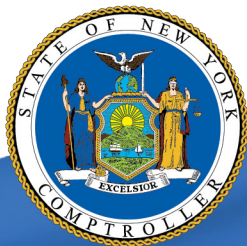


Elba Central School District

Financial Management

AUGUST 2018



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

Contents

- Report Highlights 1**

- Financial Management. 2**
 - What is Effective Financial Management? 2
 - Unrestricted Fund Balance Exceeded the Statutory Limit 2
 - Budget Estimates Were Unrealistic 4
 - The Board Overfunded Three Reserves. 5
 - What Do We Recommend? 6

- Appendix A – Response From District Officials 7**

- Appendix B – Audit Methodology and Standards 10**

- Appendix C – Resources and Services. 12**

Report Highlights

Elba Central School District

Audit Objective

Determine whether the Board and District officials effectively managed the District's financial condition.¹

Key Findings

- The Board adopted budgets with overestimated appropriations averaging \$950,000. As a result, it did not use all of the appropriated fund balance.
- Taxpayers might have realized \$570,000 in cumulative tax savings had the Board maintained the same tax levy as in 2013-14 and if the Board had used overfunded reserves to pay \$860,000 of related expenditures rather than appropriations.
- District officials overfunded three reserves that totaled \$2.1 million.

Key Recommendations

- Adopt realistic budgets based on historical or other known trends.
- Review reserves to determine whether they are necessary and reasonably funded.

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

Background

The Elba Central School District (District) serves portions of the Towns of Batavia, Byron, Elba, Oakfield and Stafford in Genesee County.

The seven-member Board of Education (Board) is responsible for managing and controlling the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is responsible for the District's day-to-day management. The Superintendent is also responsible, along with the District Treasurer (Treasurer), for developing and administering the budget.

Quick Facts

Employees	99
Enrollment	365
2017-18 Appropriations	\$9 million
General Fund Balance as of June 30, 2017	\$4.7 million

Audit Period

July 1, 2014 – January 22, 2018. We extended our audit scope back to August 1, 2006 to evaluate the establishment of certain reserves, June 30, 2013 for certain reserve balance analysis and July 1, 2013 for the tax levy analysis.

¹ Our audit focused primarily on the general fund's financial condition.

Financial Management

What is Effective Financial Management?

To effectively manage financial condition, the Board must maintain reasonable fund balance levels. Fund balance represents the residual difference between revenues and expenditures accumulated over time. New York State Real Property Tax Law² (RPTL) currently limits the amount of unrestricted fund balance that a school district can retain to no more than 4 percent of the next year's appropriations.

To stay within this statutory limit, the Board should adopt realistic and structurally balanced budgets based on historical or known trends, in which recurring revenues finance recurring expenditures. In preparing the budget, the Board must estimate the amounts the District plans to spend and receive in revenue (e.g., State aid), how much fund balance may be available at year-end and, to balance the budget, the expected tax levy. Accurate estimates help ensure that the real property tax levy is not greater than necessary.

Additionally, school districts are allowed to legally set aside, or reserve, portions of fund balance to finance future costs for specific purposes (e.g., capital projects or retirement expenditures), and may also use a portion of fund balance to help finance the next year's budget (referred to as appropriated fund balance). The Board should adopt a formal written plan that indicates how reserves will be funded, how much should be accumulated in the reserves and when the money will be used to finance related costs. While school districts are generally not limited to how much money can be held in reserves, the balances should be reasonable. The Board should weigh the accumulation of fund balance for future needs with its obligation to ensure that the tax levy is not greater than necessary.

Unrestricted Fund Balance Exceeded the Statutory Limit

The District reported unrestricted fund balance that exceeded the 4 percent statutory limit in 2014-15 and 2015-16. In 2016-17, the District reported unrestricted fund balance at 4 percent in compliance with RPTL. However, this was achieved by the Board funding an additional \$624,000 to two³ reserves that were already overfunded,⁴ which consequently reduced the amount of unrestricted fund balance.

2 New York State Real Property Tax Law Section 1318

3 Workers' compensation and unemployment insurance

4 See subsequent finding, "The Board Overfunded Three Reserves."

Figure 1: Unrestricted Fund Balance

	2014-15	2015-16	2016-17
Beginning Fund Balance	\$3,622,970	\$3,471,607	\$3,994,302
Add: Operating Results	(\$151,363)	\$522,695	\$750,952
Ending Fund Balance	\$3,471,607	\$3,994,302	\$4,745,254
Less: Encumbrances	\$1,896	\$7,581	\$4,370
Add: Prior Period Adjustment	\$0	\$0	\$2,853
Less: Not in Spendable Form	\$1,000	\$1,000	\$0
Less: Restricted Fund Balance (Reserves)	\$2,423,024	\$2,723,024	\$4,086,594
Less: Appropriated Fund Balance for the Next Year	\$241,086	\$268,539	\$280,948
Unrestricted Fund Balance at Year-End	\$804,601	\$994,158	\$376,195
Next Year's Budgeted Appropriations	\$9,241,698	\$9,260,316	\$9,274,302
Unrestricted Fund Balance as a Percentage of Next Year's Budget	9%	11%	4%

Budget practices like these can mislead taxpayers by making it appear that the District needed to both increase taxes and use appropriated fund balance to close projected budget gaps. However, the District realized operating surpluses or smaller deficits than planned, and appropriated fund balance was not needed to finance operations in the estimated amounts. We recalculated unrestricted fund balance with the amounts of unused appropriated fund balance and the totals exceed the statutory limit by as much as ten percentage points. Additionally, the Treasurer projects that the District will end 2017-18 with a small operating deficit of about \$3,000 and, as a result, the majority of appropriated fund balance of approximately \$278,000 will not be needed.

Figure 2: Recalculated Unrestricted Fund Balance

	2014-15	2015-16	2016-17
Unrestricted Fund Balance at Year-End	\$804,601	\$994,158	\$376,195
Add: Appropriated Fund Balance Not Used for the Next Year	\$241,086	\$268,539	\$278,085 ^a
Recalculated Unrestricted Fund Balance	\$1,045,687	\$1,262,697	\$654,280
Recalculated Unrestricted Fund Balance as a Percentage of Next Year's Budget	11%	14%	7%

^a Based on the Treasurer's estimated projections

Ultimately, the District did not use most of the fund balance appropriated. However, the Board increased taxes by a total of 12 percent since 2013-14, despite having sufficient resources to fund ongoing operations. For perspective,

had the Board retained the same tax levy as in 2013-14, taxpayers might have realized more than \$570,000 in cumulative tax savings.

Budget Estimates Were Unrealistic

Unrestricted fund balance exceeded the statutory limit because the Board and District officials consistently overestimated appropriations. Annually appropriating fund balance that is not needed to finance operations is, in effect, a reservation of fund balance that is not provided for by statute and a circumvention of the statutory limit imposed on the level of unrestricted fund balance.

We compared budgeted revenues and appropriations with actual operating results from July 1, 2014 through June 30, 2017 and identified that appropriations were overestimated by an average of \$950,000 annually (11 percent), or a total of more than \$2.8 million.

Figure 3: Overestimated Appropriations

	2014-15	2015-16	2016-17
Appropriations	\$10,101,799	\$9,241,698	\$9,260,316
Actual Expenditures	\$9,349,670	\$8,312,664	\$8,094,230
Overestimated Appropriations	\$752,129	\$929,034	\$1,166,086
Percentage Overestimated	8%	11%	14%

The Board and District officials most significantly overestimated appropriations for employee benefits⁵ by approximately \$1.2 million (22 percent) over the last three years, or by an average of more than \$400,000. The Treasurer told us that the Board and District officials try to budget as accurately as possible and, because it is an estimate, changes occur during the year that alter those estimates. However, had they used historical trends when budgeting employee benefits, their estimates could have been more realistic. For example, the actual expenditures for employee benefits averaged approximately \$1.8 million in each of the past three years. However, despite that similar recurring amount of costs, the Board and District officials budgeted more than \$2.2 million annually and did not reduce the budget estimates accordingly.

Subsequent to our on-site audit fieldwork, we obtained the District’s 2018-19 budget and evaluated it in comparison to historical trends. Appropriations⁶ in 2018-19 increased by approximately 5 percent from the prior year. Consequently, the District’s historical pattern of overestimating appropriations may likely continue

Had the Board retained the same tax levy as in 2013-14, taxpayers might have realized more than \$570,000 in cumulative tax savings.

⁵ Retirement system contributions, health insurance, social security, unemployment and workers’ compensation costs.

⁶ \$9.7 million

and result in an operating surplus at the end of the year, rather than a planned operating deficit as the Board and District officials presented to the taxpayers. If so, the appropriated fund balance⁷ may not be needed to balance the budget, as the Board and District officials presented to the taxpayers.

The Board Overfunded Three Reserves

As of June 30, 2017, the District reported seven⁸ general fund reserves with balances totaling more than \$4 million or 44 percent of 2017-18 budgeted appropriations. The Board overfunded three reserves⁹ which totaled more than \$2 million, because the reserve balances were excessive when compared to the average annual costs for which the reserves were established.

Figure 4: Overfunded Reserves

Reserve	Balance as of June 30, 2017	Average Annual Costs ^a	Years
Unemployment Insurance ^b	\$736,500	\$12,200	60
Workers' Compensation ^c	\$677,200	\$35,800	19
Retirement Contribution ^d	\$643,300	\$118,600	5

a Three-year average 2014-15 through 2016-17

b General Municipal Law (GML) Section authorizes the establishment of this reserve to reimburse the New York State Unemployment Insurance Fund for payments made to claimants on a school district's behalf.

c GML Section authorizes the establishment of this reserve to pay compensation benefits and other expenses when a school district elects to self-insure for this purpose.

d GML Section authorizes the establishment of this reserve to make contributions for employees covered by the New York State and Local Retirement System.

For instance, the unemployment insurance reserve had a balance of \$736,500 as of June 30, 2017 which was enough to cover unemployment insurance expenditures for about 60 years. Furthermore, the District has not used any reserve funds to pay for unemployment, workers' compensation or retirement expenditures over the last three years. Instead, the Board included \$860,000 in budget appropriations from 2014-15 through 2017-18 to fund expenditures that could have been paid from reserves to reduce the tax burden on District taxpayers. As a result, we question the purpose of maintaining the excessive amounts in these reserves that total more than \$2 million. The four remaining reserves were properly established and reasonably funded.

The Board also was not in compliance with its reserve fund policy adopted in 2014. The policy requires that the Board determines the optimal funding levels

The Board included \$860,000 in appropriations that could have been funded from reserves.

7 \$286,000

8 Workers' compensation, unemployment insurance, retirement contribution, employee benefit accrued liability and three different capital reserves

9 Unemployment insurance, workers' compensation and retirement contribution

and periodically assesses the reasonableness of amounts accumulated in the reserves and when conditions warrant, reduce reserves to reasonable levels subject to legal requirements. When deciding how much to fund each reserve, the Treasurer indicated that the Board follows the advice of its external auditor by transferring money into the reserves so that unrestricted fund balance is within the 4 percent statutory limit.

The District was cautioned in our prior audit¹⁰ about overfunding reserves. However, the Board did not adequately address the situation as the unemployment insurance, workers' compensation and retirement contribution reserve balances have doubled, growing from \$1 million as of June 30, 2013, to more than \$2 million as of June 30, 2017.

What Do We Recommend?

The Board and District officials should:

1. Ensure that the amount of unrestricted fund balance remains in compliance with the statutory limit and develop a plan to use surplus funds as a financing source for:
 - Funding one-time expenditures;
 - Funding needed reserves;
 - Paying off debt; and
 - Reducing District property taxes.
2. Adopt annual budgets that contain realistic estimates for appropriations and appropriated fund balance based on historical or other known factors.
3. Review all reserves at least annually to determine whether the amounts reserved are necessary and reasonable, and use excess amounts in accordance with applicable statutes in a manner that benefits taxpayers.

The Board should:

4. Comply with its reserve fund policy and determine the optimal funding levels and periodically assess the reasonableness of amounts accumulated in each reserve and when conditions warrant, reduce reserves to reasonable levels subject to legal requirements.

¹⁰ *Elba Central School District – Financial Condition (2013M-240)*

Appendix A: Response From District Officials

Elba Central School
Keith Palmer
Superintendent of Schools



Elba, New York 14058-0370
fax 585-757-2713

57 S Main Street, PO Box 370
phone 585-757-9967

August 14, 2018

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

Subject: Combined Audit Response Letter and Corrective Action Plan

Unit Name: Elba Central School
Audit Report Title: Financial Management Report of Examination
Audit Report Number: 2018M-96
Reviewed: July 31, 2018

The Elba Central School District submits the following response and corrective action plan to the Financial Management Report Examination completed by the Office of the State Comptroller covering the time period of July 1, 2014 through January 22, 2018.

1. **Audit Finding:** The Board and District officials should ensure that the amount of unrestricted fund balance remains in compliance with the statutory limit and develop a plan to use surplus funds as a financing source for:
 - a. Funding one-time expenditures
 - b. Funding needed reserves
 - c. Paying off debt
 - d. Reducing District property taxes.

District Response: The district recognizes unrestricted fund balances exceeded the 4 percent statutory limit in 2014-15 and 2015-16. The district also takes the position that it is poor practice to intentionally draw from fund balance and that in general, revenues should exceed expenditures (though the goal is to minimize the difference).

Corrective Action Plan: In 2016-2017 a 4 percent unrestricted fund balance was achieved by transferring excess monies to two separate reserve accounts. We will continue to remain at or under the 4 percent limit for unrestricted fund balance by transferring any excess monies to our Capital reserves account in order to accumulate funds for a future capital project.

The purpose and tradition of Elba Central School District and its community is to empower and inspire our students to be continuous learners who are challenged to succeed.

Elba Central School
Keith Palmer
Superintendent of Schools



57 S Main Street, PO Box 370
phone 585-757-9967

Elba, New York 14058-0370
fax 585-757-2713

2. **Audit Finding:** The Board and District officials should adopt annual budgets that contain realistic estimates for appropriations and appropriated fund balance based on historical or other known facts.

District Response: The District acknowledges this recommendation. Common and prudent practices, include what the District believes to be an accurate budget. The District has done a nice job estimating revenues and will work to reduce the gap between estimated and actual expenditures. For 2017-2018, the variance for expenditures was cut in half over the 2016-2017 gap.

Corrective Action Plan: Beginning with the 2019-2020 budget, The Board of Education and District Officials will take a closer look at appropriations and continue to strongly consider trends when establishing dollar amounts.

3. **Audit Finding:** The Board and District officials should review all reserves at least annually to determine whether the amounts reserved are necessary and reasonable, and use excess amounts in accordance with applicable statutes in a manner that benefits taxpayers.

District Response: We accept this recommendation. The district recognizes that judicious use of reserves greatly reduces long term borrowing costs and large fluctuations in tax rates. It is in the best interest of the Elba community to prudently manage reserves in order to provide long-term health and stability of the district. Furthermore, the District needs to maintain a level of Fund Balance prepared to address unpredictable current year budget impacts at the local and State levels. (I.e. Special Education needs, GEA etc.). The District must also consider suggested thresholds of Fund Balance in order to maintain, or improve the district's credit rating, which has long lasting financial and taxpayer implications if not maintained. And though the District recognizes an increase in the tax levy the past few years, the increases were at or under the legal tax cap limits and did not translate to increased tax rates for our tax payers.

Corrective Action Plan: Beginning with the 2019-2020 budget, The Board of Education and District Officials will develop a Fund and Use Plan for Fund Balance and Reserves. This plan will include: purpose, funding methods, board resolution, funding source, accounting, funding level and use of funds for each of our reserve accounts.

4. **Audit Finding:** The Board should comply with its reserve fund policy and determine the optimal funding levels and periodically assess the reasonableness of amounts accumulated

The purpose and tradition of Elba Central School District and its community is to empower and inspire our students to be continuous learners who are challenged to succeed.

Elba Central School

*Keith Palmer
Superintendent of Schools*



57 S Main Street, PO Box 370
phone 585-757-9967

Elba, New York 14058-0370
fax 585-757-2713

in each reserve and when condition warrant, reduce reserves to reasonable levels subject to legal requirements.

District Response: We accept this recommendation and agree that reserves should be evaluated at least annually to determine appropriate levels. We agree that our Unemployment Insurance Reserve and Workers' Compensation Reserve are overfunded. We do not agree that our Retirement Contribution Reserve is overfunded.

Corrective Action Plan: The Board of Education and District Officials will transfer monies from the Unemployment Insurance Reserve and Workers' Compensation Reserve to our Capital Reserve account.

The Elba Central School Board of Education and School Officials thank the Office of the State Comptroller for the opportunity to respond to the audit report.

Sincerely,

Keith Palmer
Superintendent of Schools

Michael Augello
Board of Education President

*The purpose and tradition of Elba Central School District and its community
is to empower and inspire our students to be continuous learners who are challenged to succeed.*

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, relevant laws, District policies, 2016-17 audited financial statements and our prior audit to gain an understanding of the District's financial management practices.
- We analyzed the trend in total general fund balance for 2014-15 through 2016-17. We compared unrestricted fund balance with the next year's budgeted appropriations to determine whether the District was within the statutory limit. We also recalculated unrestricted fund balance by including appropriated fund balance not needed as a financing source.
- We analyzed the results of operations during 2014-15 through 2016-17 by comparing actual revenues with actual expenditures and assessed whether appropriated fund balance was used to fund operations during those years.
- We estimated the amount of unrestricted fund balance that would be available if the Board did not increase the tax levy during 2014-15 through 2017-18 and maintained the same amount as the 2013-14 levy. We extended this analysis to include the potential savings had the Board also used reserve funds to pay for related expenditures.
- We compared the 2013-14 and 2016-17 tax levies to determine the percent of change.
- We compared the general fund's estimated revenues and appropriations with actual revenues and expenditures for 2014-15 through 2016-17 to determine whether estimates were reasonable. We performed a detailed budget to actual analysis for 2016-17 and for significant variances we reviewed 2014-15 and 2015-16 data to determine if there was a trend. We also compared the 2017-18 and 2018-19 budgets to determine whether they were similarly estimated.
- We identified all general fund reserves in place and their activity during 2014-15 through 2016-17 and requested substantiation from District officials to determine if each reserve was established and maintained properly and if the reserve balances were reasonable and funded in a transparent manner. For the three overfunded reserves, we extended our audit scope period back to June 30, 2013 to determine how much the reserves had increased.

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/lgli/pdf/cybersecurityguide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

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

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

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

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

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

Contact

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

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

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

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

Serving: Allegany, Cattaraugus, Chautauqua, Erie, Genesee, Niagara, Orleans, Wyoming counties



Like us on Facebook at facebook.com/nyscomptroller

Follow us on Twitter [@nyscomptroller](https://twitter.com/nyscomptroller)