

Cassadaga Valley Central School District

Financial Management

AUGUST 2018



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

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Report Highlights

Cassadaga Valley Central School District

Audit Objective

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

Key Findings

- Appropriations were overestimated by \$3.2 million over a three-year period.
- Unrestricted fund balance exceeded the statutory limit by more than \$950,000, or five percentage points, as of June 30, 2017.
- Three reserves totaling \$3 million were overfunded.

Key Recommendations

- Adopt budgets that include reasonable estimates for appropriations and use of appropriated fund balance.
- Reduce the unrestricted fund balance to within the statutory limit and use excess funds to fund one-time expenditures and needed reserves or reduce property taxes.
- Adopt a more comprehensive reserve policy and review reserves to determine whether the balances are necessary and reasonable.

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

¹ Appointed February 26, 2018

Background

Cassadaga Valley Central School District (District) serves the Towns of Arkwright, Charlotte, Cherry Creek, Ellery, Ellicott, Ellington, Gerry, Pomfret and Stockton in Chautauqua County. The District is governed by an elected five-member Board of Education (Board).

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 District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management. The District's Business Administrator¹ oversees the business office and maintains financial records. The Board, Superintendent and Administrator are responsible for developing the budget.

Quick Facts

Enrollment ^a	809
Employees	200
2017-18 Budget	\$21.1 million

^a As of January 19, 2018

Audit Period

July 1, 2014 – May 22, 2018. We extended our scope period back to June 1998 to determine when reserves were established.

Financial Management

What Is Effective Financial Management?

To effectively manage a school district's financial condition, a board must adopt reasonably estimated and structurally balanced budgets based on historical data or known trends, in which recurring revenues finance recurring expenditures. In preparing the budget, a board and district officials must estimate the district's spending, revenue, available fund balance at fiscal year-end, and the expected tax levy. Accurate estimates help ensure that the real property tax levy is not greater than necessary.

A board can retain a reasonable amount of fund balance for cash flow needs and unexpected expenditures and an adequate amount of reserves for other planned needs. Fund balance is the difference between revenues and expenditures accumulated over time. New York State Real Property Tax Law (RPTL)² 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.

A board may establish reserves to restrict portions of fund balance to finance future costs (e.g., capital projects or retirement expenditures) in compliance with statutory requirements. While school districts are generally not limited in how much money they can hold in reserves, the balances should be reasonable. Boards should balance the intent for accumulating money for future needs with their obligation to ensure that the real property tax levy is not greater than necessary. To help accomplish this, a board should adopt a comprehensive written policy that establishes funding methods, optimal accumulation amounts and appropriate use of reserves to finance related costs.

The Board Overestimated Appropriations and Unrestricted Fund Balance Exceeded the Statutory Limit

The Board and District officials did not properly manage fund balance and need to improve their budgeting practices. Although the Board's fund balance policy requires the District to maintain unrestricted fund balance within the statutory limit, the Board has allowed it to exceed the statutory limit for the past three years by two to seven percentage points. As of June 30, 2017, unrestricted fund balance totaled nearly \$1.8 million and was 9 percent of 2017-18 budgeted appropriations, exceeding the statutory limit by more than \$950,000, or five percentage points.

While the Board appropriated fund balance annually to fund projected budget deficits, it was not needed because the Board historically overestimated appropriations each year. We compared budgeted appropriations and estimated revenues with actual operating results for 2014-15 through 2016-17 and found that, while revenue variances were generally reasonable, the Board overestimated appropriations by more than \$3.2 million (6 percent), or an annual average of approximately \$1 million. The Board most significantly overestimated contractual appropriations (by \$1.5 million or 13 percent) and employee benefits

² RPTL Section 1318

appropriations (by \$957,000 or 7 percent). The former Business Administrator indicated that the Board and District officials budgeted conservatively and overestimated appropriations to provide a cushion for emergencies and prevent unplanned operating deficits.

Figure 1: Overestimated Appropriations^a

	2014-15	2015-16	2016-17	Totals
Appropriations	\$20,093,000	\$20,058,000	\$20,173,000	\$60,324,000
Actual Expenditures	\$19,117,000	\$18,966,000	\$19,021,000	\$57,104,000
Overestimated Appropriations	\$976,000	\$1,092,000	\$1,152,000	\$3,220,000
Percentage Overestimated ^b	5%	6%	6%	6%
a Excludes unbudgeted transfers out				
b Overestimated appropriations divided by actual expenditures				

The District did not use any of the appropriated fund balance to finance operations because the overestimated appropriations resulted in annual operating surpluses totaling approximately \$2.9 million,³ or an annual average of almost \$1 million. To help reduce the increase in unrestricted fund balance, the Board used \$1 million to fund the employee benefit accrued liability reserve during 2015-16 and 2016-17 (see next section on reserves).

Figure 2: Unrestricted Fund Balance

	2014-15	2015-16	2016-17
Beginning Fund Balance	\$3,908,000	\$4,296,000	\$4,545,000
Add: Operating Results	\$388,000	\$1,149,000	\$1,316,000
Less: Budgeted Transfers Out	\$0	\$100,000	\$100,000
Less: Unbudgeted Transfers Out	\$0	\$800,000	\$5,000
Ending Fund Balance	\$4,296,000	\$4,545,000	\$5,756,000
Less: Encumbrances	\$57,000	\$0	\$0
Less: Restricted Fund Balance (Reserves)	\$2,808,000	\$2,226,000	\$3,908,000
Less: Appropriated Fund Balance for the Next Year	\$154,000	\$154,000	\$51,000
Unrestricted Fund Balance at Fiscal Year-End	\$1,277,000	\$2,165,000	\$1,797,000
Next Year's Budgeted Appropriations	\$20,058,000	\$20,173,000	\$21,110,000
Unrestricted Fund Balance as a Percentage of the Next Year's Budget	6%	11%	9%
Unrestricted Fund Balance in Excess of the Statutory Limit	\$475,000	\$1,358,000	\$953,000

³ Includes the sale of a school building for \$379,000

The District exceeded the statutory limit each year in our audit period by amounts ranging from \$475,000 to more than \$1.3 million.

While revenue estimates were generally reasonable, during fieldwork District officials indicated that certain data they provided to the New York State Education Department was inaccurate. As a result, the District's 2017-18 State aid may be \$336,000 less than anticipated. Additionally, the District made an apparent budgeting error in the revenue estimates, which resulted in a duplicate BOCES State aid estimate likely increasing the unfavorable year-end variance by approximately \$280,000. However, while the Business Administrator projects a year-end operating deficit of approximately \$390,000 for 2018, this likely will not be realized because the Board and District officials have historically overestimated appropriations, and we expect this trend to continue. Based on an annual average budget-to-actual expenditure variance of \$950,000, we project that expenditures will again be under budget and offset the potential revenue shortfall of \$600,000.

The adopted 2018-19 budget includes a 5.5 percent increase (\$1.2 million) in appropriations over 2017-18. Further, the 2018-19 budget approved by the voters was presented as resulting in a planned operating deficit (expenditures exceeding revenues) and requiring \$900,000 in appropriated fund balance to balance the budget. However, historically the District has not needed to use any appropriated fund balance because revenues have exceeded expenditures, which were not reasonably estimated.

Based on the adopted budget, the 2018-19 property tax levy is projected to be 2.5 percent higher than in 2017-18. Further, the Business Administrator told us that appropriated fund balance for 2018-19 increased by \$849,000 so that the District ends 2017-18 in compliance with the RPTL limit. Adopting budgets with appropriated fund balance that will not be used is misleading to taxpayers because it creates the impression that surplus funds will be used to reduce taxes. In addition, 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.

Given these projections and fund balance levels, the Board has continued to levy more taxes than necessary to sustain operations and may have missed opportunities to better use fund balance and reduce taxes.

District officials could benefit from a comprehensive multiyear financial plan being incorporated into the annual budgeting process. District officials told us that the Board often discusses long-term planning during budget preparation and throughout the year. However, the Board has not adopted any written multiyear plans. Such plans would help District officials address the use of fund balance, including reserve funds, and prioritize and plan for future capital needs. The lack

of a multiyear plan inhibits the Board and District officials' ability to effectively manage finances and address future needs. As the District moves forward, well-designed written plans can assist the Board in making timely and informed decisions about programs and operations and help them manage fund balance.

The Board Did Not Adopt a Comprehensive Reserve Fund Policy and Overfunded Three Reserves

Although the Board adopted a reserve fund policy, the policy did not address optimal funding levels, conditions necessary for use or how and when reserve funds would be replenished.

As of June 30, 2017, the District reported four general fund reserves⁴ with cumulative balances totaling approximately \$3.9 million.⁵ We analyzed these reserves for reasonableness and adherence to statutory requirements and found that three reserves appear to be overfunded. The remaining reserve was reasonably funded.

- The employee benefit accrued liability reserve⁶ totaled \$1.4 million as of June 30, 2017. Since the corresponding liability was approximately \$392,000, the reserve is overfunded by approximately \$1 million. Additionally, the Board approved five payments for ineligible costs⁷ from this reserve totaling approximately \$45,000 from 2014-15 through 2016-17.
- The retirement contribution reserve⁸ totaled approximately \$1.4 million as of June 30, 2017. While the average annual related expenditures totaled \$375,000 over the last three years, the Board did not use the reserve to fund these expenditures and instead used general fund appropriations. As a result, we question why this balance is maintained at this level. The reserve balance could fund related expenditures for three years of average expenditures.
- The unemployment insurance reserve⁹ is overfunded, with a balance of \$182,000 as of June 30, 2017. Over the last three years, unemployment

4 Employee benefit accrued liability (\$1.4 million), retirement contribution (\$1.4 million) capital (\$950,000) and unemployment insurance (\$182,000)

5 We noted no significant exceptions with a debt reserve totaling \$22,000 in the debt service fund.

6 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.

7 Retirement incentives not based on unused leave time

8 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.

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

expenditures have averaged \$6,000 per year, which the District has used the reserve to pay for. However, based on the average annual expenditures, the District could still fund related expenditures for 30 years.

While it is a prudent practice for the District 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 District taxpayers.

What Do We Recommend?

The Board should:

1. Adopt annual budgets that contain reasonable estimates for appropriations and appropriated fund balance based on historical trends or other known factors.
2. Ensure that the amount of unrestricted fund balance complies with the statutory limit and develop a plan to use excess unrestricted fund balance in a manner that benefits District taxpayers. Such uses can include, but are not limited to:
 - Funding one-time expenditures;
 - Funding needed reserves; and
 - Reducing District property taxes.
3. Adopt a more comprehensive reserve fund policy that includes how the reserves will be funded, the optimal funding levels for each reserve, the conditions under which reserves will be used to finance related costs, and how excess amounts may be used in accordance with applicable statutes in a manner that benefits taxpayers.
4. Consult with the District's legal counsel regarding the use of the employee benefit accrued liability reserve and determine what remedies are available to address the District's circumstances.

The Board and District officials should:

5. Ensure revenue estimates developed and used during the budget process are reasonably accurate.
6. Develop and implement a comprehensive written multiyear financial plan. The plan should be periodically reviewed and updated, as appropriate.

Appendix A: Response From District Officials

Cassadaga Valley Central School

Chuck Leichner
*Superintendent
of Schools*

Joelle Woodward
*Business
Administrator*

Scot Stutzman
Middle School/High School Principal
962-8581

Josh Gilevski
Sinclairville Elementary
962-5195

Marcy Sweetman
Dir. of Curriculum and Instruction
962-8581

Christopher Rusco
Asst. Principal/Dir. of Special Education
962-8581

Thomas Zanghi
Dir. of Facilities and Transportation
962-8581

August 14, 2018

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

The Board of Education and Administration would like to take this opportunity to submit our written response to the New York State Comptroller's preliminary draft findings of the recent examination of the Cassadaga Valley Central School District.

We would like to acknowledge the commitment of the OSC auditor to thoroughly research each area of examination and take into consideration all of the variable factors that impact District operations. We found the dialogue between the District and the on-site auditor to be professional and provided valuable opportunities to exchange pertinent information. Although the process was time consuming for district staff, it was reassuring that we continue to function as good stewards for our school district and surrounding communities.

The District understands the purpose of the examination is to identify areas of operations that may benefit from outside recommendations. The district recognizes this and realizes that the underlying tone of the report is to support the District's ongoing effort to improve our overall operation. Throughout the audit fieldwork many aspects of District internal procedures were reviewed. We believe it was evident during that review that the District has established policies and procedures that demonstrate a commitment to compliance in generally accepted school district operations.

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Cassadaga Valley Central School

District's Overall Position:

The Board of Education and Administration have reviewed the draft report paying particular attention to each of the draft findings along with the related recommendations. With respect to the sections of the report that are based on statutory compliance we are agreeable to the findings and associated recommendations. With respect to those areas of the report that are predicated on professional opinion, we are actively reviewing how the District can benefit from the recommendations. We strive to be an organization of lifelong learners and as such are always seeking opportunities to improve operations, making adjustments where we can to maintain an efficient, customer service oriented environment with due diligence in safeguarding our assets.

School districts face significant challenges with the uncertainty of school aid, continued unfunded mandates, and increases in employee benefits costs. In addition, current retirement system contribution levels are based largely on a record run in the stock market, and will once again increase when the market inevitably enters into a correction. The District has conservatively approached the budget process in the face of these challenges to ensure, to the extent possible, that the District's educational program will not be disrupted by budgetary shortfalls, and that the District's taxpayers will not be subjected to wildly fluctuating tax rates. The analysis in the audit report has the benefit of after-the-fact hindsight, which clearly does not reflect the challenges and uncertainty faced by the District when approaching the budgetary process over the past several years.

The audit report focuses on the District's Employee Benefit Accrued Liability Reserve, Retirement Contribution Reserve and Unemployment Reserve. As a first matter, the District's utilization of these reserves is fully consistent with the fact that such reserves are intended to serve as "savings accounts" to hold monies for future needs, including in order to blunt the tax impact of future spikes in the annual amounts necessary to fund such purposes. In addition, any claim that a reserve is "overfunded" clearly represents a subjective judgment. The laws that authorize the reserves at issue do not establish a statutory limitation on the balance of such reserves. Focusing, for instance, on the current snapshot of the District's long-term compensated absences with regard to the balance of the Employee Benefit Accrued Liability Reserve fails to take into account the increases in that liability that can be expected from things such as future salary rate or step increases, or other negotiated increases (such as one-time retirement incentives) in the value of accrued time that may be redeemed at termination of employment. As previously mentioned, current retirement system contribution levels are based largely on a record run in the stock market, and will once again increase when the market inevitably enters into a correction, which the Retirement Contribution Reserve is intended to protect against. Further, using the District's unemployment expenditures over the past three years, during a period of relative economic stability, to evaluate the current funding level of the unemployment reserve is somewhat misleading, inasmuch as the reserve is intended to allow the District to mitigate the negative impact of future economic downturns on unemployment costs, as was experienced by so many school districts following the onset of the 2008 "Great Recession."

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Key Findings and Recommendation:

- Finding - *Appropriations were overestimated by \$3.2 million over a three-year period.*
 - Recommendation – *Adopt budgets that include reasonable estimates for appropriations and use of appropriated fund balance.*
 - District’s Position – We believe the key word in the recommendation is “reasonable”. We believe the District has been reasonable in developing their estimated appropriations. There are a number of uncertainties and regulations that impact the budget development process for school districts that must be taken into consideration.

Although eighty to ninety percent of the data is available during the development period, inevitably there are uncertainties that may not become evident until long after the board has adopted and the voters have approved an expenditure budget. It should be noted that the budget development process begins eighteen to twenty months prior to the conclusion of the fiscal year to which it’s applicable. As with one’s own personal finances it’s unrealistic to believe that a budget could be developed and implemented under that timeline which would only include exact appropriation levels. Those variables require a District to be conservative on the budgetary appropriation estimates so that programming is not stymied midyear due to unforeseeable expenditures or by midyear state aid takebacks. We believe it is important for our constituents to understand the District engages in a comprehensive budget development process that develops budget estimates based on realistic projections using any new information available, as well as reflection on what current spending patterns are along with the past three fiscal years. The District believes it is important to note at the conclusion of the 2017-2018 school year the District will have reduced the margin for underspending the appropriations budget by approximately 65%.
- Finding – *Unrestricted fund balance exceeded the statutory limit by more than \$950,000, or five percentage points, as of June 30, 2017.*
 - Recommendation – *Reduce the unrestricted fund balance to within the statutory limit and use excess funds to fund one-time expenditures and needed reserves or reduce property taxes.*
 - The District understands the importance of compliance with the statutory limit and as such will develop internal procedures that will assist us in achieving this goal while maintaining strong fiscal health as defined by the Office of the State Comptroller. We believe it’s important to note that the District expects to be in compliance as of June 30, 2018.

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- Finding – Three reserves totaling \$3 million were overfunded.
 - Recommendation – Adopt a more comprehensive reserve policy and review reserves to determine whether the balances are necessary and reasonable.
 - The District understands the importance of developing a comprehensive reserve policy. As such during the latter part of the 2017-2018 fiscal year, Administration, with guidance from the Board of Education, developed a new plan that will assist the District to effectively establish, fund and allocate reserves in a manner consistent with finest fund balance practices. The Board of Education formally approved the new reserve plan in July 2018.

On behalf of the Cassadaga Valley Central School District Board of Education, Audit Committee, Superintendent, School Business Administrator and District Treasurer, we would like to express our appreciation to the local examiners of the Buffalo Regional Office for the time and professionalism extended to the District while conducting their examination. We believed this experience to be beneficial to the District and as such will assist us in strengthening our fiscal integrity. Administration and the Board of Education understand the important role we serve as leaders and educators, to that extent we must lead by example and be open to outside perspectives. The Cassadaga Valley Central School District governance team is committed to continue to dedicate our time and efforts as excellent fiscal stewards to our stakeholders.

Sincerely,

William Carlson
President, Board of Education

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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, resolutions and policies to gain an understanding of the budget process and the monitoring of fund balance and reserves.
- We analyzed fund balance in the general fund for 2014-15 through 2016-17 and assessed whether appropriated fund balance was used as budgeted. We also compared unrestricted fund balance with the next year's budgeted appropriations to determine whether the District was within the RPTL limit.
- To assess the results of operations and budget reasonableness and complete our projections of current-year operating results, we compared budget estimates to actual results for 2014-15 through 2016-17. We also compared the 2017-18 budget to prior years' budgets and reviewed the 2018-19 adopted budget to determine whether any significant changes had been made to the District's budgeting practices. We followed up with District officials on significant budget variances to determine the cause of these variances.
- We obtained 2017-18 operating results projections from the Business Administrator and performed our own projection of 2017-18 operating results based on historical trends. We compared the Business Administrator's projections to our own to assess whether they were reasonable and discussed our comparison with District officials.
- We reviewed reserves to determine whether they were properly established, used and funded and whether balances were reasonable in comparison to related expenditures.
- We asked District officials about, and reviewed policies, procedures and Board minutes for evidence of, an adopted multiyear financial plan.

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

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