

Belfast Central School District

Reserve Funds

DECEMBER 2021



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

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Report Highlights

Belfast Central School District

Audit Objective

Determine whether the Belfast Central School District (District) Board of Education (Board) and District officials properly established and used reserve funds and maintained them at reasonable levels.

Key Findings

The Board and District officials properly established reserve funds. However, they did not properly use or maintain all reserve funds at appropriate levels. The Board and District officials:

- Did not adopt an adequate written reserve fund policy.
- Did not use the debt reserve, with a balance of \$315,000, to fund debt service payments as required.
- Overfunded two reserves by \$52,523 more than permitted by Board resolution.

Key Recommendations

- Adopt a more comprehensive written reserve fund policy.
- Develop a plan to use the funds in the debt reserve as required.
- Review all reserve balances to determine whether the amounts reserved are necessary and reasonable.

District officials generally agreed with our findings and recommendations and indicated they planned to take corrective action. Appendix B includes our comment on an issue raised in the District's response.

Background

The District serves the Towns of Allen, Angelica, Belfast, Caneadea and New Hudson in Allegany County.

The Board is responsible for managing and controlling the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. The Business Manager (Manager) oversees the Business Office, maintains financial records and prepares financial reports.

The Board, Superintendent and Manager are responsible for properly establishing, funding and using reserves.

Quick Facts

Enrollment	360
2021-22 Appropriations	\$10.1 million
2020-21 Year-End Reserve Balances	\$902,000
Number of Reserves	7

Audit Period

July 1, 2018 – July 29, 2021

Reserve Funds

How Should a Board Ensure Reserve Funds Are Properly Established and Used and Reasonably Funded?

A board may establish reserves to restrict a portion of fund balance that it can use for specific purposes (e.g., capital projects or retirement contributions) in compliance with statutory requirements. However, reserve balances must be reasonable and should be routinely monitored by the board and district officials. This can be accomplished, in part, by adopting a comprehensive written reserve fund policy addressing objectives for the reserves, funding methods, optimal levels and use.

New York State Local Finance Law, Section 165.00 and New York State General Municipal Law, Section 6-I require a debt reserve to be established¹ if unexpended bond proceeds remain on a capital improvement or when a capital improvement has outstanding debt remaining at the time of sale. These funds must be restricted and used for related debt principal and interest payments.

The Board Did Not Adopt an Adequate Written Reserve Fund Policy and Reserve Reports Were Inadequate

The Board adopted an updated written reserve fund policy in March 2018. The policy requires an annual report to the Board that includes a description of the reserves, the date of establishment, interest earned, withdrawal details, ending balances and an analysis of projected needs for the reserves in the upcoming fiscal year with a recommendation regarding funding those needs. However, the policy does not address objectives for the reserves, funding methods, optimal funding levels or conditions under which the assets would be used or replenished. Such information is necessary for officials when determining how and when to use reserve funds.

Further, the Manager prepares an annual reserve report and typically presents it to the Board in April each year while working on the annual budget, and then presents a final version after the close of the fiscal year, typically in July. However, the annual reserve reports submitted did not always include the date the reserves were established, the amount of each sum paid into the reserves, the interest earned by the reserves, the total amount and date of each withdrawal, nor an analysis of the projected need for the reserves in the upcoming fiscal year as required by Board policy.

The Manager told us that the annual reserve report did not include all the required and recommended components because he modeled the report from a template he obtained instead of consulting the Board policy. Without this information, the Board could not make informed decisions regarding the funding and use of the reserves.

...[T]he policy does not address objectives for the reserves, funding methods, optimal funding levels or conditions under which the assets would be used or replenished.

¹ Refer to our publication *Reserve Funds* available at www.osc.state.ny.us/localgov/pubs/lqmg/reservefunds.pdf

Reserves Were Overfunded and Not Used

As of June 30, 2021, the District reported six general fund reserves totaling approximately \$587,000 and a debt reserve of approximately \$315,000 in the debt service fund. We found that, while District officials properly established the reserves, the reserves were generally not used. The repair and unemployment reserves, with balances totaling approximately \$108,000, are overfunded, and the debt reserve had not been used, as required, for debt service payments. The District's other four reserve funds were reasonably funded.

Debt Reserve – During our audit period, these funds were not applied to the outstanding debt as required. As of June 30, 2021, the reserve had a balance of \$315,000 and, aside from interest earnings, has not changed.

Repair Reserve – Although the reserve likely could have been used to pay for repairs made to District buildings, no reserve funds were used during the audit period. Aside from interest earnings and a \$30,000 deposit made in 2021, the balance has not changed. As of June 30, 2021, the reserve had a balance of \$60,014, more than double the Board-established limit of \$30,000.

Unemployment Reserve – Based on the average annual unemployment expenditures for the audit period, of \$7,900, the reserve is sufficient to cover the District's annual unemployment expenditures for six years. As of June 30, 2021, the reserve had a balance of \$47,509, almost double the Board-established limit of \$25,000.

The Superintendent and Manager told us that that the overfunding of the repair and unemployment reserves was an oversight on their part and occurred because of administration changes. They also said that they did not use the debt reserve because current appropriations were adequate to fund associated debt payments, and they wanted to maintain continuity in the real property tax levy.

Had District officials adopted an adequate written reserve fund policy, and the annual report included all the Board-required information, the Board and District officials would have noticed that reserves exceeded previously established limits, and that the debt reserve had not been used. This potentially resulted in a higher than necessary real property tax levy.

What Do We Recommend?

The Board and District officials should:

1. Adopt a more comprehensive written reserve fund policy and ensure compliance with it.
2. Ensure the annual reserve report includes all elements required by the policy.

The repair and unemployment reserves, with balances totaling approximately \$108,000, are overfunded, and the debt reserve had not been used, as required, for debt service payments.

-
3. Review all reserve balances to determine whether the amounts reserved are necessary and reasonable.
 4. Develop a plan to use funds in the debt reserve as required.

Appendix A: Response From District Officials

Board of Education

Josie Preston, *President*
Randa Harrington, *Vice President*
Becky Backer
Dan Borden
Cecy Curcio
Chris Enders
Patricia Krotz

Belfast Central School District

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Administration

Wendy Butler Ed.D., *Superintendent*
Richard Bull, *5-12 Principal*
Jessica Hess, *PK-4 Principal/ Director of Pupil Services*
Robert J. Lingenfelter, *Business Manager*
Kayloni Dziedzic, *District Treasurer*
Gina Larrabee, *District Clerk*

November 18, 2021

State of New York
Office of the State Comptroller
Buffalo Regional Office
295 Main Street, Suite 1032
Buffalo, NY 14203-2510

To Whom It May Concern:

The Belfast Central School District is in receipt of the audit report by the Office of the State Comptroller on Reserve Funds. The information provided by your office demonstrates your intent to provide us with an opportunity to reflect on our operations and governance procedures. We appreciate the professionalism of your staff during the audit and thank you for the recommendations.

Based on the audit, the following four recommendations were noted:

1. Adopt a more comprehensive written reserve fund policy and ensure compliance with it.
2. Ensure the annual reserve report includes all elements required by the policy.
3. Review all reserve balances to determine whether the amounts reserved are necessary and reasonable.
4. Develop a plan to use funds in the debt reserve as required.

The Board and Administration will work closely over the next seven months to have these recommendations implemented by the end of the 2021-22 school year (June 30, 2022). We will use other local school's written reserve fund policies to develop a comprehensive plan. Using the new plan, we will ensure that the annual reserve report includes all previous elements as well as any new elements added with the new comprehensive policy.

For number three above, we have reviewed the reserves every year but, the results of those reviews do not make it to the official minutes as they are not necessarily Board action items. The initial reserve balance amounts were thoroughly discussed and documented but the formulas in which they were determined will be added to the new comprehensive plan so future administrations and Boards will have the knowledge of how to maintain reasonable levels.

Regarding recommendation number four, we do realize that we have not followed the state's preferred rules regarding the use of the debt service reserve, but this was done to protect the local taxpayers. With the severe fluctuations of state aid, the District decided to withhold certain years of the transfers to hold the funds for years when the state aid required a higher contribution. This was done to maintain a more stable tax levy. We were still using the funding to offset the local share of building project funding but using it in years when the state aid situation caused more fiscal stress on the district. We will develop wording in the new comprehensive reserve fund policy to address this.

See Note 1 Page 7

Again, thank you for the review of our records and the recommendations to help us improve our reserve fund policy and implementation. If I can be of any further assistance, please let me know.

Sincerely,

Robert J. Lingenfelter
Business Manager

Appendix B: OSC Comment on the District's Response

Note 1

Our recommendation was based on requirements established by Local Finance Law, Section 165.00.

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 reserve fund management practices.
- We reviewed the Board meeting minutes and District policies and procedures to identify and examine any information that related to the Board's oversight and responsibilities for establishing, funding, using and maintaining reserves.
- We reviewed financial records and reports to determine the reserve fund balances and reviewed each reserve's activities.
- We analyzed the balances maintained in reserves during the audit period to determine whether balances were reasonable by reviewing related reserve potential liabilities and expenditures, Board resolutions and the reserve fund policy.

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 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/files/local-government/pdf/regional-directory.pdf

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

www.osc.state.ny.us/local-government/publications

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

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/files/local-government/publications/pdf/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

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

www.osc.state.ny.us/local-government/academy

Contact

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