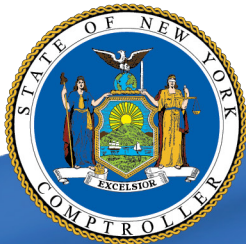


# Portville Central School District

## Financial Management

MARCH 2019



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

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# Report Highlights

## Portville Central School District

### Audit Objective

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

### Key Findings

- The Board annually appropriated fund balance that was not used to finance operations and overestimated appropriations by \$3.3 million (6 percent annual average) from 2015-16 through 2017-18.
- As of June 30, 2018, unappropriated, unrestricted fund balance totaled \$1.4 million and was almost 8 percent of 2018-19 appropriations, exceeding the 4 percent statutory limit by approximately \$660,000 or 4 percentage points.
- Three reserve funds with combined balances of approximately \$1.6 million as of June 30, 2018 were not being used as intended and were overfunded.

### Key Recommendations

- Adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations.
- Reduce unrestricted fund balance to within the statutory limit and use the excess funds in a manner more beneficial to taxpayers.
- Review and fund reserve balances to reasonable levels and use reserves in accordance with applicable statutes.

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

### Background

The Portville Central School District (District) serves the Towns of Portville and Olean in Cattaraugus County and the Towns of Clarksville and Genesee in Allegany County.

The District is governed by an elected nine-member Board of Education (Board). The Superintendent of Schools (Superintendent) is the chief executive officer and is responsible for day-to-day management under the Board's direction. 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	960
Employment	190
2018-19 General Fund Budget	\$18.2 million

### Audit Period

July 1, 2015 – September 28, 2018

# Financial Management

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## What is Effective Financial Management?

To properly manage financial condition, a board should adopt accurate and structurally balanced budgets based on historical or known trends, in which recurring revenues finance recurring expenditures. In preparing the budget, a board must estimate the amounts a school district will spend and receive, the amount of fund balance that will be available for use at 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 both a specified amount of fund balance for cash flow needs or unexpected expenditures and reserves for other identified or planned needs. Fund balance is the difference between revenues and expenditures accumulated over time. New York State Real Property Tax Law<sup>1</sup> 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 budget. Any unrestricted fund balance over this percentage must be used to reduce the upcoming fiscal year's real property tax levy or to fund needed reserves.

School districts are legally allowed to establish reserves and accumulate funds for certain future purposes (e.g., capital project, retirement expenditures). To ensure reserve funds are not over funded, district officials should plan for the funding and use of reserves by balancing the desire to accumulate funds for future needs with the obligation to make sure real property taxes are not higher than necessary. Therefore, it is important that the Board adopt a written policy that states its rationale for establishing reserve funds, objectives for each reserve, maximum targeted funding levels and conditions under which reserves will be used or replenished.

## The Board Overestimated Appropriations and Appropriated More Fund Balance Than Needed

We compared budgeted appropriations and estimated revenues with actual operating results for 2015-16 through 2017-18 and found that, while revenue variances were generally reasonable (overestimated by 2 percent), appropriations were overestimated by \$3.3 million, or an average of \$1.1 million (6.7 percent) each year.

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<sup>1</sup> New York State Real Property Tax Law, Section 1318.

**Figure 1: Overestimated Appropriations**

	2015-16	2016-17	2017-18	Totals
<b>Appropriations</b>	\$17,034,091	\$17,607,466	\$17,709,972	<b>\$52,352,529</b>
<b>Actual Expenditures</b>	\$15,989,856	\$16,535,882	\$16,532,467	<b>\$49,058,205</b>
<b>Overestimated Appropriations</b>	\$1,044,235	\$1,071,584	\$1,177,505	<b>\$3,293,324</b>
<b>Percentage Overestimated<sup>a</sup></b>	6.5%	6.5%	7.1%	<b>6.7%</b>

a Overestimated appropriations divided by actual expenditures

The most significant overestimated appropriations<sup>2</sup> were for employee benefits (\$1.3 million or 12.9 percent), regular instructional salaries (\$1 million or 7.5 percent) and building operations (\$660,000 or 39.1 percent). The Business Manager told us that the District annually overestimates certain appropriations to provide some room in the budget in the event revenues are below expectations or if certain expenditures are higher than anticipated. Based on our review of the 2018-19 budget, these budgeting practices appear to have continued.

Because the Board overestimated appropriations, it appeared the District needed to use appropriated fund balance to close projected budget gaps. The Board annually appropriated \$400,000 of fund balance as a financing source in the 2015-16 through 2017-18 budgets. The Board continued this pattern with the 2018-19 budget, again appropriating \$400,000 of fund balance.

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, due to overestimated appropriations, the District experienced operating surpluses annually, increasing each year, and resulting in a three-year cumulative operating surplus totaling approximately \$890,000. As a result, unappropriated, unrestricted fund balance increased to nearly \$1.4 million as of June 30, 2018, and was 8 percent of the 2018-19 budgeted appropriations, exceeding the statutory limit by approximately \$660,000 or 4 percentage points.

<sup>2</sup> Amounts are the cumulative total appropriations for 2015-16 through 2017-18.

**Figure 2: Unrestricted Fund Balance at Year-End**

	2015-16	2016-17	2017-18
<b>Beginning Fund Balance</b>	\$3,563,500	\$3,717,457	\$3,991,781
<b>Add: Operating Results</b>	\$153,957	\$274,324	\$459,934
<b>Ending Fund Balance</b>	\$3,717,457	\$3,991,781	\$4,451,715
<b>Less: Restricted Fund Balance (Reserves)</b>	\$2,135,402	\$2,408,128	\$2,652,333
<b>Less: Appropriated Fund Balance</b>	\$400,000	\$400,000	\$400,000
<b>Less: Encumbrances</b>	\$1,886	\$8,753	\$10,143
<b>Unappropriated, Unrestricted Fund Balance</b>	\$1,180,169	\$1,174,900	\$1,389,239
<b>Next Year's Budget</b>	\$17,607,466	\$17,709,972	\$18,219,220
<b>Unappropriated, Unrestricted Fund Balance as a Percentage of Next Year's Budget</b>	7%	7%	8%

The Board and District officials' practice of 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.

The Board increased the tax levy by less than \$20,000 or about a half percent from 2014-15 to 2017-18.<sup>3</sup> The 2018-19 budget included another tax levy increase of approximately \$110,000 or 3 percent from the 2017-18 levy. Had officials adopted more accurate budgets, they could have considered using these excess funds to fund one-time expenditures, fund needed reserves, pay off debt or reduce the levy and provide a greater benefit to taxpayers.

### **The Board Did Not Adopt a Reserve Fund Policy and Overfunded Reserves**

The Board has not yet implemented the recommendation from our previous audit<sup>4</sup> to adopt a reserve fund policy.

As of June 30, 2018, the District reported approximately \$2.6 million in five reserve funds. We analyzed the reserves to determine whether they were properly established and balances were reasonable. We found that while reserves were properly established, the balances in the employee benefit accrued liability reserve (EBALR) and the retirement contribution and unemployment

<sup>3</sup> The tax levy decreased by approximately \$59,000 (2 percent) for 2015-16 but increased \$16,000 (less than half a percent) from 2015-16 to 2016-17 and increased an additional \$62,000 (1.8 percent) in 2017-18. The tax levy totaled \$3,450,131 in 2014-15, \$3,390,749 in 2015-16, \$3,407,189 in 2016-17 and \$3,469,370 in 2017-18.

<sup>4</sup> Portville Central School District: Financial Condition (2013M-384)

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reserves were excessive. The capital reserve (\$1 million) was properly funded in accordance with the public referendum.

- The EBALR<sup>5</sup> totaled \$864,000 as of June 30, 2018. Although the District has decreased the amount of this reserve over the audit period, the corresponding liability was approximately \$600,000. Consequently, the reserve remains overfunded by approximately \$264,000. Additionally, the Board approved payments for two former employees for ineligible costs<sup>6</sup> from this reserve totaling approximately \$37,000 from 2015-16 through 2017-18.
- The retirement contribution reserve<sup>7</sup> totaled approximately \$550,000 as of June 30, 2018. While the average annual related expenditures totaled approximately \$250,000 over the last three years, the Board did not use the reserve to fund these expenditures and instead levied taxes for this purpose. Without a Board-adopted written reserve fund policy explaining how the reserve should be funded and used, we question why this balance is maintained at this level.
- The unemployment insurance reserve<sup>8</sup> is overfunded, with a balance of \$200,000 as of June 30, 2018. Over the last three years, unemployment expenditures have averaged \$2,000 per year. The Board did not use the reserve to fund these expenditures and instead used general fund appropriations. The reserve balance could fund related expenditures for 100 years of average expenditures. As a result, we question why this balance is maintained at this level.

While it is a prudent practice for officials to save for future expenditures, retaining more funds than necessary in reserves may result in missed opportunities to use these funds in a manner that best benefits taxpayers.

## What Do We Recommend?

The Board and District officials should:

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

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5 New York State General Municipal Law (GML), Section 6-p authorizes this reserve for the cash payment of accrued and unused sick, vacation and certain other leave time owed to employees when they leave District employment.

6 Retirement incentives not based on unused leave time.

7 GML, Section 6-r authorizes the establishment of this reserve to make contributions for employees covered by the New York State and Local Retirement System.

8 GML, Section 6-m authorizes the establishment of this reserve for payment of contributions to the New York State Unemployment Insurance Fund.

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2. Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.
  3. Develop a plan to reduce unrestricted fund balance to comply with the statutory limit. Surplus funds can be used for:
    - Funding one-time expenditures
    - Funding needed reserves
    - Paying off debt
    - Reducing District property taxes.
  4. Adopt a comprehensive written reserve policy to include targeted funding levels and conditions under which reserves will be used and replenished.
  5. Review reserve balances and develop a plan to reduce balances to reasonable levels in accordance with applicable statutes.
  6. Consult with legal counsel for how best to ensure that the EBALR is used in accordance with statute.



# Appendix A: Response From District Officials

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## Portville Central School

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PO Box 790  
Portville, New York 14770



Superintendent  
Thomas Simon  
Business Manager  
Pamela Sue Anderson

(716) 933-6000 • JR - SR HIGH SCHOOL  
(716) 933-6045 • ELEMENTARY  
FAX (716) 933-7124

High School Principal  
Lawrence Welty  
Elementary School Principal  
Lynn Corder

March 20, 2019

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

Dear Mr. Mazula,

RE: Portville Central School letter of response for Report of Examinations Financial Management 2018M-245

Portville Central School District acknowledges the receipt of the draft report of examination 2018M-245 concerning the Financial Management of the District. We thank your staff for conducting the audit in a professional manner, helping the District to see areas of improvement and appreciate the opportunity to learn something new to assist the District in the management of financial resources.

We will be following up with the complete Corrective Action Plan in the near future. The District assures you that it will take action in all areas legally obligated. Given the forecast for an economic downturn we will respond with a plan respectful of Portville Central School, given on average we spend almost \$10,000 less per pupil than the New York State average spending (data from ASBO Factbook published January 2019), we will act prudently to do the most for our pupils and the tax payers of the District.

Sincerely,

Thomas J. Simon  
Superintendent

## 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<sup>9</sup> and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials to gain an understanding of the District's financial management policies and procedures and budgeting practices.
- We analyzed the general fund financial records from 2015-16 through 2017-18 and evaluated any factors contributing to fluctuations in fund balance.
- We reviewed the adopted general fund budgets from 2015-16 through 2017-18 to determine whether they were reasonable and structurally balanced by comparing adopted budgets with actual results of operations and analyzing significant budget-to-actual variances.
- We reviewed the adopted 2018-19 general fund budget to determine if similar budgeting patterns existed in comparison with the 2015-16 through 2017-18 adopted budgets.
- We calculated unrestricted fund balance as a percentage of the next year's appropriations to assess District compliance with statute.
- We recalculated unrestricted fund balance as a percentage of the next year's appropriations after adding back unused appropriated fund balance.
- We analyzed reserve fund financial records from 2015-16 through 2017-18 to determine whether District officials properly established and used reserves and whether the funding levels were reasonable.

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.

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<sup>9</sup> We also issued a separate audit report, *Portville Central School District – Cafeteria Collections (2018M-244)*.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://www.osc.state.ny.us/localgov/researchpubs/index.htm)

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[www.osc.state.ny.us/localgov/academy/index.htm](http://www.osc.state.ny.us/localgov/academy/index.htm)

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