

Le Roy Central School District

Reserve Funds

SEPTEMBER 2022



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

Contents

- Report Highlights 1**

- Reserve Funds 2**
 - How Should a School Board Properly Manage Reserve Funds? . . . 2
 - Reserves Were Not Properly Managed 2
 - What Do We Recommend? 5

- Appendix A – Response From District Officials 6**

- Appendix B – Audit Methodology and Standards 8**

- Appendix C – Resources and Services 9**

Report Highlights

Le Roy Central School District

Audit Objective

Determine whether the Le Roy 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

Although the Board and District officials properly established reserve funds that have balances totaling \$3 million, they did not comply with the District's reserve policy or transparently fund reserves. In addition, the Board did not take an active role in managing and overseeing reserve fund activity and did not transparently use or maintain all reserves at reasonable levels. The Board and District officials:

- Established an inadequate reserve policy. The District's reserve policy did not provide transparency or define the purpose, optimal funding level, and/or conditions under which reserves would be used and replenished.
- Could not demonstrate that \$2 million held in four reserves was reasonable or needed. For example, as of June 30, 2021, the unemployment insurance reserve totaled \$658,000, enough to pay average annual unemployment expenditures for more than 200 years, and the employee benefit accrued liability reserve is overfunded by \$426,000.

Key Recommendations

- Adopt a comprehensive written reserve fund policy and comply with the policy.
- Transparently fund reserves and maintain needed reserves at reasonable levels.

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

Background

The District serves the Towns of Bergen, Le Roy, Pavilion and Stafford in Genesee County and the Town of Caledonia in Livingston County.

The seven-member Board is responsible for managing and controlling 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 District's day-to-day management under the Board's direction.

The Business Administrator (Administrator) oversees the District's Business Office and maintains its financial records. The Board, Superintendent and Administrator are responsible for properly establishing, funding and using reserves.

Quick Facts

2022-23 Appropriations	\$27.8 million
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2020-21 Year-End Reserve Balances	\$3 million
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Number of Reserve Funds	5
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Audit Period

July 1, 2018 – June 10, 2022

Reserve Funds

How Should a School Board Properly Manage Reserve Funds?

School districts are allowed to establish reserves and accumulate funds for certain future purposes (e.g., unemployment or retirement expenditures). While school districts are generally not limited as to the amount of funds that can be held in reserves, the balances should be reasonable. A school board should balance the intent for accumulating funds for identified future needs with the obligation to ensure real property taxes are not higher than necessary.

To help ensure that reserve balances are reasonably funded and do not exceed the amount necessary to address long-term obligations or planned expenditures, a school board should adopt a comprehensive written reserve fund policy that states its rationale for establishing reserve funds and the objectives for each reserve, maximum targeted funding levels, conditions under which reserves will be used or replenished, and a periodic review of reserve balances to assess reasonableness. In addition, amounts to be placed in reserve funds should be included in the annual budget. By making provisions to raise resources for reserve funds explicit in the proposed budget, a school board gives voters, residents and taxpayers an opportunity to know its plan for funding reserves.

... [A] school board should adopt a comprehensive written reserve fund policy. ...

Reserves Were Not Properly Managed

Although the Board adopted a written reserve fund policy in June 2014, it was not adequate because it did not address:

- Specific objectives for the reserves,
- Funding methods,
- Optimal funding levels or
- Conditions under which the reserves would be used or replenished.

Additionally, the policy requires that officials present an annual report to the Board that includes:

- A description of the reserves,
- Establishment date,
- 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 Board did not request, and officials did not prepare, the three annual reports that the District's policy required to be prepared for the Board during our

audit period. Because the Board did not request and officials did not prepare the annual reports, their ability to effectively manage District reserves was impacted.

As of June 30, 2021, the District reported five reserves in the general fund totaling approximately \$3 million. While the reserves were properly established, they were generally not used. Except for the capital reserve, which had a \$1 million voter-approved balance as of June 30, 2021, District officials could not demonstrate that the \$2 million held in the four remaining reserves (retirement contribution, teachers' retirement contribution, employee benefit accrued liability reserve (EBALR) and the unemployment insurance reserves) was reasonable or needed. The EBALR and unemployment insurance reserve, totaling approximately \$1.5 million, were overfunded based on a review of eligible liabilities and a historical cost comparison. Furthermore, the Board and District officials did not transparently fund reserves by including funding in the annual budget. From July 1, 2018 through June 30, 2021, the reserves increased by more than \$1.5 million because of unbudgeted transfers at fiscal year end.

EBALR – The Board established this reserve to pay accrued leave time benefits due employees when separating from District service. As of June 30, 2021, the reserve had a balance of \$806,000. From July 1, 2018 through June 30, 2021, District officials properly used the reserve to pay approximately \$136,000 of eligible leave-related expenditures. During this same period, they replenished the reserve with unbudgeted transfers totaling approximately \$282,000. This resulted in a net increase in the reserve of approximately \$146,000.

The Administrator calculated the potential liability as of June 30, 2021 at approximately \$953,000, which the District's external auditors did not comment on. He indicated that, based on his experience of employee longevity and the likelihood of employees retiring from the District, the reserve is currently underfunded. However, employment contracts state that employees must have a minimum of 15 years of service with the District, and they must retire under the provisions of either the New York State and Local Retirement System or the New York State Teachers' Retirement System to be eligible for payment of accrued sick leave upon retirement. We recalculated the estimated liability to include only employees who currently met these eligibility criteria and determined that the liability totaled approximately \$380,000 as of June 30, 2021. As a result, based on our calculation the reserve is overfunded by approximately \$426,000.

Unemployment Insurance Reserve – The Board established this reserve for payment of contributions to the New York State Unemployment Insurance Fund. As of June 30, 2021, the reserve had a balance of \$658,000. If unemployment costs continue to average \$2,700 per year, as they have over the last three years, the reserve at its current funding level would be sufficient to pay average annual unemployment expenditures for more than 200 years.

[T]he Board and District officials did not transparently fund reserves. ...

We question the purpose of maintaining the reserve at such a significant level when District officials could reduce it to a more reasonable level and use the excess funds for a purpose more beneficial to current residents and taxpayers. The Administrator told us that the reserve was overfunded and he was intentionally drawing down the reserve, when possible, for eligible expenditures, and has not added any additional funding during the audit period.

These reserves were overfunded, in large part, because the Board has not taken an active role in managing and overseeing reserve fund activity by establishing a comprehensive written reserve fund policy. The Administrator and the Board President told us that they and the Board did not realize that the existing reserve fund policy was inadequate or that guidance from our office was available for developing a more comprehensive reserve fund policy.¹

The Administrator and the Board President also told us that they did not complete the required annual reserve funds report because they did not adequately review the reserve policy and did not know the report was required. The Administrator said that, instead of the annual report, he and the District's external auditors reviewed each reserve annually and made verbal recommendations to the Board for the reserves' use and funding. However, without a written comprehensive reserve fund policy, the Board is not providing clear guidance regarding its expectations to the Administrator and District officials. Furthermore, without communicating details such as intended funding and intended use of reserves in either a written policy or through the annual budget, the Board is not managing reserves in a manner transparent to the taxpayers.

The Administrator told us that he does not include provisions to increase reserves in the annual budget because, historically, the decision to increase reserves had not been based on anticipated need. Instead, it was based on the availability of funds or operating results. However, if reserve funds were necessary and part of an overall financial plan, their funding should be planned and included in the operating budget to help ensure proper funding is available for anticipated costs.

Because the Board did not adopt a comprehensive written reserve fund policy, District officials could not demonstrate, except for the capital reserve, that the balances held in the reserves were needed or reasonable. Funding reserves at levels higher than necessary for operations and/or need creates an undue burden on taxpayers and withholds funds that may have been used in a more beneficial way.

... [T]he Board has not taken an active role in managing and overseeing reserve fund activity. ...

¹ See *Local Government Management Guide Reserve Funds*. <https://www.osc.state.ny.us/files/local-government/publications/pdf/reserve-funds.pdf>

What Do We Recommend?

The Board and District officials should:

1. Adopt a comprehensive written reserve fund policy that includes the purpose for each reserve, optimal funding levels and conditions under which the reserves will be used and replenished.
2. Transparently fund reserves by including anticipated funding of reserves in the annual operating budget.
3. Review all reserve balances to determine whether the amounts reserved are necessary and reasonable. Reduce overfunded reserves, in accordance with applicable statutes, to reasonable levels; and liquidate and discontinue reserve funds that are no longer needed or whose purpose has been achieved.

The Administrator should:

4. Ensure that the annual reserve funds report is prepared and presented to the Board as required by Board policy.

Appendix A: Response From District Officials



Le Roy Central School District

Merritt Holly, Superintendent of Schools
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Board of Education

Jacalyn Whiting, President
Denise Duthe, Vice President
Christine Dowell
Jason Karcher
Richard Lawrence
Peter Loftus
William MacKenzie

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September 15, 2022

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

To Whom It May Concern:

The Le Roy Central School District is in receipt of the audit report by the Office of the State Comptroller in regards to 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.

Based on the audit, the following recommendations were noted:

- 1) Adopt a comprehensive written reserve fund policy that includes the purpose for each reserve, optimal funding levels and conditions under which the reserves will be used and replenished.
- 2) Transparently fund reserves by including anticipated funding of reserves in the annual operating budget.
- 3) Review all reserve balances to determine whether the amounts reserved are necessary and reasonable. Reduce overfunded reserves, in accordance with applicable statutes to reasonable levels; and liquidate and discontinue reserve funds that are no longer needed or whose purpose has been achieved.
- 4) Ensure that the annual reserve funds report is prepared and presented to the Board as required by Board policy.

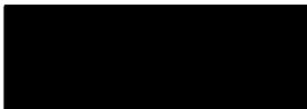
The Board and Administration will take these recommendations under advisement and develop a comprehensive written reserve fund policy. In addition, we have already prepared and presented our annual reserve funds report to the Board of Education at our meeting on June 25, 2022.

In closing, the Le Roy Central School District is committed to being good stewards and transparent to the taxpayers in our community. This has included avoiding large levy increase in any given year as well as staying under the NYS Tax Cap limit since the cap was instituted back in 2012.

The mission of the Le Roy Central School District is to provide an exceptional, high quality educational environment where all learners are empowered to succeed.

We would like to thank the Office of the New York State Comptroller audit staff for its professionalism, assistance, suggestions and recommendations.

Sincerely,



Merritt Holly
Superintendent

Appendix B: 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. We reviewed the related reserve's potential liabilities and expenditures, Board resolutions and the reserve fund policy.

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

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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