Office of the New York State Comptroller

Division of Local Government
& School Accountability

Yorkshire-Pioneer Central School District

Financial Management

Report of Examination

Period Covered:

July 1, 2012 – October 13, 2015

2015M-352

Thomas P. DiNapoli

Table of Contents

State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

April 2016

Dear District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Yorkshire-Pioneer Central School District, entitled Financial Management. This audit was conducted 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.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

Office of the State Comptroller
Division of Local Government
and School Accountability

Introduction

Background

The Yorkshire-Pioneer Central School District (District)[1] is located in the Towns of Arcade, Eagle, Java, Sheldon and Wethersfield in Wyoming County; Farmersville, Freedom, Machias and Yorkshire in Cattaraugus County; Holland and Sardinia in Erie County; and Centerville in Allegany County. The District is governed by the Board of Education (Board), which is composed of nine elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The Assistant Superintendent (Administrator) prepares budgets and manages the District's business affairs. The Board, Superintendent and Administrator are responsible for the annual budget.

The District operates four schools with approximately 2,500 students and 515 employees. The District's budgeted appropriations for the 2015-16 fiscal year are $52.8 million, which are funded primarily with State aid and real property taxes.

Objective

The objective of our audit was to review the District's management of financial activities. Our audit addressed the following related question:

- Did the Board and District officials effectively manage the District's fund balance?

Scope and Methodology

We examined the District's management of financial activities for the period July 1, 2012 through October 13, 2015. We extended our review of the debt reserve back to July 1, 2010.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Except as indicated in Appendix A, District officials generally agreed with our recommendations and indicated they planned to initiate corrective

[1] Also referred to as the Pioneer Central School District

action. Appendix B includes our comment on an issue raised in the District's response letter.

The Board has the responsibility to initiate corrective action. 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, 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, with a copy forwarded to 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 Board should make the CAP available for public review in the District Clerk's office.

Financial Management

The Board and Superintendent are responsible for adopting budgets that contain estimates of actual and necessary expenditures that are funded by planned realistic revenues. Sound budgeting provides sufficient funding for necessary operations. Once the Board has addressed those issues, any remaining fund balance, exclusive of the amount allowed by law to be retained to address cash flow and unexpected occurrences, should be used to reduce the property tax levy. A district may retain a portion of fund balance referred to as unrestricted fund balance, but must do so within the legal limits established by New York State Real Property Tax Law (RPTL).[2] The portion of fund balance used to reduce the property tax levy is referred to as appropriated fund balance. Prudent fiscal management includes establishing reserves needed to address long-term obligations or planned future expenditures. A district can legally set aside and reserve portions of fund balance to finance future costs for a variety of specified objects or purposes. The Board should fund reserves appropriately, monitor reserve amounts and use them as intended for the related expenditures.

District officials have not properly managed fund balance. As a result, unrestricted fund balance has consistently exceeded statutory limits. As of June 30, 2015, unrestricted fund balance was more than 10 percent of the ensuing year's budget, or approximately $3 million over the legal limit,[3] and is projected to remain at nearly the same level (approximately $3 million over the limit) at the end of 2015-16.[4] Although District officials annually appropriated a portion of fund balance, including reserve fund balance, toward the subsequent year's budget, the full amounts appropriated were not needed because the District's budgeting practices generally resulted in operating surpluses. To illustrate the effect of the District's budgeting practices, once unneeded appropriated fund balance is included in unrestricted fund balance, the District exceeded the limit by an even greater amount in all three years. Recalculated fund balance ranged from $8.6 million (16 percent) to $9.1 million (19 percent).[5] The general trend to complete the year with an operating surplus is projected to continue in 2015-16.

[2] RPTL limits the amount of unrestricted fund balance to no more than 4 percent of the subsequent year's budget.

[3] The legal amount of unrestricted fund balance as of June 30, 2015 was $2,113,005. The District retained an unrestricted fund balance of $5,171,778.

[4] Based on historical trends

[5] See Figure 3.

Although fund balance levels consistently exceeded RPTL limits through June 30, 2015 and are projected to do so through June 30, 2016,[6] District officials continued to raise the property tax levy every year, with increases totaling more than $684,000 or 6 percent over the last four years.[7] Had District officials levied the same taxes in 2014-15 as in 2012-13, District residents could have experienced a cumulative savings of over $1.5 million. Furthermore, although District officials maintained a debt reserve totaling $2.5 million, they did not properly use these funds to retire debt. Instead, the District routinely levied taxes for these expenditures. As a result, District officials may have missed opportunities to reduce the property tax levy.

Budgeting and Fund Balance

The Board and District management are responsible for ensuring that the annual budget includes accurate estimates of expected revenues, appropriations and the use of fund balance. Accurate budget estimates help ensure that the levy of real property taxes is not greater than necessary. We compared the District's budgeted revenues and appropriations with actual results of operations from July 1, 2012 through June 30, 2015 and found that budget estimates were not reasonable. District officials presented, and the Board approved, budgets which both underestimated revenues and overestimated expenditures from 2012-13 through 2014-15.

Figure 1: Budget vs. Actual Revenues and Expenditures

	2012-13	2013-14	2014-15	Totals
Estimated Revenues[a]	$43,442,988	$44,247,370	$45,404,479	**$133,094,837**
Actual Revenues	$45,220,824	$46,087,718	$46,197,688	**$137,506,230**
Variance	$1,777,836	$1,840,348	$793,209	**$4,411,393**
Appropriations	$47,743,259	$48,422,641	$49,404,750	**$145,570,650**
Actual Expenditures[b]	$45,054,866	$45,530,849	$46,518,163	**$137,103,878**
Variance	$2,688,393	$2,891,792	$2,886,587	**$8,466,772**
Operating Surplus/(Deficit)	$165,958	$556,869	($320,475)	**$402,352**

[a] Excludes appropriations from fund balance and reserves
[b] Excludes unbudgeted transfers out

District officials underestimated revenues by more than $4.4 million, ranging from 1.8 to 4.2 percent of total budgeted revenues from 2012-13 through 2014-15. The majority of underestimated revenues related to Board of Cooperative Educational Services refunds ($2 million), federal aid ($1.1 million), State aid ($700,000) and payments in lieu of taxes ($600,000).

During this period, District officials overestimated expenditures by approximately $8.5 million, ranging from 5.6 to 6 percent of budgeted

6 We project an operating surplus of approximately $600,000.

7 Increases in the tax levy from 2012-13 through 2015-16 were under the tax cap limits.

appropriations. The majority of the overestimated expenditures related to instruction ($6 million) and employee benefits ($2 million). Because some of these costs are determined by contractual agreements, anticipated expenditures should be reasonably estimated and not consistently overestimated.

We also analyzed the 2015-16 budgeted revenues and appropriations. We project that the District will end 2015-16 with revenues underestimated by approximately $1.6 million, or 3.2 percent of budgeted revenues, and expenditures overestimated by approximately $3 million, or 5.7 percent of budgeted appropriations.

The District's last two independent audit reports contained findings related to unrestricted fund balance being in excess of the statutory limit. As shown in Figure 2, unrestricted fund balance exceeded the statutory limit of 4 percent in all three years, ranging from 10 to 11 percent of the ensuing year's budget.

Figure 2: Unrestricted Fund Balance at Year-End

	2012-13	2013-14	2014-15
Beginning Fund Balance	$12,420,030	$12,083,324	$12,597,414
Add: Operating Surplus/(Deficit)	$165,958	$556,869	($320,475)
Less: Unbudgeted Transfers Out	$502,664	$42,779	$42,785
Ending Fund Balance	$12,083,324	$12,597,414	$12,234,154
Less: Restricted (Reserve) Funds	$2,842,890	$3,561,093	$3,562,415
Less: Encumbrances	$154,764	$138,701	$69,690
Less: Appropriated Fund Balance for the Ensuing Year	$3,605,271	$3,430,271	$3,430,271
Unrestricted Fund Balance at Year-End	$5,480,399	$5,467,349	$5,171,778
Ensuing Year's Budgeted Appropriations	$48,422,641	$49,404,750	$52,825,117
Unrestricted Fund Balance as a Percentage of Ensuing Year's Budget	11%	11%	10%

As illustrated in Figure 3, once unneeded appropriated fund balance is included in unrestricted fund balance, the District exceeds the limit by an even greater amount in all three years. Recalculated fund balance ranged from $8.6 million (16 percent) to $9.1 million (19 percent).

Figure 3: Unused Fund Balance			
	2012-13	2013-14	2014-15
Unrestricted Fund Balance at Year-End	$5,480,399	$5,467,349	$5,171,778
Add: Appropriated Fund Balance not Used to Fund Ensuing Year's Budget	$3,605,271	$3,109,796	$3,430,271
Recalculated Unrestricted Fund Balance	$9,085,670	$8,577,145	$8,602,049
Recalculated Unrestricted Fund Balance as a Percentage of Ensuing Year's Budget	19%	17%	16%

Another factor is that District officials continued to increase taxes[8] during the last three fiscal years despite the already excessive unrestricted fund balances. Had District officials levied the same taxes as 2012-13, District residents could have experienced a cumulative savings of over $1.5 million and the District's fund balance would have been reduced by an equivalent amount. In this illustration, there are two years of operating deficits and unrestricted fund balance is reduced to a more reasonable level (10 percent of the ensuing year's budget as of June 30, 2016), although still greater than the statutory limit.[9] As demonstrated, the District maintains the same amount of reserve balances and is able to return a portion of the excess fund balance back to the taxpayers while still providing the same level of instruction and educational services to District students.

District officials have increased the tax levy for 2015-16 by an additional 1.8 percent, or approximately $219,000.[10] We analyzed the 2015-16 budget with the last three completed fiscal years and project the District will experience an operating surplus of approximately $600,000 in 2015-16. As a result, projected unrestricted fund balance will continue to significantly exceed the 4 percent limit by ending at more than $5.2 million, or 9.5 percent of the ensuing year's projected budget.[11]

Reserves

School districts may establish reserve funds to finance a variety of objects or purposes but must do so in compliance with statutory requirements. When districts establish reserves, it is important that

8 From 2012-13 through 2015-16, the annual tax levy has increased by approximately $684,000.

9 If reserves and appropriated fund balances were unchanged from current levels, unrestricted fund balance would be reduced to $4.8 million. Unrestricted fund balance as a percentage of the ensuing year's budget would equal 9 percent.

10 The District did not exceed its tax cap limit.

11 We projected the 2016-17 budgeted appropriations by applying a 2 percent increase to the 2015-16 budget and excluding appropriated fund balance that was not used and reserves that were not needed.

they develop a formal plan or policy for how much money will be reserved, how each reserve will be funded and when the balances will be used to finance related costs. Such a plan serves to guide districts in the accumulation and use of reserves and inform residents about the use of their tax money, increasing transparency.

As of June 30, 2015, the District had four reserves in the general fund totaling approximately $3.6 million[12] and one reserve in the debt service fund totaling $2.5 million. However, the District did not have a Board-adopted policy to communicate the purpose of the reserve funds, optimal funding levels and conditions under which the funds will be used or replenished. We found that the District properly established, reasonably funded and adhered to statutory requirements for the capital, employee benefit accrued liability, retirement contribution and unemployment insurance reserves in the general fund. However, the District was not properly using the debt reserve.

Debt Reserve – Statute requires that money be reserved for debt service based on certain circumstances. For example, leftover debt proceeds and interest earned thereon must be reserved and used to pay debt service on the related debt issue or for capital expenditures related to the related debt authorization. The District maintains a debt reserve which totaled $2.5 million as of June 30, 2015. For the past five completed fiscal years, the balance in this reserve has remained above $2.4 million. However, the District is not properly using these funds to retire the related debt. Instead, the District routinely levies taxes for these expenditures.

Because the Board and District officials did not develop a reserve policy and use reserve funds in accordance with statutory requirements, there is an increased risk that District residents will not be informed about the use of their tax money and that opportunities to reduce the property tax levy will be missed.

Recommendations

The Board and District officials should:

1. Develop realistic estimates of revenues and expenditures and the use of fund balance in the annual budgets.

2. Ensure unrestricted fund balance is in compliance with statutory limits.

[12] The balances were as follows: capital reserve $2.5 million, employee benefit accrued liability reserve $721,981, retirement contribution reserve $355,555 and unemployment insurance reserve $7,165.

3. Develop a plan to reduce unrestricted fund balance in a manner that benefits District taxpayers. Such uses could include, but are not limited to:

    - Establishing and reasonably funding necessary reserves.
    - Paying off debt.
    - Financing one-time expenditures.
    - Reducing property taxes.

4. Develop a written policy indicating how much money will be reserved, how each reserve will be funded and when the balances will be used to finance related costs.

5. Use money in the debt reserve to retire the related debt.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following pages.

Pioneer Central School District

curious creative critical thinkers

APPENDIX A
RESPONSE FROM DISTRICT OFFICIALS

PO Box 579
12125 County Line Road
Yorkshire, NY 14173
Phone: 716-492-9300
Fax: 716-492-9360
www.pioneerschools.org

The Pioneer Central School District ("District") is focused on carrying out the mission of the school district while balancing our responsibility to our community as tax payers over the long term. We appreciate the independent audit and feedback provided by the Office of the State Comptroller ("OSC"). Our response to the audit report follows.

Financial Management

Budgeting – The Pioneer Central School District ("District") pursues a long term focus on carrying out the mission of the school district while balancing our responsibility to our community as tax payers. This involves a process of utilizing budget strategies that will allow the District to sustain mandated and desired programs and services over the long term while minimizing tax levy volatility for our tax paying community. From this perspective, our approach to budgeting has proven very successful.

School budgets are built in an environment of tremendous uncertainty. Since the 2007-08 school year, State support for schools has been unpredictable and deficient. The State has nearly frozen the phase in of Foundation Aid for schools resulting in the District receiving $51.1 million less than what would have been received under the original phase in schedule. In addition to the reduced Foundation Aid, the State advanced the Gap Elimination Adjustment which resulted in the State taking back support from Pioneer totaling an additional $8.7 million since the 2010-11 school year. During a time when State support for schools has been deficient, the State also introduced the tax cap which in practice, limits the amount that can be raised through the tax levy each year. The tax cap is based off of an inflationary index which makes it difficult to predict and can result in a freeze or even a decrease in the tax levy unless a district attempts an override. On the expense side of the budget, school districts are required to adhere to special education requirements that exceed the federal requirements in many areas resulting in sky rocketing cost increases. Pension contribution rates continue to be uncertain and proposed minimum wage increases, if enacted, will generate significant expense side pressure.

Despite this uncertainty, as a result of strategies pursued through our budget process over the past decade, Pioneer has not only preserved, but expanded programs, services, and opportunities for our students and community, while advancing budgets with an average tax levy increase of

1.5%, including four years with a 0% increase. Reducing the unassigned fund balance in lieu of raising the tax levy as suggested by the OSC in their audit report might result in some short term gains to our school community, but would expose Pioneer to a high amount of fiscal risk over the long term and is not in our best interests. There is much evidence that demonstrates the negative long term impact of school districts pursuing strategies as suggested in the audit report. Reducing unassigned fund balance can be used to lower tax levies and sustain educational programming for a short period of time, but quickly leads to the prospect of severe program cuts and/or very high tax levy increases.

Fund Balance - The District acknowledges that unassigned fund balance in the general fund exceeds the 4% limit imposed by the State and has been strategically moving toward compliance. The District is highly dependent upon aid from the State, and any disruptions to aid will result in disastrous implications for District programs and operations and/or for our District stakeholders. Given the continued fragile and uncertain fiscal climate here in New York State, and the property tax cap mandate, the District anticipates revenue challenges over the next several school years. Unassigned fund balance will continue to assist in stabilizing District finances for a short period of time until the current revenue crisis subsides. Please note that unassigned fund balance has been used to stabilize District operations and has decreased by approximately $1.7 million since the 2010-11 school year. The District will continue to decrease unassigned fund balance over subsequent years in a strategic manner through operations and/or funding of an established capital reserve.

Reserves – Due to Pioneer's high level of reimbursement on capital projects, availability of EXCEL funds, and our effort to bring down our unassigned fund balance, we have not had to utilize the debt service fund. Our intent is to utilize the debt service fund to offset the local cost of future capital projects. Given our planned use of the funds, and the OSC audit comment, the District will begin to move the amount in the debt service fund into our capital reserve (via the general fund). The District is authorized to fund the capital reserve up to $10 million.

See Note 1 Page 13

SUPERINTENDENT OF SCHOOLS	ASSISTANT SUPERINTENDENT OF SCHOOLS
Benjamin A. Halsey	Nicholas J. Silvaroli
Date: 4/1/16	Date: 4/1/16

APPENDIX B

OSC COMMENT ON THE DISTRICT'S RESPONSE

Note 1

Leftover debt proceeds and interest earned thereon must be used to pay related debt service or for capital expenditures related to the debt authorization.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials to gain an understanding of the District's financial management practices.

- We reviewed the Board's meeting minutes and the District's policies and procedures regarding financial management, including annual budgets, Board oversight and responsibilities for establishing, funding and maintaining reserves.

- We analyzed 2012-13, 2013-14 and 2014-15 budgeted appropriations and revenues and compared them to actual results. We calculated operating surpluses or deficits and identified significant variances.

- We reviewed the 2015-16 budget and compared it to the 2012-13, 2013-14 and 2014-15 budgets. We documented significant trends and projected future trends.

- We analyzed the District's fund balances for 2012-13, 2013-14 and 2014-15 and compared them to the ensuing year's budgets to calculate unrestricted fund balances as a percentage of the ensuing year's budgets. We then compared those percentages to the statutory limit. We included appropriated fund balance that was not needed and unrestricted fund balance in our calculations because the District has shown a pattern of not using appropriated fund balance.

- We forecasted the unrestricted fund balance that would be available if the District did not increase the tax levy during 2013-14, 2014-15 and 2015-16 but instead levied the same amount as in 2012-13.

- We identified all reserves in place during the last three years and requested substantiation from District officials to determine if each reserve was established and maintained properly and if the reserve balances were reasonable. We extended our review of the debt reserve back to July 1, 2010.

We conducted this performance audit in accordance with GAGAS. 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.

APPENDIX D

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
http://www.osc.state.ny.us/localgov/

APPENDIX E

OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Tracey Hitchen Boyd, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE
H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware, Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE
Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Buffalo@osc.state.ny.us

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

GLENS FALLS REGIONAL OFFICE
Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin, Fulton, Hamilton, Montgomery, Rensselaer, Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE
Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE
Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange, Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE
Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street, Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe, Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE
Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison, Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS
Ann C. Singer, Chief Examiner
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313