

# Yorkshire-Pioneer Central School District

## Financial Management

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**JUNE 2020**

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

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# Report Highlights

## Yorkshire-Pioneer Central School District

### Audit Objective

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

### Key Findings

- The Board and District officials overestimated appropriations by a total of approximately \$11.6 million from 2016-17 through 2018-19 and annually appropriated an average of \$3.3 million of fund balance that was not used to finance operations.
- As of June 30, 2019, surplus fund balance totaled approximately \$5 million and was 9 percent of 2019-20 appropriations, exceeding the statutory limit by approximately \$2.7 million.

### 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.

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

### Background

The Yorkshire-Pioneer Central School District (District) serves the Towns of Arcade, Eagle, Java, Sheldon and Wethersfield in Wyoming County; Farmersville, Freedom, Machias and Yorkshire in Cattaraugus County; Holland and Sardinia in Erie County; and Centerville in Allegany County.

The nine-member Board of Education (Board) is responsible for the management and control of the financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer and is responsible, along with other administrative staff, for day-to-day management under the Board's direction. The Assistant Superintendent (Administrator) prepares budgets and maintains financial records. The Board, Superintendent and Administrator are responsible for developing the budget.

#### Quick Facts

Enrollment	2,325
Employees	483
2019-20 Appropriations	\$57.2 million

### Audit Period

July 1, 2016 – February 14, 2020

# Financial Management

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## What Is Proper 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 and school district officials must estimate the amounts a school district will spend and receive, and the amount of fund balance that will be available for use at fiscal year-end and the expected real property tax levy. Accurate estimates help ensure that the tax levy is not greater than necessary.

A board is permitted to retain a legally specified amount of fund balance (the difference between revenues and expenditures accumulated over time) for cash flow needs or unexpected expenditures. New York State Real Property Tax Law 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.<sup>1</sup> Any surplus fund balance over this percentage must be used to reduce the upcoming fiscal year's tax levy or to fund needed reserves.

## Surplus Fund Balance Consistently Exceeded the Legal Limit

The Board and District officials did not properly manage fund balance. In our previous audit report we identified excessive surplus fund balance that occurred because the Board and District officials underestimated revenues and overestimated budgeted expenditures (appropriations) and the use of appropriated fund balance.<sup>2</sup>

In our previous report, we recommended that the Board develop realistic estimates of revenues and expenditures and the use of fund balance in the annual budgets, ensure that surplus fund balance complies with the statutory limit and develop a plan to reduce surplus fund balance in a manner that benefits taxpayers. However, the Board and District officials adopted budgets for 2016-17 through 2018-19 based on unrealistic expenditure estimates and did not reduce surplus fund balance to within legal limits or develop a specific plan to reduce surplus fund balance.

Although District officials reduced surplus fund balance to 8.7 percent as of June 30, 2019 (from 10 percent as of June 30, 2015), surplus fund balance remained in excess of the legal limit. As a result, from 2016-17 through 2018-19, surplus fund balance exceeded the limit by an annual average of 5 percentage points, or approximately \$2.7 million (Figure 2).

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<sup>1</sup> New York State Real Property Tax Law, Section 1318. 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 [www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2019-01/gasb54.pdf](http://www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2019-01/gasb54.pdf).

<sup>2</sup> Refer to *Yorkshire-Pioneer Central School District – Financial Management (2015-352)*, issued in April 2016, at [www.osc.state.ny.us/local-government/audits/school-district/2016/04/15/yorkshire-pioneer-central-school-district-financial-management-2015m-352](http://www.osc.state.ny.us/local-government/audits/school-district/2016/04/15/yorkshire-pioneer-central-school-district-financial-management-2015m-352).

Further, each year the Board and District officials overestimated appropriations and appropriated fund balance for planned operating deficits that were not incurred (Figure 1). Consequently, because of these budgetary practices, the Board and District officials may have levied more real property taxes than necessary.

## The Board Overestimated Appropriations

We compared estimated revenues and budgeted appropriations with actual operating results for 2016-17 through 2018-19 and found that, while revenue variances were generally reasonable, appropriations were overestimated by a total of \$11.6 million or an annual average of approximately \$3.9 million.

**Figure 1: Overestimated Appropriations**

	2016-17	2017-18	2018-19	Totals
<b>Appropriations<sup>a</sup></b>	\$54,108,000	\$54,770,000	\$56,281,000	\$165,159,000
<b>Actual Expenditures and Transfers to Capital Reserves</b>	\$50,885,000	\$50,273,000	\$52,394,000	\$153,552,000
<b>Overestimated Appropriations</b>	\$3,223,000	\$4,497,000	\$3,887,000	\$11,607,000
<b>Percentage Overestimated<sup>b</sup></b>	6%	9%	7%	8%

a Includes encumbrances (prior year funds scheduled to be paid or disbursed in the current fiscal year and recorded with the current year's expenditures).

b Overestimated appropriations divided by adjusted total expenditures.

The most significant overestimated appropriations were for employee benefits totaling \$5.5 million (annual average of \$1.8 million), teaching salaries totaling \$4.3 million (annual average of \$1.4 million), programs for students with disabilities totaling \$2 million (annual average of \$677,000) and pupil transportation totaling \$2 million (annual average of \$670,000). The Administrator told us that annually certain appropriations are overestimated, including these, to provide flexibility in the budget in the event expenditures are higher than anticipated, or if revenues are below expectations.

Because the Board and District officials overestimated appropriations, it appeared that more revenue and financing sources (including fund balance) were needed to maintain structurally balanced budgets and address planned operating deficits (more expenditures than revenues), despite historical trend data indicating otherwise. These budgeting practices increase the risk that the Board and District officials may levy more real property taxes than necessary.

## The Board Appropriated More Fund Balance Than Needed

The Board annually appropriated fund balance averaging \$3.3 million as a financing source, which should have resulted in planned operating deficits equal to the amount appropriated. However, primarily due to overestimated

appropriations, the District experienced operating surpluses and did not need the appropriated fund balance.

As of June 30, 2019, surplus fund balance totaled approximately \$5 million and was 9 percent of 2019-20 budgeted appropriations, exceeding the statutory limit by approximately \$2.7 million (Figure 2).

**Figure 2: Surplus Fund Balance at Fiscal Year-End**

	2016-17	2017-18	2018-19
<b>Next Year's Budget</b>	\$54,617,000	\$56,081,000	\$57,243,000
<b>Surplus Fund Balance</b>	\$4,886,000	\$4,859,000	\$4,996,000
<b>Surplus Fund Balance as a Percentage of Next Year's Budget</b>	9%	9%	9%
<b>Amount Exceeding the Legal Limit<sup>a</sup></b>	\$2,702,000	\$2,616,000	\$2,707,000

<sup>a</sup> District officials were made aware of the excess surplus fund balance in the external financial audit reports.

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 surplus fund balance. When unused appropriated fund balance is added back, surplus fund balance exceeded the limit each year by nearly 10 to 11 percentage points (Figure 3).

**Figure 3: Recalculated Surplus Fund Balance at Fiscal Year-End**

	2016-17	2017-18	2018-19
<b>Surplus Fund Balance</b>	\$4,886,000	\$4,859,000	\$4,996,000
<b>Unused Appropriated Fund Balance</b>	\$3,365,000	\$3,300,000	\$3,270,000
<b>Recalculated Surplus Fund Balance</b>	\$8,251,000	\$8,159,000	\$8,266,000
<b>Next Year's Budget</b>	\$54,617,000	\$56,081,000	\$57,243,000
<b>Recalculated Surplus Fund Balance as a Percentage of Next Year's Budget</b>	15%	15%	14%
<b>Amount Exceeding the Legal Limit</b>	\$6,067,000	\$5,916,000	\$5,977,000

These budgeting practices continued in the 2019-20 budget because District officials are projecting an operating surplus. We compared the 2019-20 budget to past budgeting practices and found no significant changes. Based on our comparison, we agree with their projection that the District may again experience an operating surplus in 2019-20, making the more than \$3.2 million appropriated in the 2019-20 budget from the 2018-19 surplus fund balance unneeded. As a result, the District will likely experience an operating surplus similar to the previous three years and surplus fund balance will continue to exceed the legal limit.

Budgeting practices that produce operating surpluses and maintain fund balance in excess of the amount allowed by law result in inaccurate budget estimates and

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real property tax levies that may be greater than necessary to fund operations. The Board increased the tax levy by approximately \$392,000 (3 percent) over the past two years.<sup>3</sup> We question whether the approximate \$237,000 tax levy increase from 2018-19 to 2019-20 was necessary and needed, given that District officials made no significant changes to the budgeting practices for the 2019-20 budget. Officials may have missed opportunities to better use fund balance and reduce taxes.

## **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 and adopt 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; and
  - Paying off debt.

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<sup>3</sup> The 2017-18 and 2018-19 tax levies increased by 3 percent from the 2016-17 levy.

# Appendix A: Response From District Officials

## Pioneer Central School District



### APPENDIX A RESPONSE FROM DISTRICT OFFICIALS

The Pioneer Central School District (“District”) is focused on carrying out the mission of the school district while balancing our responsibility to our community as taxpayers over the long term. We appreciate the independent audit and feedback provided by the Office of the State Comptroller (“OSC”) and the professional and courteous staff involved. Our response in regard to the two key findings noted in the audit report is as follows.

#### Surplus Fund Balance Consistently Exceeded the Legal Limit

The District acknowledges that unassigned fund balance in the general fund exceeds the 4% limit imposed by the State and we have been carefully moving toward compliance. Unassigned fund balance as a percentage of the subsequent year expenditure budget has decreased from 15.4% at the end of the 2010-11 school year to 8.7% at the end of the 2018-19 school year.

The cautious approach is due to our high dependency upon state aid (nearly 70% of our revenue is in the form of state aid) and an uncertain state aid climate in New York State. Over the past fifteen years, state aid has been inadequate, unpredictable, unstable, and in recent years under attack. For example, in 2006, New York State implemented the Foundation Aid category in response to the Campaign for Fiscal Equity court ruling to distribute state aid based on student need with the intention of closing the spending gap between high and low income districts. The Foundation Aid formula has been underfunded and politically manipulated from the day it was introduced. As a result, the District has received nearly \$62 million less in Foundation Aid than what should have been received under the original formula. In 2008 there was an economic downturn, which resulted in a take back of state support for schools through the Gap Elimination Adjustment (“GEA”). The GEA began with the 2010-11 school year and continued through the 2016-17 school year resulting in a take back of over \$8.7 million of state aid from the District. Since then annual Foundation Aid increases have been inadequate and expensed based aids such as BOCES aid, Transportation Aid and Building Aid (which Pioneer relies heavily upon) have been attacked repeatedly through proposals to cap, alter, or eliminate the aid categories. And now we are entering a new economic downturn due to the COVID pandemic which is anticipated to result in immediate state aid reductions for the 2020-21 school year and continued state aid problems in the years to come.

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#### CENTRAL ADMINISTRATION:

Benjamin A. Halsey  
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Asst. Superintendent of Schools  
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We have a responsibility to our students and the tax paying community and disruptions to state aid can have catastrophic consequences for both. A strong balance sheet with liquid assets is a way to mitigate state aid volatility risk. Unassigned fund balance will play a necessary role in stabilizing District programs and finances until the current COVID related state aid crisis subsides. Long term the District intends to continue cautiously moving toward compliance through operations and/or funding of an established reserves. Until recently, available reserve fund options have been too restrictive. New York State recently authorized a new Teachers Retirement System (TRS) sub-reserve fund. Funds can be set aside in the TRS sub-reserve fund and readily used to fund payments to the Teachers Retirement System at some future date. Establishment and funding of the TRS sub-reserve fund would allow us to move toward compliance with the unassigned fund balance limit more confidently.

#### **The Board and District Officials Overestimated Appropriations**

The District pursues a long-term budget philosophy versus approaching budgeting as a one year at a time exercise. Using budget strategies, the District has been able to successfully achieve both program and tax stability and predictability for our school and tax paying community over the long-term. Net of debt service, our average annual budgeted expenditure growth over the past decade amounts to 1.94% with an average annual tax levy increase of 1.82%; a result of the long-term budget strategies that we employ. Our budget philosophy may at times lead to variances between budgeted and actual expenditures. For example, we use long-term rates for the budgeting of pension expense. When rates are high, the strategy offers budget protection. In recent years, actual pension rates have been lower than the long-term rates set for the budget resulting in actual expenditures coming in below budget and contributing toward a budget surplus. It is important to note that during these good years it has allowed the District to fund our capital reserve for future reinvestment in the District with great success. Since 2008, through the reinvestment of operational surplus the District has completed or has planned for completion over \$100 million of capital construction that required no additional tax contribution from our community.

Additionally, we use assigned fund balance budgetarily in a way that provides additional liquidity for operations as well as to incorporate contingency funds into the budget without any net tax or budget impact (net \$0) impact. Budgetarily, assigned fund balance are funds earmarked from our bank account that are not intended to be used, but is available for use if needed in the event of a large unexpected expenditure (contingency purpose). If the contingency funds are not needed it will result in variances between budgeted expenditures and actual expenditures.

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We appreciate the independent audit and feedback provided by the OSC. Through our commitment to our long-term budget philosophy, Pioneer has for many years successfully achieved both program and tax stability predictability for our school and tax paying community. Through continued commitment we are hopeful for many more such years to come.

SUPERINTENDENT OF SCHOOLS

ASSISTANT  
SUPERINTENDENT OF  
SCHOOLS

Benjamin A. Halsey

Nicholas J. Silvaroli

Date: May 19, 2020

Date: 5/19/2020

## 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 and reviewed prior audit findings from our previously issued audit report, the external financial audit reports for 2016-17 through 2018-19 and Board minutes and policies to gain an understanding of the District's financial management and budgeting practices.
- We reviewed the adopted general fund budgets from 2016-17 through 2018-19 to determine whether they were reasonable and structurally balanced by comparing adopted budgets with actual results of operations. To determine the total adjusted operating budget for each year we added encumbrances placed by the District from the previous year to the adopted budget for the subsequent year. We deducted reported actual expenditures to determine the results based on the spending plan that District voters approved.
- We compared the 2019-20 adopted budget to the 2016-17 through 2018-19 adopted budgets to assess whether similar budgeting patterns existed.
- We compared estimated revenues and appropriations with actual operating results for 2016-17 through 2018-19 to determine whether there were any significant variances.
- We calculated surplus fund balance as a percentage of the next year's budget for 2016-17, 2017-18 and 2018-19 to assess compliance with statute.
- We analyzed general fund financial activity from 2016-17 through 2018-19 and evaluated any significant factors contributing to fluctuations in fund balance.
- We recalculated surplus fund balance as a percentage of the next year's budget after adding back unused appropriated fund balance for 2016-17, 2017-18 and 2018-19.
- We analyzed the real property tax levy from 2016-17 through 2019-20 to assess 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.

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

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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 to the District's website for public review.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional\\_directory.pdf](http://www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf)

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

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

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

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[www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/cyber-security-guide.pdf](http://www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/cyber-security-guide.pdf)

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