

Geneva City School District

Reserves

JUNE 2018



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

Contents

- Report Highlights 1**

- Reserves 2**
 - How Should the Board Establish and Fund Reserves? 2
 - The Board Was Not Transparent When Establishing and Funding Reserves. 2
 - What Do We Recommend? 4

- Appendix A – Response From District Officials 6**

- Appendix B – OSC Comments on the District’s Response 8**

- Appendix C – Audit Methodology and Standards 9**

- Appendix D – Resources and Services. 11**

Report Highlights

Geneva City School District

Audit Objective

Determine whether the Board reasonably and transparently financed reserves.

Key Findings

- The Board has not adopted a reserve policy.
- The Board did not include provisions to fund reserves in its annual budgets.
- Seven reserves with balances totaling \$9.4 million (72 percent of total reserves) are overfunded by \$7.8 million and potentially unnecessary.

Key Recommendations

- The Board should adopt a reserve policy.
- Appropriately budget to fund reserves.
- Determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements.

Background

The Geneva City School District (District) is located in the City of Geneva, and the Towns of Geneva, Phelps and Seneca in Ontario County; the Town of Benton in Yates County and the Town of Waterloo in Seneca County.

The District is governed by a Board of Education (Board) which is comprised of seven elected members. The Board is responsible for the general management and control of the District's financial affairs. The Superintendent of Schools is responsible for the day-to-day management of the District. The Director of Business Services is responsible for the District's finances.

Quick Facts

Enrollment	2100
Employees	584
2017-18 Appropriations	\$52.5 million
Reserves as of June 30, 2017	\$13 million

Audit Period

July 1, 2012 – February 6, 2018

Reserves

How Should the Board Establish and Fund Reserves?

Reserves may be established by the board in accordance with applicable laws to provide financing for specific purposes. Money set aside in reserves must be used only in compliance with statutory provisions which determine how reserves are established and how they may be funded, expended and discontinued. Generally, school districts are not limited as to how much money can be held in reserves; however, reserve balances should be reasonable. It is important that the board adopt a written policy that communicates why the money is being set aside, the board's financial objectives for the reserves, optimal funding levels and conditions under which the assets will be used. Ideally, 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, the board gives voters and residents an opportunity to know the board's plan for funding its reserves. The board should also periodically analyze the reasonableness of the balances in its reserves.

A debt service reserve must be established if unexpended bond proceeds remain on a capital improvement financed with debt, or if State or federal aid is received for a capital improvement for which there is outstanding debt. The balance as well as any interest income earned on this money must be used to help finance related debt service costs.¹ This money must be set aside and accounted for in the debt service fund. There is no other authority for a school district to establish or fund a reserve to pay for debt service.

The Board Was Not Transparent When Establishing and Funding Reserves

The Board has not adopted a reserve policy and did not include provisions in the annual budgets for funding its reserves. Instead, District officials transferred money to reserves from operating surpluses at the end of the fiscal year to stay within the 4 percent limit.² As a result, general fund reserves increased by \$2.5 million over the last five completed fiscal years.³ As of June 30, 2017, the District reported nine general fund reserves⁴ and a debt service reserve with balances totaling \$13 million.

1 See General Municipal Law Section 6-l

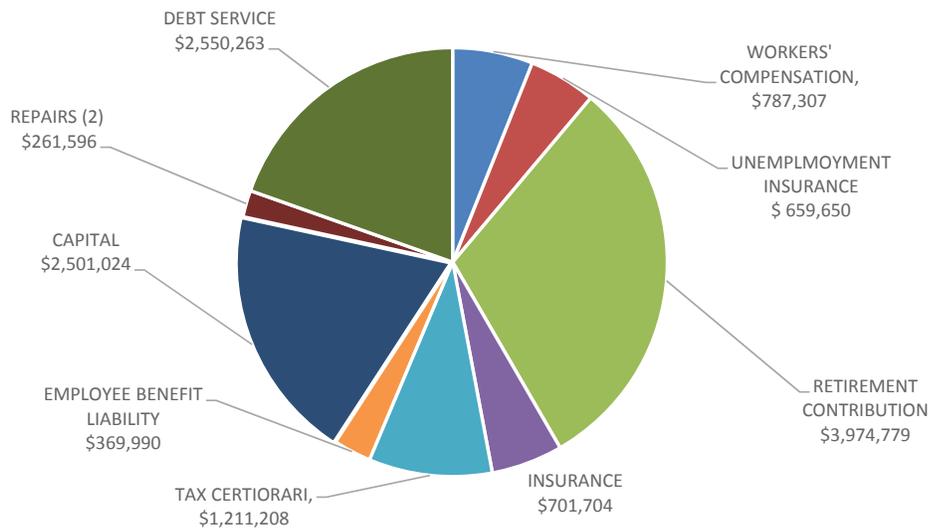
2 New York State Real Property Tax Law limits the unrestricted portion of the general fund balance to no more than 4 percent of the next year's budgeted appropriations.

3 Fiscal year operating surpluses were \$966,337 for 2013-14, \$2.2 million for 2014-15 and \$1.5 million for 2016-17.

4 Worker's compensation, unemployment, retirement contribution, insurance, tax certiorari, employee benefit accrued liability, capital and two repair reserves.

FIGURE 1

Reserve Balances at June 30, 2017



District officials could not provide Board resolutions for the establishment of all but the capital and workers' compensation reserves. In addition, seven reserves with balances totaling \$9.4 million (72 percent of total reserves) at June 30, 2017 are overfunded by \$7.8 million and potentially unnecessary.

- Debt Service Reserve – The \$2.6 million balance improperly included \$757,888 from the sale of capital improvements and had an unknown beginning balance totaling \$953,802.⁵ Therefore, this reserve is overfunded by \$1.71 million.
- Retirement Contribution Reserve – The \$4 million retained in this reserve is sufficient to cover almost seven years of retirement costs, which averaged \$586,540 over the last five years. Because District officials do not use this reserve to fund retirement contributions, we question the need for this reserve.
- Tax Certiorari Reserve – The District's pending tax certiorari claims totaled \$743,794, however the District retained \$1.2 million in this reserve. As a result, this reserve is overfunded by approximately \$467,000 because the District officials' list of pending tax certioraris included claims that were already settled per the County and used surplus funds to pay claims. Therefore, this amount should be returned to the general fund as unrestricted fund balance.

⁵ \$870,602 plus estimated interest earned from June 30, 2005 were not allocated to any debt.

- Insurance Reserve – We question the necessity of the \$701,704 retained in this reserve because the District used \$43,000 from this reserve over the last five years and the District’s insurance policy covers up to 75 percent of claims.
- Unemployment Insurance Reserve – The District made payments to the New York State Unemployment Insurance Fund for the five-year period July 1, 2012 through June 30, 2017, averaging \$39,614 each year. The reserve’s balance of \$659,650 is sufficient to cover almost 17 years of unemployment costs.
- Two Repair Reserves – The District has two repair reserves that have not been used over the last five years. Therefore, we question the balances totaling \$261,596.

The Board can discontinue these reserves if it determines they are unnecessary. However, money from the discontinued reserves has to be transferred per statute.

By maintaining overfunding and/or unnecessary reserves, the Board and District officials levied more taxes than necessary, and may have compromised the transparency of District finances. These practices allowed the District to report year-end unrestricted fund balance at levels that appeared to comply with the statutory 4 percent fund balance limit. However, when adding back overfunded and unnecessary reserves, the District’s recalculated unrestricted fund balance was 19 percent of the ensuing year’s appropriations at June 30, 2017, almost five times the statutory limit.

Figure 2: Recalculated Fund Balance

Unassigned Fund Balance at June 30, 2017	\$2,098,200
Overfunded/Unnecessary Reserves	\$6,065,143
Overfunded Debt Reserve	\$1,711,690
Unassigned Fund Balance Plus Overfunded/Unnecessary Reserves	\$9,875,033
% Ensuing Year's Budgeted Appropriations	19%

What Do We Recommend?

The Board and District Officials should:

1. Adopt a comprehensive reserve policy that clearly communicates the purpose and intent for establishing each reserve fund, the manner in which the Board will fund and maintain each reserve fund, the optimal or targeted funding levels and conditions under which each fund’s assets will be used or replenished.

-
2. Review all reserves and determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements. To the extent that they are not, transfers should be made to unrestricted fund balance, where allowed by law, or to other reserves established and maintained in compliance with statute.
 3. Review the balance of the debt service reserve, use funds for debt payments as appropriate and adopt budgets that allow for transfers from the debt service reserve to finance debt as appropriate.

Appendix A: Response From District Officials



GENEVA CITY SCHOOLS

GATEWAY TO GREAT ACHIEVEMENTS

DISTRICT OFFICES
400 West North Street
Geneva, New York 14456
Phone 315-781-0400
www.genevacsd.org

May 23, 2018

Edward V. Grant Jr.
Chief Examiner
Division of Local Government
and School Accountability
The Powers Building
16 West Main Street – Suite 522
Rochester, NY 14614

Dear Sir:

In accordance with your letter of May 3, 2018, we are providing a response to the tentative findings that resulted from your office's examination of the Reserves of the Geneva City School District.

We ask that the following be considered in the preparation of the final report:

1. **Our legal advisors inform us that a Reserve Policy is not required policy for school districts in New York State.**

The Board of Education of the Geneva City School District (The Board) seeks to limit content of policy to that which is necessary and required; consequently, the Board has not adopted such policy; however, all current reserves have been established in accordance with the provisions of the General Municipal Law and Education Law.

2. **All current reserves have been established by resolution of the Board of Education.**

During the periods that the examiners were on site, there was difficulty in locating copies of the resolutions that established certain reserves. The staff has searched district files and located the Board resolutions that authorized and established the reserves in question. Please note the following:

Reserves	Date of BOE Resolution
Tax Certiorari Reserve	November 1994
Employee Benefit Accrued Liability Reserve	October 12, 2010
Repair Reserve	March 8, 1993
Insurance Reserve	March 8, 1993
Unemployment Reserve	June 25, 2012

Copies of the BOE resolutions that established the reserves are included with this letter.

3. **A Financial Reserve Plan was adopted by the Board of Education on March 12, 2018:**

- The plan provides extensive data as justification of the level of funding of existing reserves.
- The plan adjusts existing reserve balances to assure that reserve balances are “*necessary, reasonable and in compliance with statutory requirements.*”
- The plan clearly states the District’s philosophy and goals in regards to the establishment and use of its reserves

See Note 1 Page 8

A copy of the plan is included with this letter.

4. **Utilization of Debt Service Fund**

The balance in the Debt Service Fund will be utilized and allocated as a revenue in the District budget over the next four years. In the revenue budget for the 2018-2019 school year, \$600,000 has been allocated as a revenue.

Please do not hesitate to contact me if you would like to discuss the District’s response to the preliminary findings of your examination.

Regards,

~~Trina S.~~ Newton[†]
Superintendent of Schools

cc: Geneva City School District Board of Education

Appendix B: OSC Comments on the District's Response

Note 1

In uncertain economic times, reserve funds can provide officials with a welcomed budgetary option that can help mitigate the need to cut services or to raise taxes. The proposed funding thresholds in your policy, five years of eligible appropriations, goes beyond mitigating future costs. Instead, it formalizes the practice of accumulating excessive funds at the potential expense of providing tax relief.

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 operations related to reserves.
- We reviewed the appropriation of the District's reserves and fund balance for the period July 1, 2012 through June 30, 2017.
- We reviewed Board minutes for the period of July 1, 2012 through December 31, 2017 to determine if reserve funds were created, funded and expended properly, and if transfers were appropriate.
- We requested Board resolutions related to reserves, including establishment, funding and use from the District Clerk and Director of Business Services for all reserves reported by the District from July 1, 2012 through June 30, 2017.
- We tested the reliability of the accounting records by reviewing bank statement reconciliations and comparing them to the annual financial reports filed with OSC and the independent auditor's certified financial statements at June 30, 2017.
- We obtained and reviewed the District's calculation for compensated absences and calculated the compensated absences at June 30, 2017 based on collective bargaining agreements and individual contracts.
- We reviewed financial records, bank statements, balance sheets and general ledgers to document the reserve fund balances reported as of June 30, 2017.
- We reviewed reserve activity for the period of July 1, 2012 through June 30, 2017 to determine if the District's reserves were overfunded and necessary by calculating the average. We also reviewed them to determine if they were used in the last five years.
- We obtained and reviewed the District's pending tax certiorari claims and verified the pending claims with Ontario County real property tax office.
- We reviewed the last five completed fiscal years' budgets to determine if the District included provisions for funding reserves.
- We obtained separation payouts to determine the amount that could have been paid from the employee benefit accrued liability reserve from July 1, 2012 through June 30, 2017.

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.

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 2116-1(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. We encourage the Board to make the CAP available for public review in the District Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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