

# Albion Central School District

## Financial Management

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**MARCH 2022**

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

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# Report Highlights

## Albion Central School District

### Audit Objective

Determine whether the Albion Central School District (District) Board of Education (Board) and District officials adopted realistic budgets and properly managed fund balance and reserves.

### Key Findings

The Board and District officials did not adopt realistic budgets and did not properly manage fund balance and reserves. The Board and District officials:

- Overestimated appropriations by a total of \$24 million from 2017-18 through 2020-21.
- Overfunded and did not properly use the retirement contribution reserve fund.
- Could not explain how the Finance Committee participated in the budgeting process or identify what reports the Committee receives or how they are reviewed.

The District's budgeting practice of overestimating appropriations resulted in the District levying more real property taxes than needed and resulted in the accumulation of surplus fund balance in excess of the statutory limit by \$17.3 million or 47 percentage points.

### Key Recommendations

- Adopt budgets with realistic and reasonable estimates.
- Develop a plan for the use of excess surplus fund balance in a manner that benefits District taxpayers.
- Consult with legal counsel regarding excess funds in the retirement contribution reserve fund.

District officials generally agreed with our findings and recommendations and indicated they planned to initiate corrective action.

### Background

The District serves the Towns of Albion, Barre, Carlton, Gaines, Kendall, Murray and Ridgeway in Orleans County and the Town of Elba in Genesee County.

The Board is responsible for managing and controlling the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is responsible for the District's day-to-day management under the Board's direction.

The School Business Official, (Administrator) oversees the Business Office and maintains the District's financial records. The Board, Superintendent and Administrator are responsible for developing and monitoring the budget. The Superintendent was appointed in January 2021 and the Administrator in April 2021.

Our prior audit, issued in June 2016, found that the District's operating surpluses caused fund balance to exceed the statutory limit by 4.5 percentage points. In addition, the District had overfunded the retirement contribution reserve.

#### Quick Facts

Enrollment 2020-21	1,768
Surplus Fund Balance 6/30/2021	\$18.8 million
2020-21 Appropriations	\$36.8 million

### Audit Period

July 1, 2017 – October 13, 2021

# Financial Management

## How Should Financial Condition Be Properly Managed?

To properly manage financial condition, a board should adopt reasonably estimated and structurally balanced budgets based on historical data or known trends in which recurring revenues finance recurring expenditures. In preparing the budget, a board must estimate the amounts a school district will spend and receive, the amount of fund balance that will be available at fiscal year-end to use toward the next year's budget and the expected real property tax levy. Accurate estimates help ensure that the tax levy is not greater than necessary and that surplus fund balance amounts are not excessive and over the legal limit.

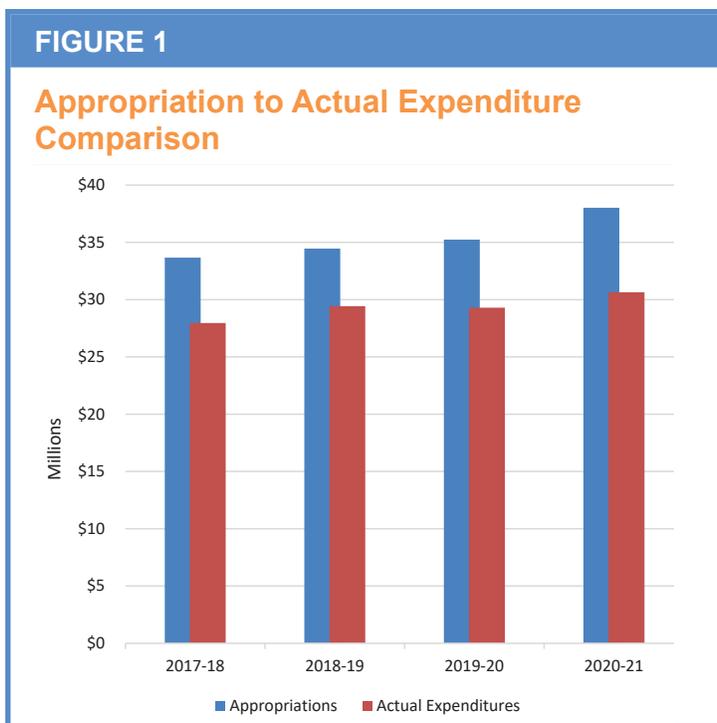
A board is permitted to retain a specified amount of fund balance for cash flow needs or unexpected expenditures and reserves for other identified or planned needs. New York State Real Property Tax Law Section 1318 currently limits the amount of surplus fund balance that a school district can retain to no more than 4 percent of the next year's budget. Any surplus fund balance over this percentage must be used to reduce the upcoming fiscal year's real property tax levy or to fund needed reserves.

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... [A] school district can retain ... no more than 4 percent of the next year's budget.

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## The Board and District Officials Overestimated Appropriations



We compared estimated revenues and budgeted appropriations with actual operating results for 2017-18 through 2020-21 and found that, while revenue estimates were generally reasonable, with a four-year underestimated variance of \$5 million or 4 percent, appropriations were overestimated by \$24 million or 20 percent during the four-year period as shown in Figure 1. Total appropriations for the

four years reviewed were approximately \$141 million and actual expenditures were \$117 million.

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Although historical data showed that these appropriations had been previously overestimated, officials continued to provide more appropriations in the annual budgets than the previous fiscal year's actual expenditures. We identified 13 appropriation line items that were each overestimated by more than \$300,000 in the four fiscal years we analyzed, totaling more than \$16 million. Of these 13 line items with large variances, six appropriations (teachers' salaries kindergarten through grade 12, hospital and medical insurance, teachers' retirement contribution, contract transportation, operation of plant, and tuition) each had a four-year total budget variance of more than \$1.5 million.

District officials told us that while they used historical or known trends during their budget development process, when preparing the staffing budget, they budgeted for more teaching positions than actually needed. Officials said this was to allow for more positions to be established and filled during the school year, if the Superintendent decided it was necessary or if more teachers were needed. They also told us that some teachers at the top of the pay scale retired during the school year without giving notice during budget preparation and were replaced with new hires who are typically at the lower end of the pay scale. While officials believe these circumstances led to lower than budgeted teachers' salaries, District officials were unable to demonstrate which teachers retired and in what years this occurred.

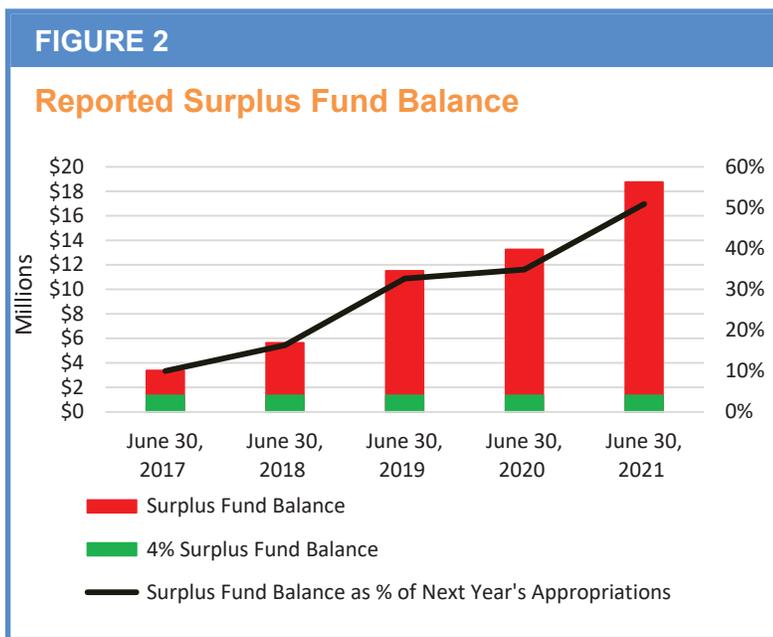
District officials also told us hospital and medical insurance, and teachers' retirement contribution estimates are based on a certain percentage of salaries. As such, the overestimation of salaries as described previously led to the overestimation of these appropriations. Additionally, the District is self-insured for hospital and medical insurance through a consortium. As a result, the District incurs a chargeback when claims are more than the consortium's limit. Due to potential chargebacks, officials told us that they budgeted conservatively. However, District officials could not provide evidence of claims exceeding the limit and incurring these types of chargebacks to warrant such budgeting practices.

The transportation appropriation was overestimated by a total of \$2.1 million (35 percent of actual expenditures) and operation of plant by more than \$1.7 million (100 percent of actual expenditures). District officials told us that they budgeted conservatively for the transportation line item to allow for additional transportation as needed for non-routine routes to other specialized educational centers, as students' needs are identified during the school year. Operation of plant budget estimates were made to ensure there were adequate appropriations available for unforeseen repairs that may be needed during the year. However, historical trends consistently demonstrated that actual expenditures in these line items have always been less than appropriations, and officials could not provide documentation to show that the District had incurred significant unforeseen transportation or repair expenditures in the past. Furthermore, if unanticipated expenditures were to occur, District officials could make certain budget transfers from other unused appropriations rather than consistently overestimate appropriations.

Although the average tax levy increase was less than 1 percent per year during the audit period, the Board and District officials overestimated appropriations and levied taxes that were higher than necessary, which resulted in the accumulation of significant surplus fund balance.

## Fund Balance Was Not Properly Managed and Exceeded the Statutory Limit

Because of unrealistic budget practices that have resulted in operating surpluses totaling over \$25.8 million in the four-year period, the District's reported surplus fund balance exceeded the 4 percent statutory limit, and it has increased significantly over the last four years from 10 percent as of June 30, 2017 to 51 percent as of June 30, 2021. (Figure 2)



The reported surplus fund balance increased from approximately \$3.4 million as of June 30, 2017 to more than \$18.8 million as of June 30, 2021, an increase of approximately \$15.4 million or 453 percent. The District's reported surplus fund balance as of June 30, 2021 was 51 percent of the next year's

appropriations, exceeding the statutory limit by \$17.3 million or 47 percentage points.

District officials appropriated approximately \$600,000 in fund balance annually, but the District realized an operating surplus in each of the fiscal years we reviewed. As a result, the District did not use the appropriated fund balance to finance operations. The District instead realized operating surpluses, before interfund transfers, totaling more than \$25.8 million during the four-year period. We reviewed the 2021-22 budget and determined that the revenue and expenditure estimates are consistent with the last four fiscal years. As such, the District will most likely have an operating surplus that will result in higher surplus fund balance.

...[T]he Board and District officials overestimated appropriations and levied taxes that were higher than necessary which resulted in the accumulation of significant surplus fund balance.

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District officials told us that they retain a higher level of surplus fund balance to cover revenue shortfalls and unforeseen expenditures and they do not believe the statutory limit is sufficient. However, the District's annual operating results have shown that the District has not historically encountered significant revenue shortfalls or unforeseen expenditures. Further, as demonstrated in this audit and our prior audit,<sup>1</sup> the District's recurring revenues are significantly higher than its recurring expenditures.

Officials also told us that significantly cutting the tax levy and using fund balance would not be sustainable in the long-term, because of the tax cap which limits the amount that the tax levy can be increased each year. Officials told us that if they were to cut the tax levy in half then they would not be able to increase the tax levy to its previous levels once fund balance and reserve balances reached a reasonable level. However, District officials would be able to exceed the tax cap limit, if ever necessary, with voter authorization for a tax cap override. Additionally, when considering significant tax cuts, the Board and officials should consider that the surplus fund balance was accumulated over many years. Rather than significant one-time tax levy reductions, officials could consider incremental decreases and maintain the real property tax levy at a level which would reduce the surplus fund balance gradually. For example, if they had maintained the real property tax levy at the 2016-17 level of \$6,458,124, they could have saved a cumulative tax levy of \$1.2 million.

The District's budgeting practice of overestimating appropriations resulted in the District levying more real property taxes than needed and resulted in the accumulation of surplus fund balance in excess of the statutory limit.

### **How Should Reserve Funds Be Properly Managed?**

School districts are legally allowed to establish reserves and accumulate funds for certain future purposes (e.g., capital project or retirement expenditures). While school districts are generally not limited as to how much money can be held in reserves, the balances should be reasonable. A board should balance the intent for accumulating funds for identified future needs with the obligation to make sure real property taxes are not higher than necessary. To help ensure that reserve balances do not exceed the amount necessary to address long-term obligations or planned expenditures, a board should adopt a written policy that indicates how the reserves will be funded, how much should be accumulated in the reserves and when the money will be used to finance related costs.

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<sup>1</sup> Refer to *Albion Central School District – Budgeting* (2016M-80). Issued in June 2016

New York State General Municipal Law (GML) Section 6-r allows for a school district to establish a retirement contribution reserve fund for the payment of retirement contributions which are defined as all or any portion of the amount payable to the New York State and Local Employees' and Teachers' Retirement Systems. If a school district has a retirement contribution reserve fund, the board may, by resolution, authorize the transfer of a portion of the funds in the retirement contribution reserve fund to another authorized reserve fund.

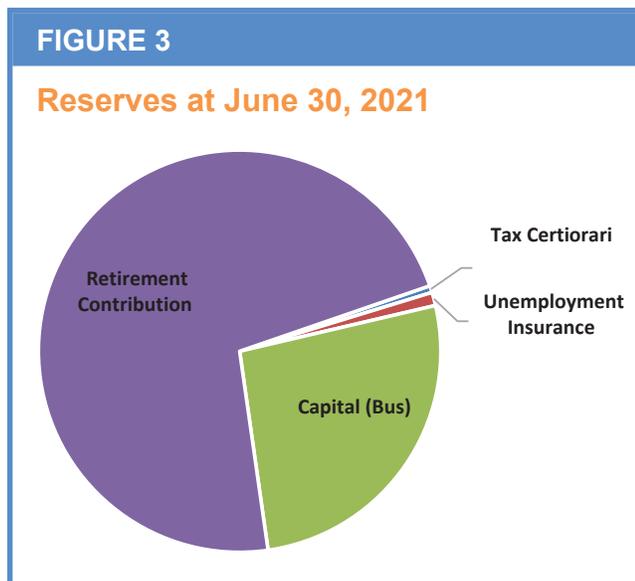
### The Board and District Officials Did Not Properly Manage the Retirement Contribution Reserve Fund

Although the Board adopted a written reserve fund policy that requires that the Board consult with legal counsel and other financial experts as necessary for guidance on the authority to:

- Establish reserves,
- Identify the purpose for reserves,
- Determine optimal funding levels and
- Periodically assess the reasonableness of the amounts accumulated in the reserves,

the Board has not properly managed the retirement contribution reserve.

As of June 30, 2021, the District reported four general fund reserves with cumulative balances totaling approximately \$22 million (Figure 3). These reserves included retirement contribution (\$15.8 million), capital (\$5.8 million), unemployment insurance (\$235,818), and tax certiorari (\$121,283).



While the capital, unemployment insurance and tax certiorari reserves were properly established, funded and reasonably funded, the retirement contribution reserve was overfunded and not properly used.

In November 2013, the Board passed a resolution to establish a retirement contribution reserve as authorized by GML Section 6-r. The resolution stated that the Board would appropriate \$7.3 million in fund balance to this reserve, which was

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previously assigned by the Board to cover the liability for other post-employment benefit (OPEB).<sup>2</sup> In 2018 the Board passed a resolution to add additional money (\$3.3 million) to this reserve “to ensure that the reserve is adequately funded.” The resolution also indicated that the reserve was funded with money previously assigned by the Board for the OPEB liability and that previous Boards had a target funding level of 67 percent of the liability but they were reducing the target funding level to 60 percent. As of June 30, 2021, the balance of this reserve totaled more than \$15.8 million.

Although the Board’s resolution indicated that this reserve was established as authorized by GML 6-r, District officials mistakenly believe the funds in the reserve can be used to pay for expenditures related to OPEB. While accounting standards require the District to fully disclose and recognize OPEB liabilities, there is no authority for a school district to establish a reserve for OPEB. The \$15.8 million retained in this reserve is sufficient to cover more than six years of the retirement expenditures, which averaged \$2.4 million annually over the four years reviewed. However, these expenditures were included in and paid from the general fund budget.

If we allow for a retirement contribution reserve to cover two years of retirement expenditures of \$4.8 million, the reserve was overfunded by approximately \$11 million. If a retirement contribution reserve is overfunded, the excess amounts can only be transferred to certain other reserve funds in accordance with applicable statutes.

We discussed the appropriate use of a retirement contribution reserve with District officials including that there is no authority to establish an OPEB reserve and that funds in the retirement contribution reserve can only be used as previously discussed. The current Superintendent and Administrator told us they agree with our assessment and are in the process of implementing a corrective action plan.

Our Office issued a report<sup>3</sup> that identified similar deficiencies in 2016 and the Board in its corrective action plan indicated that the Board, through the Finance Committee, is committed to using internal and external data to adopt realistic budgets. The Board also indicated it will comply with the 4 percent surplus fund balance requirement, and will use excessive funds for one-time expenditures, such as funding reserves and funding appropriations to reduce property taxes. Finally, the corrective action plan stated the Finance Committee will periodically assess the reasonableness of the amounts accumulated in reserve funds. However, as demonstrated above, the District has not been effective in implementing corrective action.

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The \$15.8 million retained in this reserve is sufficient to cover more than six years of the retirement expenditures, ...

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2 OPEB are employee benefits, other than pensions, and primarily include health care benefits received by former employees after their employment ends.

3 Refer to *Albion Central School District – Budgeting* (2016M-80). Issued in June 2016

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We contacted the three Board members serving on the Finance Committee (one of the Finance Committee members is the former Board President) to discuss the District's budgeting practices, fund balance management and reserves. However, the Finance Committee members were unable to explain in detail what they do in their roles except that they are involved in the budget process and review financial reports.

- The first Board member (the former Board President) could not explain how the Committee was involved in the budgeting process or how it monitors District finance. She also could not tell us what financial reports the Committee receives and reviews but referred us to the Superintendent and the Administrator for answers. This Board member has been on the Board for more than 10 years.
- The second Board member told us he was newer to the Board and not knowledgeable enough to comment. However, he has been on the Board for two years.
- The third Board member did not return our calls.

We explained to this member that our report will be addressed to the Board, as such we needed to get the Board's position on our audit's findings. However, she told us the Board and the administration work as one team. The Administrator told us the Finance Committee is involved with the budgeting process and monitoring and is aware of the District's finances but could not elaborate on the Committee's involvement.

When the Board consistently overestimates appropriations, accumulates excessive surplus fund balance which is over the statutory limit and overfunds the retirement contribution reserve fund, the Board is not using funds in a manner that best benefits taxpayers or complying with statute and is levying more real property taxes than necessary.

## What Do We Recommend?

The Board and 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. Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.

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... [T]he Board is not using funds in a manner that best benefits taxpayers. ...

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3. Develop a plan to reduce surplus fund balance to comply with the statutory limit. Surplus funds can be used for:
    - Funding one-time expenditures such as capital improvements
    - Funding needed reserves
    - Paying off debt
    - Reducing District property taxes.
  4. Consult with legal counsel regarding the retirement contribution reserve and the use of excess amounts.

# Appendix A: Response From District Officials

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**ALBION CENTRAL  
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February 14, 2022

Melissa A. Myers, Chief Examiner  
295 Main Street, Suite 1032  
Buffalo, New York 14203-2510

Dear Mrs. Myers,

The Albion Central School District is in receipt of the draft audit report prepared by the Office of the State Comptroller. The information presented in the audit demonstrates the intent of the process by providing us with an opportunity to reflect on our operations and governance procedures. At all times during the process our auditor assigned to our District, was thorough, helpful, professional and courteous. We appreciated the opportunity to work with individuals of their caliber.

As indicated at the exit conference attended by Mrs. Harling, President of the Board of Education, Mr. Edwards, Superintendent of Schools, and Rick Recckio II, School Business Official our collective goal over the years has been to minimize the impact of inconsistency of funding levels from the State Education Department while trying to maintain an effective instructional program insulated from swings in state aid revenues. Due to the fact that approximately 80% of the District's operating funds come directly from New York State, we have adopted an extremely conservative philosophy in budget preparation and execution. Application of this philosophy has allowed the District to average a tax increase of 0.14% per year since 2012, lessening the burden on our taxpayers. Available monies have been applied to reduce the district's debt and to avoid issuance of debt for on-going projects, saving millions of dollars in interest payments. The Board of Education is committed to improving its operations and looks forward to comparable successes over the next decade.

The audit report is accepted in the spirit in which it was prepared: that is, to identify strategies to reduce costs and to strengthen controls in order to safeguard assets. Principles espoused by the district. Implementing a Corrective Action Plan, as per the requirement, is consistent with one of our District values, committed to continuous growth and improvement. On behalf of our District, I extend our appreciation to you for your insight and recommendations.

Sincerely,

Kathy Harling  
Board of Education President

*Achievement, Character, and Success for Life ... ACS*

## Appendix B: Audit Methodology and Standards

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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, reviewed Board meeting minutes, policies, procedures, prior audit findings, corrective action plans and financial records for 2017-18 through 2020-21 to gain an understanding of the District's financial management operations and assess the adequacy of District officials' financial management monitoring and oversight of those operations.
- We reviewed the adopted general fund budgets from 2017-18 through 2020-21 to assess whether they were reasonable and structurally balanced and then compared the adopted budgets with actual results of operations to analyze and identify any significant budget-to-actual variances.
- We reviewed the adopted 2021-22 general fund budget to assess whether similar budgeting patterns existed in comparison with the 2017-18 through 2020-21 adopted budgets.
- We analyzed the tax levy from 2017-18 to 2021-22 to assess whether there were any significant patterns or changes.
- We analyzed fund balance trends from 2017-18 through 2020-21 to assess whether there were any significant patterns or changes.
- We calculated surplus fund balance as a percentage of the next year's appropriations for 2017-18 through 2020-21 to assess the District's compliance with statute.
- We reviewed reserve fund financial records from 2017-18 to 2020-21 to assess whether District officials properly established and used reserves and whether the funding levels were reasonable.

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

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 C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://www.osc.state.ny.us/local-government/academy)

## Contact

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[www.osc.state.ny.us/local-government](http://www.osc.state.ny.us/local-government)

Local Government and School Accountability Help Line: (866) 321-8503

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