New York State Comptroller
THOMAS P. DiNAPOLI

# Honeoye Central School District

## Financial Management

**September 2026 | 2026M-67**

Prepared by the Division of Local Government and School Accountability

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# Audit Results

## Honeoye Central School District

### Audit Objective

Did the Honeoye Central School District (District) Board of Education (Board) and District officials effectively manage fund balance?

### Audit Period

July 1, 2022 – May 7, 2026

### Understanding the Audit Area

A key measure of a school district's financial condition is its level of fund balance, which represents the difference between revenues and expenditures accumulated over time. School district officials must manage fund balance to ensure long-term educational stability, provide a cash flow cushion for unexpected costs (like emergencies and revenue gaps) and maintain tax rate stability. In addition, officials must comply with the 4 percent surplus fund balance limit and avoid excessive reserves that burden taxpayers, all while ensuring funds are used for genuine needs rather than sitting underutilized. Proper management helps ensure resources meet student needs while maintaining financial health.

The District's 2025-26 fiscal year general fund total appropriations were approximately $20.6 million. As of June 30, 2025, general fund surplus fund balance totaled $823,829 and nine reserves totaled $9.3 million.

### Audit Summary

The Board and District officials did not effectively manage fund balance. As a result, District funds were accumulated beyond amounts reasonably needed, transparency was diminished and opportunities to reduce the tax levy or address District needs may have been missed.

Although the Board and District officials generally maintained surplus fund balance within the statutory 4 percent limit, they did so by transferring surplus fund balance to reserves at, or after, year-end and maintaining $1.1 million excess fund balance in the debt service fund.

As of June 30, 2025, two general fund reserves totaling $977,890 were not reasonably funded. In addition, the Board was not provided with comprehensive reserve reports that included all information required by the District's reserve policy, limiting its ability to make informed decisions regarding the funding and use of reserves. Furthermore, the Board and District officials did not develop adequate multiyear financial and capital plans to support long-term budgeting and reserve decisions.

This report includes eight recommendations that, if implemented, will improve the District's fund balance management, reserve practices, long-term financial planning and transparency to taxpayers. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the Office of the New York State Comptroller's (OSC's) authority as set forth in Article 3 of the New York State General Municipal Law (GML). The audit's methodology and standards are included in Appendix C.

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 OSC within 90 days, pursuant to Section 35 of GML, Section 2116-a (3)(c) of the 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 the CAP, please refer to the OSC brochure, *Responding to an OSC Audit Report*, which was provided with the draft audit report. The CAP should be posted on the District's website for public review.

# Financial Management: Finding and Recommendations

A school district board (board) must comply with New York State Real Property Tax Law (RPTL) Section 1318, which limits the amount of surplus funds that a school district can retain to no more than 4 percent of the budget. Officials must apply any surplus fund balance exceeding the 4 percent limit to reduce the upcoming year's real property tax levy or appropriately fund needed reserves.

To properly manage fund balance, the board and school district officials should develop and adopt reasonably estimated and structurally balanced budgets based on historical data or known trends in which recurring revenues finance recurring expenditures.

School districts are also allowed to establish reserves (restricted fund balance) and accumulate funds for certain future purposes (e.g., capital, retirement and unemployment expenditures).

The board and district officials should develop a comprehensive, written reserve fund policy and multiyear financial and capital plans to establish funding levels and estimate future costs of ongoing services.

More details on the criteria used in this report, as well as resources we make available to officials that can help officials improve operations, are included in Appendix A.

## Finding 1 – The Board and District officials did not effectively manage fund balance.

The Board and District officials generally maintained surplus fund balance according to the statutory 4 percent limit. However, the Board and District officials were able to maintain this level of surplus fund balance by transferring surplus fund balance to reserves at, or after, year-end and maintaining $1.1 million excess fund balance in the debt service fund. The Board and District officials allocated funds to various reserve funds each year, withholding approximately $9 million in nine reserves for use at a future date (Figure 1).

**Figure 1: Reserve Balances as of June 30, 2025**

| Reserve | Balance |
|---|---|
| Capital | $3,064,449 |
| Retirement Contribution (ERS) | 1,976,940 |
| Debt | 1,130,427 |
| Worker's Compensation | 871,856 |
| Employee Benefit Accrued Liability | 675,335 |
| Retirement Contribution (TRS) | 657,774 |
| Liability | 591,962 |
| Unemployment Insurance | 302,555 |
| Repair | 2,371 |
| **Total** | **$9,273,669** |

While funding reserves can be a prudent method to accumulate money for certain future needs, the Board should include a provision in the budget for the routine funding of these reserves, which is more transparent and allows for taxpayer approval.

We reviewed reserve fund balances and activity and determined that certain reserves (the debt reserve totaling $1.1 million and two general fund reserves – unemployment insurance and employee benefit accrued liability –

totaling $977,890) were not reasonably funded, as described below. The other reserves were reasonably funded or within authorized amounts, when applicable. Other than a transfer from the employee benefit accrued liability reserve, the reserves were generally properly used.

Debt Reserve – As of June 30, 2025, the District had a debt reserve totaling $1.1 million in the debt service fund, separate from the general fund. Per New York State Local Finance Law Section 165.00 and GML Section 6-L, a debt service fund is used to account for the accumulation of resources designated for paying principal and interest on long-term debt. District officials did not maintain records of the composition of the debt reserve allocated to specific debt. We determined approximately $128,000 was properly reserved in the debt service fund. However, District officials did not use the funds to pay off the debt. The remaining $1 million is inappropriately reserved as debt service. Because there are no other outstanding debt obligations related to these debt service funds, there is no statutory requirement or authority to maintain the funds in the debt reserve. Therefore, District officials should transfer the $1 million to the general fund as surplus fund balance. If these funds were returned to the general fund, they would compose approximately an additional 5 percent of 2025-26 appropriations. Therefore, these funds could have been available to fund operations and had the funds been reported as general fund surplus fund balance, the total would have exceeded the statutory limit allowed to be retained. Three Board members told us they were unaware of the excess funds in the debt service reserve.

Unemployment Insurance Reserve – Although the Board reduced the balance in the unemployment insurance reserve, from more than $1 million to $302,555 as of June 30, 2025, the balance is not reasonable. While the reserve balance is within the District's reserve plan funding level, the reserve plan did not specify why this level of funding was necessary. For example, the June 30, 2025 reserve balance of $302,555 could cover 166 years of the three-year average unemployment insurance expenditures.

Employee Benefit Accrued Liability Reserve – The reserve balance of $907,418 as of June 30, 2024 exceeded the District's liability for compensated absences as listed in the District's reserve plan ($608,927) by $298,491. Although the Board authorized the transfer of $275,000 to the capital reserve in June 2025 to reduce the balance to $675,335 as of June 30, 2025, the transfer of funds from this reserve is not allowable.

The Board President, Superintendent and Business Administrator told us that the Board and District officials budget conservatively to cover services for any new special education placements and when that does not occur, the Board uses the surplus to fund the reserves. However, the Board and District officials should adopt realistic budgets and transparently budget for the funding of reserves. These budgeting practices resulted in the Board increasing real property taxes a total of $788,263 (8 percent) for fiscal years 2022-23 through 2024-25. By maintaining excessive reserves, the Board and District officials may have missed opportunities to lower the property tax burden for District taxpayers and withheld funds that may have been used to meet District needs.

The Board-adopted reserve fund policy stated that District officials will prepare and submit an annual report of all reserve funds (reserve plan) to the Board. However, the 2022-23 through 2024-25 annual reserve plans did not include all required components, such as the reserve balances, activity or an analysis of the projected needs for the upcoming fiscal year. Three Board members told us that they were unaware that the plan did not meet policy requirements. Without complete information about reserve activity and analysis of projected reserve needs, the Board cannot make necessary and informed decisions to adequately manage reserve funds or share and justify reserve planning and balances to taxpayers.

The Board and District officials did not transparently communicate and justify their financial decisions by developing adequate written multiyear financial and capital plans including a comprehensive annual reserve plan as required by Board policy. District officials, in conjunction with a consultant, developed written multiyear financial plans, but the plans were not adequate because they projected operating deficits resulting in the use of appropriated fund balance and a deficit surplus fund balance, but did not include specific solutions to address these projections. Furthermore, these financial plans were not reviewed by the entire Board. The District's 2021 capital plan was also inadequate because other than total expenditures for potential capital projects, it did not include financial information and did not address non-building capital needs. Board members and the Superintendent did not provide an adequate explanation for the Board not reviewing or preparing suitable multiyear financial and capital plans, but also indicated that certain District officials, including the Business Administrator, were newer and they were working on making improvements.

The Board and District officials estimated revenues and expenditures similar to prior years in 2025-26 and also increased real property taxes $586,634 (6 percent). As the District moves forward, well-designed written financial and capital plans can assist the Board in making informed decisions in a timely manner about programs and operations and help the Board transparently and effectively manage fund balance, including reserves, in the best interests of taxpayers.

## Recommendations

The Board and District officials should:

1. Develop and adopt realistic annual budgets that include reasonable estimates of revenues, expenditures and planned reserve funding.
2. Ensure reserve funds are properly established and supporting documentation is maintained and readily available.
3. Periodically review reserve fund balances to determine whether the amounts accumulated are reasonable and necessary and transfer excess amounts, when permitted by law, to surplus fund balance or other legally established reserves.
4. Transfer debt reserve funds improperly retained in the debt service fund to the general fund as surplus fund balance.
5. Develop, adopt and periodically update comprehensive written long-term financial and capital plans to guide budgeting and reserve decisions.

The Board should:

6. Authorize the specific funding of reserves before year-end.
7. Require District officials to provide a comprehensive annual reserve report containing all components required by the District's reserve policy and use the report to make informed and documented decisions regarding reserve funding, use and accumulated balances.

District officials should:

8. Prepare and provide the Board with a comprehensive annual reserve report that includes all components required by the District's reserve policy.

# Appendix A: Profile, Criteria and Resources

## Profile

The District's boundaries include the Towns of Bristol, Candice, Richmond, South Bristol and West Bloomfield in Ontario County and the Town of Livonia in Livingston County. The seven-member elected Board is responsible for managing and controlling the District's financial and educational affairs. The Superintendent is the chief executive officer and is responsible for the District's day-to-day management under the Board's direction. The current Superintendent started in July 2024.

The Business Administrator is responsible for the administration and supervision of financial activities, which includes working with the Board and Superintendent to develop and administer the budget. The current Business Administrator started in April 2025. The District's fiscal year runs from July 1 through June 30.

## Criteria

Fund balance is the difference between revenues and expenditures accumulated over time. School districts may retain a portion of surplus fund balance for unexpected occurrences and fluctuations in cash flow. However, a school district board (board) and officials must comply with RPTL Section 1318, which limits the amount of surplus funds that a school district can retain to no more than 4 percent of the budget. Officials must apply any surplus fund balance in excess of the 4 percent limit to reduce the upcoming year's real property tax levy or appropriately fund needed reserves.

To properly manage fund balance, the board and school district officials should develop and 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, the board must estimate the amounts the school district will spend and receive, the amount of fund balance that will be available at fiscal year-end to use toward the upcoming year's budget, and the expected real property tax levy. Accurate and reasonable budget estimates help ensure that the tax levy is not greater than necessary, the budget is presented transparently to the public, and surplus fund balance does not exceed the statutory limit. During the fiscal year, as school district officials have a better understanding of the results of financial operations, they should consider using anticipated surplus fund balance to finance one-time expenditures, fund needed reserves or pay off debt.

School districts are also allowed to establish reserves (restricted fund balance) and accumulate funds for certain future purposes (e.g., capital, retirement and unemployment expenditures). While school districts are generally not limited to the amount of funds that can be held in reserves, the board should ensure reserve balances are reasonable. The board should balance the desire to accumulate funds for identified future needs with the obligation to make sure real property taxes are not higher than necessary. The use and transfer of funds from reserves must be for allowable purposes for each reserve. While funding reserves can be a prudent method to accumulate money for certain future needs, the Board should include a provision in the budget for the routine funding of these reserves, which is more transparent and allows for taxpayer approval.

To help ensure that reserve balances do not exceed reasonable amounts necessary to address long-term obligations or planned expenditures, the board should adopt a comprehensive written policy or plan that states its rationale for establishing reserve funds, 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.

The Board-adopted reserve fund policy states that the District will prepare and submit an annual report of all reserve funds (reserve plan) to the Board. The policy states the annual report will include the following information for each reserve fund: type and description, date the reserve was established and amount of each sum paid in, interest earned, capital gains or losses from sales of investments, total amount and date of each withdrawal, total assets showing cash balance and a schedule of investments, and an analysis of the projected needs for the upcoming year and a recommendation regarding funding those projected needs.

The Board's financial accountability policy requires a "long-term (three to five years) financial plan for both capital projects and operating expenses." Such plans enable officials to identify revenue and expenditure trends, establish long-term priorities and goals, consider the impact of near-term budgeting decisions on future fiscal years, and assess the merits of alternative approaches (such as using surplus fund balance or establishing and using reserves) to finance operations. Any comprehensive written multiyear financial and capital plans should be monitored and updated on an on-going basis to help ensure that decisions are made using the most accurate information available.

## Additional Resources

OSC's *Local Government Management Guides,* and other informational resources that are available on OSC's website to help officials understand and perform their responsibilities, include:

- *Reserve Funds:* https://www.osc.ny.gov/files/local-government/publications/pdf/reserve-funds.pdf
- *Multiyear Financial Planning:* https://www.osc.ny.gov/files/local-government/publications/pdf/multiyear-financial-planning.pdf
- *Multiyear Capital Planning:* https://www.osc.ny.gov/files/local-government/publications/pdf/multiyear-capital-planning.pdf

In addition, local officials can use OSC's website to search for audits, resources, publications and training for officials at: https://www.osc.ny.gov/local-government

# Appendix B: Response From District Officials

The content below is a reproduced copy of the original response letter issued by District officials, is reformatted to meet the Americans with Disabilities Act *Web Content Accessibility Guidelines (WCAG)*,[1] and may have included changes to spelling and grammar. The substance of the content was not changed.

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The Honeoye Central School District is in receipt of the audit report by the Office of the State Comptroller.

The District acknowledges the findings and agrees with the recommendations. The District recognizes the importance of ensuring that fund balance and reserves are reasonable, properly documented, transparently reported, and aligned with identified future needs. While the District generally maintained surplus fund balance within the statutory four percent limit, the audit identified opportunities to strengthen reserve management, budgeting practices, financial planning, and Board oversight.

In response to the audit, the District will:

- Develop annual budgets that clearly identify anticipated revenues, expenditures, and planned reserve funding.
- Review all reserve balances and supporting documentation annually to ensure funds are properly established, reasonably funded, and used for allowable purposes.
- Address the excess funds identified in the debt service fund in accordance with applicable law.
- Provide the Board with a comprehensive annual reserve report containing the information required by District policy.
- Ensure that future reserve funding decisions are specifically authorized by the Board and supported by documented financial needs.
- Develop and regularly update comprehensive multiyear financial and capital plans to guide budgeting, reserve decisions, and long-term financial sustainability.

1 https://www.ada.gov/resources/2024-03-08-web-rule/#highlights-of-the-requirements-in-the-rule

The District views this audit as an opportunity to strengthen its financial practices and improve transparency and accountability to taxpayers. The Board and administration are committed to implementing the corrective actions identified in the audit and to establishing consistent processes that support sound long-term financial management.

Sincerely,

Natalie Pfluke
Superintendent
Honeoye Central School District

# Appendix C: Audit Methodology and Standards

OSC auditors obtained an understanding of internal controls that were deemed significant within the context of the audit objective and assessed those controls. Information related to the scope of the work on internal controls, as well as the work performed in the audit procedures to achieve the audit objective and obtain valid audit evidence, included the following:

- We interviewed five Board members and other District officials and reviewed Board meeting minutes, resolutions, policies and the reserve plans to gain an understanding of the District's financial management policies and procedures, budgeting practices and monitoring of fund balance and reserves.
- We reviewed financial records to determine whether the District had operating surpluses or deficits during the audit period.
- We reviewed the adopted general fund budgets for fiscal years 2022-23 through 2024-25 to determine whether they were reasonable and structurally balanced by comparing adopted budgets with actual results of operations. We also reviewed the fiscal year 2025-26 adopted budget to determine whether the estimates were consistent with prior years' estimates.
- We analyzed fiscal year-end fund balance for the general fund and calculated surplus fund balance as a percentage of the upcoming year's appropriations to determine whether the surplus fund balance was in compliance with the statutory limit. We evaluated any factors contributing to changes in fund balance, including real property tax levy increases.
- We reviewed reserve activity for each reserve for fiscal years 2022-23 through 2024-25 to determine whether they were properly established and used, and whether balances were reasonable as of June 30, 2025. We reviewed Board meeting minutes to determine whether the Board approved transfers to and from reserves.
- We reviewed and discussed reserve, multiyear financial and capital plans with Board members and District officials.

OSC auditors conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objective. Auditors believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objective.

# Questions?

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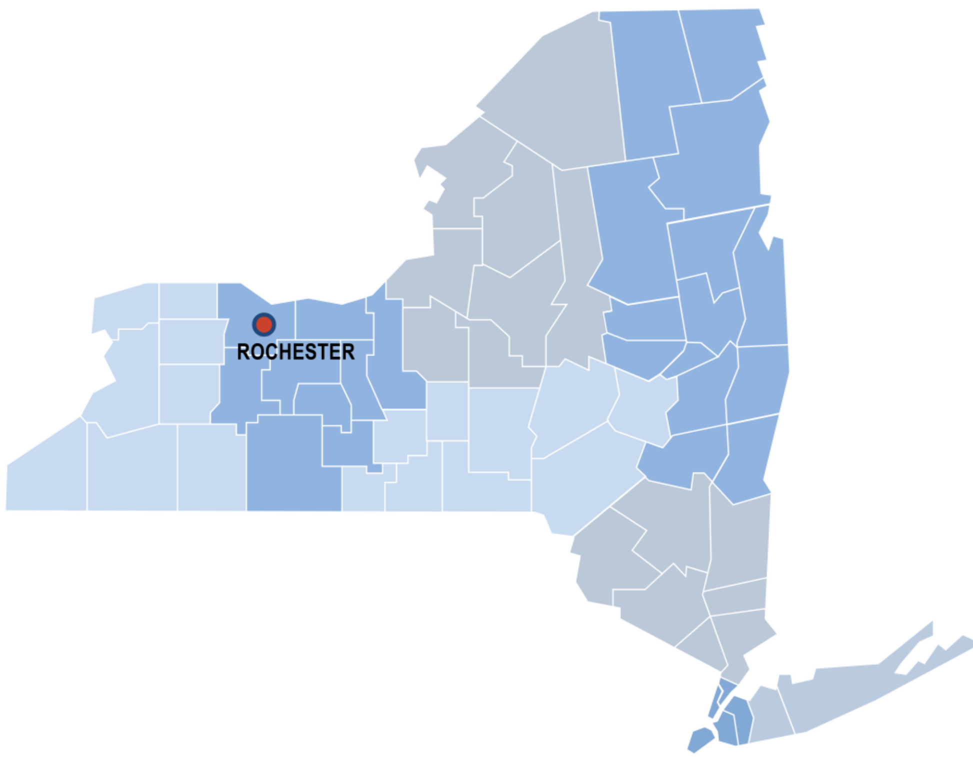

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