin  
District Clerk

Clymer Central School District—8672 E. Main St. Clymer, NY 14724

Phone (716) 355-4444—Fax (716) 355-4448

Bert Lictus, Superintendent

July 28, 2016

Jeffrey D. Mazula, Chief Examiner  
Office of the State Comptroller  
295 Main Street, Suite 1032  
Buffalo, NY 14203-2510

Dear Mr. Mazula,

On behalf of the Clymer Central School District, I would like to thank your office for the assistance we received from your staff in the assessment of our financial management practices regarding Fund Balance and Reserve Funds.

The District is in agreement with the recommendations in this report and the Board of Education and administration will review the recommendations of the Report of Examination for the period of July 1, 2012-April 1, 2016 and formulate a corrective action plan to improve current financial practices. After reviewing the recommendations, the district's response to the recommendations are as follows:

**Fund Balance:**

The District understands the statutory limitations on fund balance and is aware that the fund balance is in excess, however, due to the volatility of state aid since the inception of the Gap Elimination Adjustment introduced in 2010 and the tax cap legislation, the district was motivated to protect the district financially in anticipation of survival in the future.

**Reserves:**

The District will review the current reserve policies and assess the status of all reserves for reasonableness.

**BANS:**

The Business Manager will make the necessary corrections and account for future borrowings in the capital fund.

We would like to thank you for the opportunity to respond to your report.

Sincerely,

Bert Lictus  
Superintendent

cc: Annette Rhebergen, School Business Official  
Michael Schenck, BOE President

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials and Board members and reviewed policies and procedures to gain an understanding of the District's financial management practices.
- We reviewed Board minutes and the audited financial statements.
- We reviewed the results of operations and analyzed changes in fund balance for the general fund for the period July 1, 2012 through June 30, 2015. We also projected balances through June 30, 2016.
- We calculated unrestricted fund balance as a percentage of the next year's appropriations to determine if amounts were in compliance with statute.
- We calculated the annual change in the real property tax levy for fiscal years 2012-13 through 2015-16.
- We reviewed the District's accounting for BANs and the related purchases to determine the impact of any misclassifications on operating results and unrestricted fund balance.
- We compared budgets with actual operating results for the period July 1, 2012 through June 30, 2015 to determine if the budget assumptions were reasonable and analyzed reasons for significant budget variances. We also reviewed the adopted 2015-16 budget.
- We assessed the reasonableness of reserve balances and reviewed general ledger reserve activity for the period July 1, 2013 through February 29, 2016.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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Andrew A. SanFilippo, Executive Deputy Comptroller  
Gabriel F. Deyo, Deputy Comptroller  
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