

Cuba-Rushford Central School District

Financial Management

MARCH 2020



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

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Report Highlights

Cuba-Rushford 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 \$4.8 million from 2016-17 through 2018-19 and annually appropriated an average of \$1 million of fund balance that was not used to finance operations.
- As of June 30, 2019, surplus fund balance totaled \$2.8 million and was 12 percent of 2019-20 appropriations, exceeding the 4 percent statutory limit by approximately \$1.9 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 agreed with our findings and recommendations and indicated they have initiated, or planned to initiate, corrective action.

Background

The Cuba-Rushford Central School District (District) serves the Towns of Belfast, Caneadea, Centerville, Clarksville, Cuba, Friendship, New Hudson and Rushford in Allegany County and the Towns of Farmersville, Freedom, Hinsdale, Ischua and Lyndon in Cattaraugus County.

The District is governed by an elected seven-member Board of Education (Board). The Superintendent of Schools (Superintendent) is the chief executive officer and is responsible for the District's day-to-day management. The Board, Superintendent and Business Manager are responsible for developing the annual budget. The Business Manager is also responsible for the administration and supervision of financial activities.

Quick Facts

Enrollment	823
Employment	200
2019-20 General Fund Budget	\$22.8 million

Audit Period

July 1, 2016 – December 11, 2019

Financial Management

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 may be available at year-end to use towards the next year's budget 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 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.

Surplus Fund Balance Consistently Exceeded the Legal Limit

The Board and District officials did not properly manage fund balance. Our previous Report of Examination³ (Report) of the District identified excessive surplus fund balance that occurred because the Board and District officials overestimated both the budgeted expenditures (appropriations) and the use of appropriated fund balance. As a result, our Report recommended that the Board adopt budgets based on more realistic expenditure estimates so as to not overtax taxpayers. We also recommended the Board and District officials should ensure that surplus fund balance is within the statutory limit and refine the multiyear plan to use as a tool to reduce surplus fund balance. However, the Board and District officials have not done so.

The Board's financial reserve plan states that the Board will reduce surplus fund balance as recommended by our previous Report and the Board's fund balance policy states that it will strive to ensure that surplus fund balance does not exceed 4 percent. However, neither of these internal controls were sufficient to prevent the District from continuing to accumulate excessive surplus fund balance because, conversely, the Board and District officials asserted to us that they intentionally plan to maintain surplus fund balance in excess of the legal limit. As

1 New York State Real Property Tax Law 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://osc.state.ny.us/localgov/pubs/releases/gasb84.pdf>.

3 *Cuba-Rushford Central School District – Financial Management (2015M-125)*

a result, surplus fund balance continued to consistently exceed the 4 percent limit by an annual average of 9 percentage points, or approximately \$2 million.⁴

The Board and District officials consistently overestimated appropriations⁵ and appropriated fund balance for planned operating deficits that never occurred. Consequently, because of these budgetary practices, the Board and District officials may have levied more taxes than necessary.

The Board Overestimated Appropriations

We compared 2016-17 through 2018-19 estimated revenues and budgeted appropriations with actual operating results and found that, while revenue variances were generally reasonable, appropriations were overestimated by approximately \$4.8 million in total or an annual average of approximately \$1.6 million (8 percent).

Figure 1: Overestimated Appropriations

	2016-17	2017-18	2018-19	Totals
Appropriations ^a	\$20,875,000	\$21,240,000	\$22,145,000	\$64,260,000
Actual Expenditures and Transfers to Capital Reserves	\$19,589,000	\$19,430,000	\$20,472,000	\$59,491,000
Overestimated Appropriations	\$1,286,000	\$1,810,000	\$1,673,000	\$4,769,000
Percentage Overestimated ^b	7%	9%	8%	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 significantly overestimated appropriations were for employee benefits totaling \$2.5 million (annual average of \$836,000) and teaching salaries \$1.3 million (annual average of \$425,000). The Business Manager 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 taxes than necessary.

⁴ See Figure 2.

⁵ See Figure 1.

The Board Appropriated More Fund Balance Than Needed

The Board annually appropriated fund balance averaging \$1 million and annually appropriated reserve fund balance averaging \$255,000 as financing sources, which together, should have resulted in planned operating deficits equal to the amounts appropriated. While a total of approximately \$382,000 of the appropriated reserve funds were used to offset related expenditures and reduced total restricted fund balances, surplus fund balance increased overall from \$2.78 million in 2016-17 to \$2.84 million in 2018-19.

When fund balance is appropriated for the next year's budget, the expectation is that there will be a planned operating deficit equal to the amount of fund balance that was 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 over \$2.8 million, and was 12 percent of 2019-20 budgeted appropriations, exceeding the statutory limit by approximately \$1.9 million.

Figure 2: Surplus Fund Balance at Fiscal Year-End

	2016-17	2017-18	2018-19
Next Year's Budget	\$21,083,000	\$21,776,000	\$22,770,000
Surplus Fund Balance	\$2,776,000	\$2,940,000	\$2,841,000
Surplus Fund Balance as a Percentage of Next Year's Budget	13%	14%	12%
Amount Exceeding the Legal Limit ^a	\$1,933,000	\$2,069,000	\$1,930,000

^a The District was also previously made aware of the excess surplus fund balance by its 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. For perspective, when we added the unused appropriated fund balance amounts back into surplus fund balance, the recalculation indicates that the District exceeded the limit each year by even higher amounts at nearly 13 to 14 percentage points.

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

	2016-17	2017-18	2018-19
Surplus Fund Balance	\$2,776,000	\$2,940,000	\$2,841,000
Unused Appropriated Fund Balance	\$1,016,000	\$920,000	\$1,098,000
Recalculated Surplus Fund Balance	\$3,792,000	\$3,860,000	\$3,939,000
Next Year's Budget	\$21,083,000	\$21,776,000	\$22,770,000
Recalculated Surplus Fund Balance as a Percentage of Next Year's Budget	18%	18%	17%
Amount Exceeding the Legal Limit	\$2,949,000	\$2,989,000	\$3,028,000

These budgeting practices appear to have continued in the 2019-20 budget. We compared the 2019-20 budget to past budgeting practices and found no significant changes. Based on this, we estimate that the District may again in 2019-20 experience an operating surplus making the \$700,000 appropriated in the 2019-20 budget from the 2018-19 surplus fund balance unneeded. As a result, the District may 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 real property tax levies that may be greater than necessary to fund operations. The Board has increased the tax levy by approximately \$239,000 (5 percent) over the past two years.⁶ We question, given no significant changes to the budgeting practices for the 2019-20 budget, if the approximate \$300,000 tax levy increase from 2018-19 to 2019-20 was necessary and needed. District 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 Board's fund balance policy and the statutory limit. Surplus funds can be used for:
 - Reducing District property taxes.
 - Funding one-time expenditures.
 - Funding needed reserves.
 - Paying off debt.

⁶ The 2017-18 and 2018-19 tax levy increase from the 2016-17 levy.

Appendix A: Response From District Officials

CUBA-RUSHFORD CENTRAL SCHOOL

*Superintendent of Schools, 585-968-2650 / Fax: 968-2651
Transportation Supervisor, 585-968-2446*

*Cuba-Rushford Middle/High School
5476 Route 305N, Cuba, NY 14727
585-968-2650 / Fax: 968-1091*

*Cuba-Rushford Elementary School
15 Elm Street, Cuba, NY 14727
585-968-1760 / Fax: 968-3181*

March 5, 2020

Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510

Dear Mr. Jeffrey Mazula,

The Cuba-Rushford School District is in receipt of the draft audit, financial management, for the period July 1, 2016 through June 30, 2019, prepared by the Office of the State Comptroller. The Board of Education and the administration thanks state auditors for their patience and professionalism throughout this audit as well as the recommendations cited in the report. This letter includes the district's response as well as the Corrective Action Plan for recommendation #2.

1. **Audit Recommendation:** Develop and adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations.

District Comment: The district budgets appropriately throughout the budget process in open session and reviews historical expenditure reports for the last five prior years to adequately develop a budget that ensures we are financially prepared to meet the planned and unplanned programmatic needs of our students and make payments to debt service when aid is not scheduled to flow from the state. To ensure fiscal integrity, we have the duty to plan for these unforeseen expenses that may occur during the course of the year. In addition, the district continues to pursue cost saving opportunities throughout the year which successfully result in actual costs being less than budgeted for. There are numerous contingencies that occur during a fiscal year which put strain on the District and could result in spikes on the tax levy. The District has been able to stay below the Tax Cap since the Tax Cap was instituted and has maintained financial stability by budgeting appropriately.

It is important to note, in the last state financial crisis the state endured, the district has had to reduce programs, reduce staff by thirty-four (34) and close an elementary school. As a result, our budgeting practices have become realistic and the district has budgeted expenditures that include unanticipated, but highly probable expenses based on our fifteen-year expenditure reports. As a district situated in rural Western New York with a transient population, our district faces challenges that are unique to us. For example, as a district that encompasses 156 square miles, thirteen townships, and transports to schools 60 miles away, we attempt to anticipate the cost of transportation, special education programs and placement outside the district to meet our student's needs. Other variable districts must anticipate are unfunded state mandates.

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2. **Audit Recommendation:** Develop and adopt a plan to reduce surplus fund balance to comply with the Board's fund balance policy and the statutory limit. Surplus funds can be used for: Reducing District property taxes. Funding one-time expenditures. Funding needed reserves. Paying off debt.

District Comment: The district acknowledges that the unrestricted fund balance for the years audited were above New York States statutory limit. However, the district has applied unrestricted fund balance to BAN debt payments reducing the amount the district has to bond as recommended by the Comptroller's Offices. In the 2018-19 school year, the district experienced a delay in starting the capital project as a result of having to rebid. The capital project delay resulted in some funds not being utilized in the year they were scheduled, resulting in an increase to the fund balance. Since then, the transfer from capital reserves fund has been utilized for this purpose.

Implementation Plan of Action: The district continues to monitor its fund balance calculation and work with our financial advisor to better anticipate the impact of capital project delays. We continue to monitor our reserve and five-year financial plans.

Implementation Date: Immediately

Person(s) Responsible for Implementation: District Administration, Business Manager and the Board of Education.

The Cuba-Rushford Central School District strives to deliver the best possible educational experience to *Every Student Everyday* while being fiscally responsible to our taxpayers. The district welcomes the recommendations and the positive feedback received in our meeting with the Associate Examiner and our Board of Education.

Sincerely,

Carlos Gildemeister
Superintendent of Schools
Cuba-Rushford District
5476 Route 305
Cuba, New York 14727
585-968-2650

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 Board and District officials, reviewed prior audit findings from our previously issued Report⁷ and external financial audit reports for 2017 through 2019, and reviewed Board meeting 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 then deducted reported actual expenditures to determine the results based on the spending plan that District voters initially 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 calculated surplus fund balance as a percentage of the next year's budgeted appropriations 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 budgeted appropriations after adding back unused appropriated fund balance for 2016-17, 2017-18 and 2018-19.
- We analyzed the tax levy between 2016-17 and 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.

⁷ See footnote 3.

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 to the District's website for public review.

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

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

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

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

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

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