

Minerva Central School District

Financial Condition Management

OCTOBER 2020



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Minerva Central School District

Audit Objective

Determine whether District officials effectively managed the District's financial condition.

Key Findings

District officials can do more to effectively manage the District's financial condition.

- District officials overestimated appropriations by a total of more than \$2.1 million from 2016-17 through 2018-19 and annually appropriated fund balance that was not used to finance operations.
- Unrestricted fund balance ranged between 18.5 and 31.1 percent of ensuing years' appropriations, exceeding the 4 percent statutory limit, and the District's last six independent audit reports contained a finding related to the District's unrestricted fund balance being in excess of the statutory limit.
- District officials did not develop a comprehensive multiyear financial plan.

Key Recommendations

- Develop and adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations.
- Develop a plan to reduce surplus fund balance to comply with the statutory limit and use excess funds in a manner beneficial to taxpayers.
- Develop a comprehensive multiyear financial plan.

District officials generally agreed with our recommendations and have initiated, or indicated they planned to initiate corrective action.

Subsequent Event

Our audit period ended prior to the COVID-19 pandemic (pandemic). The District's results of operations for the remainder of the 2019-20 school year and our audit work do not factor in the pandemic's financial effects.

Background

The Minerva Central School District (District) serves the Towns of Minerva in Essex County and Chester in Warren County.

The five-member elected Board of Education (Board) is responsible for the general management and control of financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer and, along with other administrative staff, is responsible for day-to-day management under the Board's direction.

The Business Manager oversees business operations and maintains financial records. The Business Manager and Superintendent are responsible for developing the budget.

Quick Facts

Employees	50
Enrollment	105
2019-20 Appropriations	\$5.6 million

Audit Period

July 1, 2016 – February 29, 2020

Financial Condition Management

What Is Effective Financial Condition Management?

To effectively manage the district's financial condition, the board must adopt realistic and structurally balanced budgets based on historical data or other known factors in which recurring revenues finance recurring expenditures. In preparing the budget, district officials must estimate the amounts a school district will receive and spend, the amount of unrestricted fund balance and reserves that may be available at year-end to use towards the next year's budget and the expected real property tax levy (tax levy). Accurate estimates help ensure that the tax levy is not greater than necessary.

A district may retain a portion of fund balance, referred to as unrestricted fund balance,¹ to provide a cushion against unforeseen events and for fluctuations in cash flow. Officials should ensure that unrestricted fund balance does not exceed the amount allowed by New York State Real Property Tax Law (RPTL),² which is no more than 4 percent of the ensuing year's budgeted appropriations. A fund balance policy that addresses the appropriate level of fund balance to be maintained can provide the board with guidelines to use during the budget process.

When fund balance and reserves are appropriated in the budget, there is an expectation of a planned operating deficit (expenditures exceeding revenues) equal to the amount of fund balance and reserves that were appropriated. Sound budgeting practices provide that adopted annual budgets do not routinely include the appropriation of fund balance and/or reserves that will not be used to fund operations.

District officials should prepare a multiyear financial plan based on reasonable estimates of projected future revenues, expenditures and fund balance amounts. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Multiyear plans also help officials to assess the merits of appropriating fund balance or establishing and using reserves to finance operations and capital needs. Any multiyear financial plan should be monitored and updated on a continuing basis to provide a reliable framework for preparing budgets and to ensure information used to guide decisions is current and accurate.

1 Unrestricted fund balance is the total of the committed, assigned and unassigned fund balance, minus appropriated fund balance, amounts reserved for insurance recovery, amounts reserved for tax reduction and encumbrances included in committed and assigned fund balance.

2 New York State Real Property Tax Law, Section 1318

Appropriations Were Overestimated and Unrestricted Fund Balance Exceeded the Statutory Limit

We compared the District’s budgeted revenues and appropriations with actual results of operations from 2016-17 through 2018-19 to determine whether the estimates were reasonable. While revenue estimates were reasonable, the Board adopted budgets that overestimated appropriations by more than \$2.1 million in total or an annual average of approximately \$700,000 (15 percent).

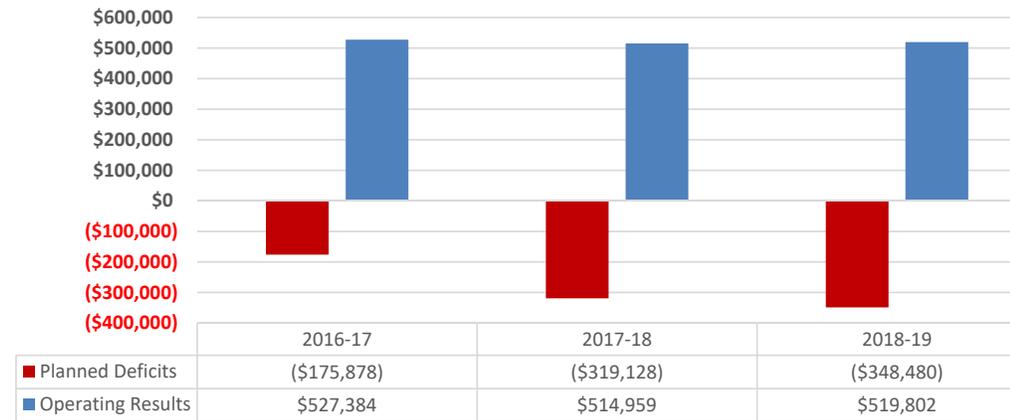
Figure 1: Overestimated Appropriations

Fiscal Year	2016-17	2017-18	2018-19	Totals
Budgeted Appropriations	\$5,039,753	\$5,276,723	\$5,438,569	\$15,755,045
Actual Expenditures	\$4,474,985	\$4,500,030	\$4,678,598	\$13,653,613
Overestimated Appropriations	\$564,768	\$776,693	\$759,971	\$2,101,432
Percentage Overestimated	12.6%	17.3%	16.2%	15.4%

Although the overestimated appropriations were spread among accounts throughout the budgets, the largest variances were for contractual appropriations and health insurance benefits. Contractual appropriations were overestimated by a total of more than \$1.1 million (47 percent) and health insurance benefits were overestimated by \$531,289 (20 percent).

Because officials overestimated appropriations, it appeared that the District needed to rely on appropriated fund balance and reserves and increases in the tax levy each year to close projected budget gaps. The adopted budgets for 2016-17 through 2018-19 included appropriated fund balance and reserves totaling \$843,486,³ which should have resulted in planned operating deficits in the same amount. However, because officials overestimated appropriations, the District realized an operating surplus each year or a combined total of more than \$1.5 million. As a result, none of the appropriated fund balance was actually used.

³ The Board appropriated \$20,000 from the retirement contribution reserve as a financing source in its budgets each year.

FIGURE 2**Planned Deficits vs. Actual Operating Results**

The Board also increased the tax levy each year from 2016-17 through 2018-19. The tax levy increased by \$352,474 or 10.5 percent from the 2015-16 tax levy to the 2018-19 tax levy. Had officials maintained the same tax levy from 2015-16 in 2016-17 through 2018-19, taxpayers could have realized about \$700,000 in cumulative savings. In addition, the District would have still realized an operating surplus each year or a combined total of approximately \$850,000.

The District's budgetary practices contributed to an increasing level of unrestricted fund balance from 2016-17 through 2018-19 that was in excess of the statutory limit by 14.5 to 27.1 percentage points.⁴ In addition, the District's practice of appropriating fund balance that was not needed to finance operations is, in effect, a reservation of fund balance that is not provided for by statute and a circumvention of the statutory limit. As a result, when unused appropriated fund balance is added back, the District's recalculated unrestricted fund balance was in excess of the statutory limit by 20.2 to 34.8 percentage points.⁵

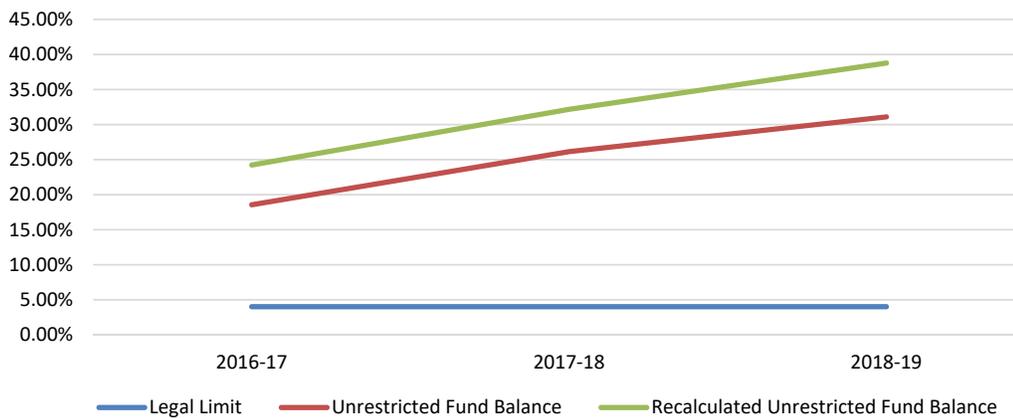
Had officials maintained the same tax levy from 2015-16 in 2016-17 through 2018-19, taxpayers could have realized about \$700,000 in cumulative savings.

⁴ See Figure 4 in Appendix A for details related to the District's unrestricted fund balance trends.

⁵ Ibid.

FIGURE 3

Unrestricted Fund Balance Percentage



The accumulation of unrestricted fund balance occurred even though each of the District's last six independent audit reports contained a finding related to the District's unrestricted fund balance being in excess of the statutory limit. In addition, the Board adopted a fund balance policy in November 2015 which outlines that the Board will strive to ensure that the unrestricted fund balance does not exceed the statutory limit and will ensure surplus fund balance is used to reduce taxes in accordance with RPTL. However, from 2016-17 through 2018-19 the amount that the District's unrestricted fund balance exceeded the statutory limit and tax levy increased each year.

The District's 2019-20 adopted budget includes approximately a .4 percent tax levy decrease compared to 2018-19. We reviewed the District's 2019-20 budget estimates and found the budgeted revenues were reasonable. However, as in recent years, we still project officials have overestimated appropriations among accounts throughout the budget. For example, we project officials have overestimated contractual appropriations and health insurance benefits by approximately \$300,000 and \$150,000, respectively. As a result, the District will likely realize another operating surplus in 2019-20 and will not use the \$427,955 of appropriated fund balance to finance operations.

Fund balance will remain in excess of the statutory limit unless the District incurs planned operating deficits or the Board develops a plan to use excess fund balance in a manner beneficial to taxpayers.

...[T]he District's last six independent audit reports contained a finding related to the District's unrestricted fund balance being in excess of the statutory limit.

District Officials Had Not Developed a Comprehensive Multiyear Financial Plan

The Business Manager annually prepared and provided the Board with a multiyear reserve plan that included the projected future funding, use and balances of the District's reserve funds. However, District officials did not develop a comprehensive multiyear financial plan that projected future revenues, expenditures and fund balance amounts. Had such a plan been developed, officials would have had a valuable resource that could have further assisted them in making financial decisions during the budget process, which may have prevented the District's accumulation and retention of unrestricted fund balance in excess of the statutory limit. The development of a comprehensive multiyear financial plan would be a useful tool for officials to address the reduction of the District's unrestricted fund balance to within the statutory limit.

Our audit period ended in February 2020, prior to the start of the pandemic. Given the negative financial effect of the pandemic, it is even more important for District officials to develop realistic annual budgets and a comprehensive multiyear financial plan.

What Do We Recommend?

District officials should:

1. Develop and adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations.
2. Develop a comprehensive multiyear financial plan and periodically review and update the plan as appropriate.

The Board should:

3. Develop a plan to reduce surplus fund balance to comply with the statutory limit and its fund balance policy. Unrestricted fund balance can be used for:
 - Reducing property taxes,
 - Funding one-time expenditures,
 - Funding needed reserves, and
 - Paying off debt.

Appendix A: Fund Balance Chart

Figure 4: Unrestricted Fund Balance at Year-End

Fiscal Year	2016-17	2017-18	2018-19
Total Beginning Fund Balance	\$1,606,826	\$2,134,210	\$2,649,169
Add: Operating Surplus	\$527,384	\$514,959	\$519,802
Total Year-End Fund Balance	\$2,134,210	\$2,649,169	\$3,168,971
Less: Restricted Funds	\$805,347	\$806,901	\$897,318
Less: Encumbrances	\$51,157	\$92,598	\$111,213
Less: Appropriated Fund Balance for the Ensuing Year	\$299,128	\$328,480	\$427,955
Total Unrestricted Funds at Year-End	\$978,578	\$1,421,190	\$1,732,485
Ensuing Year's Budgeted Appropriations	\$5,276,723	\$5,438,569	\$5,571,973
Unrestricted Funds as a Percentage of Ensuing Year's Budget	18.5%	26.1%	31.1%
Unrestricted Funds as a Percentage of Ensuing Year's Budget When Unused Appropriated Fund Balance is Added Back	24.2%	32.2%	38.8% ^a

^a Assuming the current trend of operating surpluses continues and none of the appropriated fund balance is used to finance operations in 2019-20.

Appendix B: Response From District Officials

Minerva Central School

Timothy F. Farrell - *Superintendent*
Nancy O'Brien - *Business Manager*



July 15, 2020

The Minerva Central School is in receipt of the draft Report of Examination by the Office of the State Comptroller for the period of July 1, 2016 – February 29, 2020. The District would like to thank the State Comptroller's office for their professionalism while working in the district.

The Minerva Central School audit response below will also serve as our Corrective Action Plan. We agree substantially with the findings of the audit report.

Unit Name: Minerva Central School District
Audit Title: Financial Condition Management
Audit Report Number: 2020M-60

Audit Recommendation: Develop and adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations.

The District uses conservative estimates and historical data in developing the budget. During the time period covered by this audit, we experienced multiple issues that led to the overestimation of appropriations. For example, our Energy Performance Project was not approved by the State Education Department as quickly as anticipated and in the budget year for which the expense was planned to begin. Another example is we were unable to fill an instructional position as quickly as hoped and in the budget year for which the expense was planned.

We are especially cautious in the areas of special education, employee health care benefits and transportation services as these costs can vary considerably from the time of budget planning to budget enactment. Special education costs for high needs students often exceed \$100,000 per student and our experience has proven that some of these students are increasingly transient which can result in significant variances between planned and actual expenses. Health insurance costs is another significant expense that can vary between budget planning and enactment. Further concerning is that our ability to participate in our current health insurance consortium, which allows us to contain health insurance costs, is questionable from year to year due to decisions being made at the State level. If we are no longer able to participate in this health insurance consortium, estimates project increases of up to fifteen percent or approximately \$150,000.

The District is mindful that a change in these areas, in either direction, can significantly change our financial standing. We would like to note that the District has not exceeded the tax levy limit requirements since its enactment in 2012 and has also contained annual budget increases to very modest amounts during this time.

Audit Recommendation: Develop a comprehensive multiyear financial plan.

The District has developed a multiyear financial plan using the template provided by the Office of the State Comptroller. The Superintendent and Board of Education will annually review the financial plan.

Audit Recommendation: Develop a plan to reduce surplus fund balance to comply with the statutory limit and its fund balance policy. Use excess funds in a manner beneficial to taxpayers.

Property taxes will be determined using unappropriated fund balance. The District is dedicated to staying within the allowable tax cap and keeping the tax rate stable.

As the unrestricted fund balance has increased, the District has evaluated its needs and used a portion of this for one-time expenses such as a bus purchase and door security upgrades. The District will continue to evaluate its most immediate needs and, when appropriate, additional one-time purchases will be made.

The District taxpayers have approved the establishment of two Capital Reserves in the last two budget votes: a capital reserve fund for future capital projects and a capital reserve fund for future bus purchases. The reserve for capital projects was established in 2019 to provide the District the opportunity to set money aside in preparation for a District-wide capital project that is tentatively planned for 2024. In 2020, voters also approved a reserve fund for future school bus purchases.

Because the District does not purchase a school bus each year, having a reserve account set aside to offset the costs of bus purchases, when needed, will allow for a more stable budget from year to year. The funding of these two most recently established reserves, along with the previously established Retirement Contribution Reserve Fund, Employee Benefits Accrued Liability Reserve (EBALR) Fund, and Unemployment Insurance Payment Reserve Fund will be evaluated and funded annually, as allowed, in order to benefit the District taxpayers.

The Minerva Central School District will reduce the fund balance over the next several years to comply with the statutory limit. This will be done responsibly, supporting quality student programs, providing long-term financial stability, staying within the tax cap and keeping the tax rate stable.

Sincerely,

Timothy Farrell
Superintendent

Appendix C: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials to gain an understanding of the District's financial management procedures. This included inquiries regarding the District's budgeting practices, adoption of a fund balance policy and preparation of a multiyear financial plan.
- We compared the District's budgeted revenues and appropriations with actual results of operations from 2016-17 through 2018-19 to determine whether the estimates were reasonable.
- We analyzed the District's general fund financial records for 2016-17 through 2018-19 to determine whether the appropriation of fund balance and reserves resulted in planned operating deficits and a decline in fund balance.
- We analyzed the tax levies and actual results of operations from 2016-17 through 2018-19 to determine whether any tax levy increases were necessary to fund the District's operations.
- We calculated the general fund's unrestricted fund balance at fiscal year-end 2016-17 through 2018-19 and its percentage of the ensuing year's budgeted appropriations to determine whether the District was in compliance with the RPTL statutory limit.
- We recalculated the general fund's unrestricted fund balance at fiscal year-end 2016-17 through 2018-19 after adding back unused appropriated fund balance and its percentage of the ensuing year's budgeted appropriations.
- We reviewed the adopted general fund budget for 2019-20 to determine whether the budgeted revenues and appropriations were reasonable based on historical data and supporting documentation.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

The Board has the responsibility to initiate corrective action. 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, 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. 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 CAP should be posted on the District's website for public review.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263206&issued=All

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

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