

Canaseraga Central School District

Financial Management

AUGUST 2019



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

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Report Highlights

Canaseraga Central School District

Audit Objective

Determine whether the Board and District officials properly managed fund balance and reserves.

Key Findings

- The Board overestimated appropriations by a total of \$3.5 million over three years and annually appropriated an average of \$357,000 of fund balance that was not used to finance operations.
- As of June 30, 2018, surplus fund balance totaled \$365,000 and was 5 percent of 2018-19 appropriations, exceeding the 4 percent statutory limit by approximately \$74,000 or 1 percentage point.
- The District has not adopted a comprehensive written reserve fund policy and could not demonstrate a plan for the need for certain reserves that have not been used for three years.

Key Recommendations

- Adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations.
- Reduce surplus fund balance to comply with the statutory limit and use the excess funds in a manner more beneficial to taxpayers.
- Adopt a comprehensive written reserve policy, including a plan for the use of reserves.

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

Background

The Canaseraga Central School District (District) serves the Towns of Almond, Birdsall, Burns and Grove in Allegany County; the Town of Ossian in Livingston County and the Towns of Almond and Dansville in Steuben County.

The District is governed by an elected five-member Board of Education (Board). The Superintendent of Schools (Superintendent) is the chief executive officer and the Business Official and is responsible for day-to-day management under the Board's direction, the development of the annual budget and the supervision of financial activities.

Quick Facts

| | |
|-----------------------------|---------------|
| Enrollment | 250 |
| Employment | 65 |
| 2018-19 General Fund Budget | \$7.3 million |

Audit Period

July 1, 2015 – April 12, 2019

Financial Management

What Is Effective Financial Management?

To properly manage financial condition, a board should adopt accurate and structurally balanced budgets based on historical 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 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 board is permitted to retain a specified amount of fund balance for cash flow needs or unexpected expenditures. Fund balance is the difference between revenues and expenditures accumulated over time. New York State Real Property Tax Law¹ currently limits the amount of surplus fund balance² 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 tax levy or to fund needed reserves.

A board is also legally allowed to establish reserves and accumulate funds for certain future identified or planned purposes (e.g., capital project, retirement expenditures). To ensure reserves are not overfunded, district officials should plan for the funding and use of reserves by balancing the desire to accumulate funds for future needs with the obligation to make sure the tax levy is not higher than necessary. Therefore, it is important that a board adopt a written comprehensive policy and subsequent plan that states its rationale for the establishment and objective for each reserve, maximum targeted funding levels and conditions for use and replenishment.

The Board Overestimated Appropriations and Appropriated More Fund Balance Than Needed

We compared 2015-16 through 2017-18 budgeted appropriations and estimated revenues with actual operating results and found that, while revenue variances were generally reasonable (underestimated by an average of 3 percent), appropriations were overestimated by \$3.5 million, or by an annual average of approximately \$1.2 million (19 percent) (Figure 1).

1 Section 1318

2 Surplus fund balance is defined as unrestricted fund balance minus appropriated fund balance and encumbrances included in committed and assigned fund balance. See our accounting bulletin at <https://www.osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>

Figure 1: Overestimated Appropriations

| | 2015-16 | 2016-17 | 2017-18 | Totals |
|---|-------------|-------------|-------------|--------------|
| Budgeted Appropriations^a | \$7,376,000 | \$7,374,000 | \$7,403,000 | \$22,153,000 |
| Actual Expenditures | \$6,251,000 | \$6,334,000 | \$6,084,000 | \$18,669,000 |
| Overestimated Appropriations | \$1,125,000 | \$1,040,000 | \$1,319,000 | \$3,484,000 |
| Percentage Overestimated^b | 18% | 16% | 22% | 19% |

a Includes prior year encumbrances and voter-approved transportation purchases.

b Overestimated appropriations divided by actual expenditures.

The most significant overestimated appropriations (annual average) were for handicapped instruction (\$419,000 or 36 percent) and employee benefits (\$263,000 or 18 percent). The Superintendent told us that they annually overestimate certain appropriations, including these, to provide flexibility in the budget in the event certain expenditures are higher than anticipated or if revenues are below expectations. These budgeting practices appear to have continued in the 2018-19 budget which may result in the District experiencing an operating surplus similar to the previous three years.

Because the Board overestimated appropriations, it appeared that more revenue and financing sources (fund balance) were needed to maintain a structurally balanced budget and address budgeted operating deficits (more expenditures than revenues), despite historical trend data indicating otherwise. Consequently, the Board annually increased the tax levy from approximately \$1.9 million in 2015-16 to \$2 million in 2018-19 and annually appropriated fund balance averaging \$357,000 as a financing source.

However, because no operating deficits occurred and no appropriated fund balance was used, annual operating surpluses cumulatively totaled approximately \$1.2 million and fund balance increased.³ (Figure 2) If the Board had maintained the same tax levy through 2018-19 as it levied in 2015-16, taxpayers would have realized approximately \$143,000 in cumulative savings and the District still would have had annual operating surpluses.

³ Equivalent to 5 percent of 2018-19 budgeted appropriations and exceeding the statutory limit by approximately \$74,000, or 1 percentage point

Figure 2: Surplus Fund Balance at Year-End

| | 2015-16 | 2016-17 | 2017-18 |
|---|-------------|-------------|-------------|
| Beginning Fund Balance | \$3,250,000 | \$3,771,000 | \$4,016,000 |
| Add: Operating Results | \$460,000 | \$251,000 | \$521,000 |
| Less: Transfers Out | \$13,000 | \$6,000 | \$4,000 |
| Add: Transfers In | \$74,000 | \$0 | \$0 |
| Ending Fund Balance | \$3,771,000 | \$4,016,000 | \$4,533,000 |
| Less: Restricted Fund Balance (Reserves) | \$2,961,000 | \$3,196,000 | \$3,770,000 |
| Less: Appropriated Fund Balance | \$313,000 | \$399,000 | \$359,000 |
| Less: Encumbrances | \$110,000 | \$59,000 | \$39,000 |
| Surplus Fund Balance | \$387,000 | \$362,000 | \$365,000 |
| Next Year's Budget | \$7,218,000 | \$7,231,000 | \$7,267,000 |
| Surplus Fund Balance as a Percentage of Next Year's Budget | 5% | 5% | 5% |
| Amount Exceeding the Legal Limit | \$98,000 | \$72,000 | \$74,000 |

Annually appropriating fund balance that is not needed to finance operations is, in effect, a reservation of fund balance not provided for by statute and a circumvention of the statutory limit imposed on the surplus fund balance level. For perspective, when we added the unused appropriated fund balance amounts back into surplus fund balance, the District exceeded the limit each year by 6 to 7 percentage points (Figure 3).

Figure 3: Recalculated Surplus Fund Balance at Year-End

| | 2015-16 | 2016-17 | 2017-18 |
|---|-------------|-------------|-------------|
| Surplus Fund Balance | \$387,000 | \$362,000 | \$365,000 |
| Add: Unused Appropriated Fund Balance | \$313,000 | \$399,000 | \$359,000 |
| Recalculated Surplus Fund Balance | \$700,000 | \$761,000 | \$724,000 |
| Next Year's Budget | \$7,218,000 | \$7,231,000 | \$7,267,000 |
| Surplus Fund Balance as a Percentage of Next Year's Budget | 10% | 11% | 10% |

Certain Funds Were Improperly Restricted

As of June 30, 2018, the District improperly restricted more than \$1 million that should, and in certain cases must, be returned to the general fund.

Debt Reserve – The District accounts for and reports a debt reserve in the debt service fund, which is separate from the general fund. As of June 30, 2018, this reserve totaled \$865,000. While certain funds are required by law to be set aside

in this reserve and used to pay related debt, District officials were unable to identify the source of this money and that any money was required to be restricted in a debt reserve. As such, these funds should be returned to the general fund.

Tax Certiorari Reserve – This reserve was established to fund payments for judgments and claims in tax certiorari proceedings. As of June 30, 2018, this reserve totaled \$136,000. However, District officials acknowledged that there are no ongoing tax certiorari proceedings. In addition, this reserve balance has been maintained at this level for at least the last five years. As such, these funds must be returned to the general fund in accordance with New York State Education Law.⁴

Trust and Agency Fund – The District accounts for and reports money it holds in a custodial nature (e.g., employee portion of health insurance payments, student fundraising activities) in the trust and agency fund, which is separate from the general fund. As of June 30, 2018, District officials could not identify the source or purpose of approximately \$56,000 in this fund. Consequently, this money should be returned to the general fund.

The Board Did Not Adopt a Comprehensive Reserve Fund Policy

Although the Board adopted a written reserve fund policy, it did not include the financial objective, optimal funding levels and conditions for each reserve's use. While all eight general fund reserves, totaling \$3.8 million as of June 30, 2018, were generally properly established, the Board and District officials could not demonstrate a plan or sufficient evidence for the need to restrict and not use certain reserves for related expenditures.⁵ We found the following four reserves had generally not been used in the past three fiscal years and absent a clear plan communicating the Board's intention for these funds, we question their funding levels.

Unemployment Insurance Reserve – This reserve is established to fund payment of contributions to the New York State Unemployment Insurance Fund and totaled \$908,000 as of June 30, 2018. Over the last three fiscal years, unemployment expenditures have averaged less than \$100 per year and no reserve funds were used for these expenditures, which were instead paid from general fund appropriations.

⁴ Funds reserved for tax certiorari judgments and claims pursuant to Education Law, Section 3651[1-a] that are not expended for the payment of judgments or claims arising out of tax certiorari proceedings for the tax roll in the year the money is deposited to the fund and/or that will not be "reasonably required to pay any such judgment or claim," must be returned to the general fund on or before the first day of the fourth fiscal year following the deposit of such money to the reserve fund.

⁵ We discussed certain minor deficiencies with District officials.

Insurance Reserve – This reserve is established to fund payments of liability, casualty and other types of losses, and totaled \$455,000 as of June 30, 2018. There has been no activity in this reserve and other than interest earnings the balance has not changed in the last three fiscal years.

Repair Reserve – This reserve is established to fund certain types of repairs to capital improvements or equipment and totaled \$1 million as of June 30, 2018. On December 20, 2018, District voters approved the transfer of \$750,000 to a capital reserve leaving a remaining balance in the repair reserve of approximately \$250,000. Other than this transfer out, only minimal expenses were charged to the reserve and there was no documented plan for the future use of the remaining \$250,000.

Liability Reserve – This reserve is established to fund liability claims and totaled \$237,000 as of June 30, 2018, which exceeded the 3 percent of the annual budget authorized by Education Law⁶ by \$19,000. There has been no activity in this reserve and other than interest earnings the balance has not changed in the last three fiscal years.

While it is a prudent practice for officials to save for future expenditures, without adopting a comprehensive written policy and plan for funding, maintaining and using these reserves, the District risks retaining more funds than necessary and may result in missed opportunities to use these funds in a manner more beneficial to taxpayers, such as reducing the tax levy.

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. Develop a plan to reduce surplus fund balance to comply with the statutory limit. Surplus funds can be used for:
 - Reducing District property taxes.
 - Funding one-time expenditures.
 - Funding needed reserves.
 - Paying off debt.
3. Return the money in the debt reserve, tax certiorari reserve and the trust and agency fund to the general fund.

⁶ Section 1709

-
4. Adopt a comprehensive written reserve policy that addresses the objective of each reserve, targeted funding levels and conditions under which reserves will be used and replenished.

Appendix A: Response From District Officials

CANASERAGA CENTRAL SCHOOL

HOME OF THE INDIANS

Board of Education

Richard Kinney, *President*
Sonja Robinson, *Vice-President*
Nicole McIntosh
Frances Hoffman
Lester York

Administration

Chad C. Groff
Superintendent of Schools

Shannon M. Gilbert
Building Principal

08/01/2019

Mr. Jeffrey D. Mazula, Chief Examiner
Buffalo Regional Office
295 Main St Suite 1032
Buffalo, NY 14203-2510

Dear Mr. Mazula

The Canaseraga Central School District acknowledges receipt of the draft Report of Examination 2019M-104 that focuses on Financial Management for the audit period between July 1, 2015 – April 12, 2019. The Board of Education would like to thank the Comptroller's office for its diligent review of District finances and for providing some recommendations to consider. The audit report provides the following list of recommendations.

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. Develop a plan to reduce surplus fund balance to comply with the statutory limit. Surplus funds can be used for:*
 - Reducing District property taxes.*
 - Funding one-time expenditures.*
 - Funding needed reserves.*
 - Paying off debt.*
- 3. Return the money in the debt reserve, tax certiorari reserve and the trust and agency fund to the general fund.*
- 4. Adopt a comprehensive written reserve policy that addresses the objective of each reserve, targeted funding levels and conditions under which reserves will be used and replenished.*

4 – 8 Main Street PO Box 230
Canaseraga, NY 14822-0230
P: 607-545-6421 F: 607-545-6265
www.ccsdny.org

Budget Development

The school district has a history of creating and monitoring appropriately conservative budgets and fiscal plans for each school year. As a very small rural school district, we are vulnerable to unexpected large fluctuations that can occur from one budget year to the next. One prime example of this – as noted in the audit – is in the area of handicapped instruction. During the 2018-19 academic year, we had four (4) new students enter high cost BOCES special education programs. We are required to provide these instructional programs and need the financial flexibility in our school budget to adequately fund these surprise enrollments. With that said, the Board and District officials will diligently monitor the budget development process each year and consider areas where efficiencies and savings might be realized.

Unrestricted Fund Balance

The Board and District officials are aware we have exceeded the statutory limitation of 4% unrestricted fund balance. At FYE 2018 and 2019, the District held a slim 1% beyond the expected limit. This action is, again, a conservative budgeting approach that provides available resources should we face a very negative budget year. The Board and District officials review, and will continue to review, the unrestricted fund balance on a yearly basis at the close of each fiscal year.

Specific Reserve Funds

The District acknowledges there are specific funds and reserve accounts that have balances that need to be reviewed and action taken on them. The trust and agency fund issue has been resolved. The Board completed a comprehensive review of its reserve accounts at their June 20, 2019, school board meeting. In response to that review, the Board will be provided recommendations for action (on August 8, 2019) to address any issues with reserve accounts. It is likely any funds needing to be moved will be transferred to the 2018 Capital Reserve for future utilization as part of a capital improvement project.

Reserve Policy

The Superintendent created a Reserve Plan that was shared with the Board at their meetings in May 2019 and June 2019. The plan includes the following information related to each reserve account: Purpose, Maximum inflow, Balance as of April 2019, Ideal balance, and any Additional information related specifically to the reserve. As mentioned above, the Board completed a review of the funds in each reserve account on June 20, 2019. Based upon this review, the Board will receive recommendations to address any outstanding issues related to funding levels for the reserve accounts. The details of the actions taken will be part of the Corrective Action Plan that will be presented to the Comptroller's Office.

Chad C. Groff

Superintendent of Schools

4 – 8 Main Street PO Box 230
Canaseraga, NY 14822-0230
P: 607-545-6421 F: 607-545-6265
www.ccsdny.org

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, and reviewed Board meeting minutes and Board policies to gain an understanding of the District's financial management policies and procedures and budgeting practices.
- We reviewed the adopted general fund budgets from 2015-16 through 2017-18 to determine whether they were reasonable and structurally balanced by comparing adopted budgets with actual results of operations and analyzing significant budget-to-actual variances to determine why they occurred.
- We reviewed the adopted 2018-19 general fund budget to determine if similar budgeting patterns existed in comparison with the 2015-16 through 2017-18 adopted budgets.
- We recalculated surplus fund balance as a percentage of the next year's appropriations after adding back unused appropriated fund balance for 2015-16, 2016-17 and 2017-18.
- We calculated surplus fund balance as a percentage of the next year's appropriations for 2015-16, 2016-17 and 2017-18 to assess District compliance with statute.
- We analyzed the general fund, debt service fund and trust and agency fund financial records from 2015-16 through 2017-18 and evaluated any factors contributing to fluctuations in fund balance.
- We analyzed reserve fund financial records from 2015-16 through 2017-18 to assess whether District officials properly established, funded and used reserves and whether reserves were supported by a formalized adopted policy and plan and transparently funded.
- We analyzed the tax levy between 2015-16 and 2018-19 to determine whether there were any changes.

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 C: 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/pubs/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/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

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Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
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Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

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

BUFFALO REGIONAL OFFICE – Jeffrey D. Mazula, Chief Examiner

295 Main Street, Suite 1032 • Buffalo, New York 14203-2510

Tel (716) 847-3647 • Fax (716) 847-3643 • Email: Muni-Bufferalo@osc.ny.gov

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