

Genesee Valley Central School District

Financial Management

FEBRUARY 2020



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

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Report Highlights

Genesee Valley Central School District

Audit Objective

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

Key Findings

- The Board overestimated appropriations by a total of \$2.7 million from 2016-17 through 2018-19 and annually appropriated \$225,000 of fund balance that was not used to finance operations.
- As of June 30, 2019, surplus fund balance totaled over \$1 million and was 6 percent of 2019-20 appropriations, exceeding the statutory limit by approximately \$354,000 or 2 percentage points.
- The District's written reserve fund policy was not comprehensive and three reserves with balances totaling \$1.3 million were generally not being used.

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.
- Adopt a comprehensive written reserve fund policy, including plans for the use of reserves in accordance with applicable statutes.

District officials generally agreed with our findings and recommendations and indicated that they plan to take corrective action.

Background

The Genesee Valley Central School District (District) serves the Towns of Allen, Amity, Angelica, Belfast, Birdsall, Friendship, Ward and West Almond in Allegany 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 under the Board's direction. The Business Official oversees the Business Office and maintains financial records. The Board, Superintendent and Business Official are responsible for developing and monitoring the budget.

Quick Facts

Enrollment	536
Employees	150
2019-20 Appropriations	\$17.2 million

Audit Period

July 1, 2016 – October 18, 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 must estimate the amounts a school district will spend and receive, the amount of fund balance that will 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 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. The 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 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 or retirement expenditures). While school districts are generally not limited as to how much money can be held in reserves, the balances should be reasonable. A board should balance the intent for accumulating funds for identified future needs with the obligation to make sure real property taxes are not higher than necessary. To help ensure that reserve balances do not exceed the amount necessary to address long-term obligations or planned expenditures, a board should adopt a formal written policy that indicates how the reserves will be funded, how much should be accumulated in the reserves and when the money will be used to finance related costs.

The Board Overestimated Appropriations and Appropriated Fund Balance That Was Not Needed

We compared budgeted appropriations and estimated revenues with actual operating results for 2016-17 through 2018-19 and found that, while revenue variances were generally reasonable (overestimated by an annual average less than 3 percent), appropriations were overestimated by an average of \$913,000 (6 percent) each year or a total of \$2.7 million. However, budget estimates appear to be improving and becoming more in line with actual expenditures.

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://www.osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>

Figure 1: Overestimated Appropriations

	2016-17	2017-18	2018-19	Totals
Budgeted Appropriations	\$15,289,141	\$15,523,697	\$15,893,344	\$46,706,182
Actual Expenditures	\$14,110,304	\$14,694,365	\$15,162,143	\$43,966,812
Overestimated Appropriations	\$1,178,837	\$829,332	\$731,201	\$2,739,370
Percentage Overestimated^a	8%	6%	5%	6%

a Overestimated appropriations divided by actual expenditures

The most significant overestimated appropriations were programs for students with disabilities (\$1.2 million or 24 percent, an average of \$415,000 per year) and employee benefits (\$1.1 million or 12 percent, an average of \$374,000 per year). The Business Official told us that the District annually overestimates certain appropriations to provide some room in the budget in the event revenues are below expectations or certain expenditures are higher than anticipated. Although the amount of overestimated appropriations has decreased, based on our review of the 2019-20 budget, the District has continued to overestimate appropriations and will likely incur another operating surplus.

Because the Board overestimated appropriations, it appeared the District needed to appropriate fund balance to close projected budget gaps. The Board annually appropriated at least \$225,000 of fund balance in the 2016-17 through 2018-19 budgets that was not needed to finance operations. The Board continued this pattern with the 2019-20 budget by appropriating \$300,000 of fund balance that will likely not be needed as a financing source.

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 annual operating surpluses resulting in a three-year cumulative operating surplus totaling approximately \$874,000. As of June 30, 2019, surplus fund balance totaled over \$1 million, and was 6 percent of 2019-20 budgeted appropriations, exceeding the statutory limit by approximately \$354,000 or 2 percentage points.

Figure 2: Surplus Fund Balance Reported Fiscal Year-End

	2016-17	2017-18	2018-19
Beginning Total Fund Balance	\$8,624,981	\$6,178,218	\$6,325,374
Add: Operating Results	\$418,237	\$147,156	\$308,679
Less Unbudgeted Transfers Out^a	\$2,865,000	\$0	\$0
Ending Total Fund Balance	\$6,178,218	\$6,325,374	\$6,634,053
Less: Restricted Fund Balance (Reserves)	\$4,254,367	\$5,030,942	\$5,141,735
Less: Appropriated Fund Balance	\$225,000	\$225,000	\$300,000
Less: Encumbrances	\$178,568	\$134,921	\$152,249
Surplus Fund Balance	\$1,520,283	\$934,511	\$1,040,069
Next Year's Budget	\$15,523,697	\$15,893,344	\$17,154,793
Surplus Fund Balance as a Percentage of Next Year's Budget	10%	6%	6%
Amount Exceeding the Legal Limit	\$899,335	\$298,777	\$353,877

^a An interfund transfer to the capital projects fund to help finance a capital project approved by District voters.

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 surplus fund balance. When unused appropriated fund balance is added back, surplus fund balance exceeded the limit each year by 3 to 7 percentage points.

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

	2016-17	2017-18	2018-19
Surplus Fund Balance	\$1,520,283	\$934,511	\$1,040,069
Unused Appropriated Fund Balance	\$225,000	\$225,000	\$300,000
Recalculated Surplus Fund Balance	\$1,745,283	\$1,159,511	\$1,340,069
Next Year's Budget	\$15,523,697	\$15,893,344	\$17,154,793
Percentage	11%	7%	8%

The Business Official agreed that surplus fund balance was in excess of 4 percent but told us that the external auditors advised her to maintain this level and explore reserve options. While the Board increased the tax levy from 2016-17 by only \$66,000 (or 2.3 percent), had the Board adopted more realistic budgets, including more accurate estimates of fund balance needed, the Board could have considered lowering the tax levy, or using these excess funds to fund one-time expenditures, fund needed reserves or pay off debt to benefit taxpayers.

The Board Did Not Adopt a Comprehensive Written Reserve Fund Policy and Reserves Were Not Used

Although the Board adopted a written reserve fund policy, it did not address the financial objective, optimal funding levels for each reserve, the conditions necessary for using the reserve funds or the circumstances under which reserve funds would be replenished.

As of June 30, 2019, the District reported eight general fund reserves with combined balances totaling \$5.1 million.³ We found that while reserve balances were generally reasonable, three reserves were generally not being used.

- Retirement Contribution Reserve – The Board established this reserve to fund payments to the New York State and Local Retirement System. The balance was approximately \$804,000 as of June 30, 2019. While annual contributions averaged \$185,000 over the past three years, District officials have not used any reserve funds to pay for these expenditures and instead paid them from general fund appropriations.
- Property Loss and Liability Reserve – The Board established this reserve to pay for property loss and liability claims. The balance was almost \$442,000 as of June 30, 2019, which was within the 3 percent authorized by Education Law.⁴ There was only one disbursement of \$7,500 from this reserve in the last three fiscal years.
- Unemployment Insurance Reserve – The Board established this reserve for the payment of contributions to the New York State Unemployment Insurance Fund. The balance was \$86,000 as of June 30, 2019. Over the last three fiscal years, unemployment expenditures have averaged less than \$4,000 per year. District officials have not used any reserve funds to pay for these expenditures and instead paid them from general fund appropriations.

While it is a prudent practice for officials to save for future expenditures, with no or minimal recent activity in these reserves and given the lack of a detailed plan, we question why they are maintained at these levels. Maintaining unnecessary reserve funds increases the risk that real property taxes will be higher than necessary.

³ The reserves included \$1.4 million in two capital reserves, \$1.2 million in a repair reserve, \$647,000 in a debt reserve and \$532,000 in the employee benefit accrued liability reserve.

⁴ Education Law Section 1709[8-c]

What Do We Recommend?

The Board and District officials should:

1. Develop and adopt budgets that include realistic estimates for appropriations and the amount of fund balance that will be used to fund operations.
2. Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.
3. Develop a plan to reduce surplus fund balance to comply with the statutory limit and use the excess funds in a manner more beneficial to taxpayers. 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 fund policy that includes the financial objective, targeted funding levels and conditions under which reserves will be used.

Appendix A: Response From District Officials

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Dr. Brian Schmitt,
Superintendent

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February 12, 2020

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

Dear Mr. Mazula:

The purpose of this correspondence is to acknowledge that the Genesee Valley Central School District has received a draft copy of the audit conducted by the New York State Comptroller's Office. We appreciate the opportunity to review our financial management practices with your professional team and would like to thank the Comptroller's Office for its recommendations on the issues identified.

The District's response to the three audit findings and corresponding recommendations related to the financial management of the District are outlined below.

Recommendation:

Adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations.

District Response:

The Board of Education and Administration will make every attempt to adopt more accurate and structurally balanced budgets based on historical or known trends. Many expenses are unknown during the time the budget is constructed and the Board makes every effort to plan for these unforeseeable expenses while keeping the tax levy increase to a minimum. The Board is extremely conscious of taxpayer's funds and that is reflected in the less than 2% total increase in taxes over this 3-year period.

This report indicates the District overestimated appropriations by an average of 6% between the years of 2016-2019. The most significant areas that reflected these inconsistencies were in programs for students with disabilities and employee benefits.

The District currently has 43 employees who elect not to participate in the health plan. Although highly unlikely, if these employees were to join the family health insurance plan, this would cost the district over \$750,000. There is also a possibility that employees who do not participate in the health plan leave the district and are replaced with an individual who does participate. These are expenses that the District needs to properly budget for. The District

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successfully achieved several grants over the past few years that help offset some benefit expenditures from the general budget. These grants are short-term and are driving some of the overestimates in appropriations in the benefits area.

Programs for students with disabilities is the most unpredictable area of the budget. The District has many students with high-cost needs that fluctuate significantly on an annual basis, making it difficult to budget for. We have several students that attend BOCES programs, many of which cost over \$55,000 per student during the 2018-19 school year. With the enrollment being uncertain throughout the course of the school year, the District must budget accordingly to accommodate the needs of students.

The District also receives grants to help offset teacher salaries and benefits included in programs for students with disabilities. These are federal grants that could be removed at any time. The District still includes these expenses in the general budget to prepare for the worst-case scenario and ensure our students have the resources they need.

Recommendation:

Reduce surplus fund balance to comply with the statutory limit and use the excess funds in a manner more beneficial to taxpayers.

District Response:

The District will continue to monitor fund balance to comply with the statutory limit and evaluate excess funds in a more beneficial manner. The Board of Education and Administration is looking at ways to decrease the amount of appropriated fund balance during the 2020-21 budget process and reduce fund balance to closer comply with the statutory limit. The comprehensive reserve plan will be updated to assist the District in better monitoring excess funds.

Recommendation:

Adopt a comprehensive written reserve fund policy, including plans for the use of reserves in accordance with applicable statutes.

District Response:

The Board of Education and Administration will review the reserve fund policy and ensure the policy aligns with the existing comprehensive reserve fund plan. The Board and District Officials feel the funding levels of the established reserves are appropriate and allow the District to be prepared to accommodate unforeseen emergencies and significant unplanned expenditures. The District was fortunate to not utilize three reserve funds over the last three years. The District feels these levels are reasonable and will be utilized for their intended purpose as the need arises. The Board and District Officials will continue to review the policy and plan on an annual basis and make necessary changes to create a more detailed plan in the future.

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The Genesee Valley Central School District would like to commend the New York State Comptroller's Office for their high level of professionalism and the work done while conducting their review of our District.

Sincerely,



Dr. Brian Schmitt



Dr. Brian Schmitt,
Superintendent

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 policies, procedures and Board minutes to gain an understanding of the District's financial management 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 and analyzing significant budget-to-actual variances.
- We reviewed the adopted 2019-20 general fund budget to determine whether similar budgeting patterns existed in comparison with the 2016-17 through 2018-19 adopted budgets.
- We calculated surplus fund balance as a percentage of the next year's appropriations to assess compliance with statute.
- We recalculated surplus fund balance as a percentage of the next year's appropriations after adding back unused appropriated fund balance.
- We assessed the adequacy of the District's reserve policy and reviewed reserve fund financial records from 2016-17 through 2018-19 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.

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

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

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