New York State Comptroller
THOMAS P. DiNAPOLI

Gowanda Central School District

Financial Management

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Division of Local Government and School Accountability

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Report Highlights

Gowanda Central School District

Audit Objective

Determine whether the Gowanda Central School District (District) Board of Education (Board) and District officials properly managed fund balance and reserves.

Key Findings

The Board and District officials did not properly manage the District's fund balance and reserves. The Board and District officials' budgeting practices were not transparent and resulted in the District exceeding the statutory limit on surplus fund balance by $4.5 million, and missing opportunities to lower real property taxes. The Board and District officials:

- Consistently overestimated general fund appropriations from 2020-21 through 2022-23 by a total of $13.1 million and appropriated nearly $6.7 million of fund balance that was not needed or used. The continued practice of overestimating appropriations and appropriating fund balance that will not be used to finance operations as a means to accumulate surplus funds in excess of the legal limit is in effect a reservation of fund balance that artificially reduces the amount of surplus fund balance subject to the statutory limit and does not present the District's spending plan in a transparent and meaningful manner to taxpayers.
- Adopted annual budgets during the same period that gave the impression that the District would have operating deficits totaling $6.7 million when it actually had operating surpluses totaling $9.9 million.
- Overfunded the employee benefit accrued liability and unemployment reserves by nearly $1.9 million and did not use funds held in six reserves with balances totaling $10 million.

Audit Period

July 1, 2020 – June 30, 2023

We extended our audit period to analyze projected operating results for fiscal year 2023-24.

Background

The District serves the Towns of Collins, Dayton, Hanover, North Collins, Persia and Perrysburg. The seven-member Board is responsible for the District's general management and control of financial affairs.

The Superintendent of Schools (Superintendent) is the chief executive officer responsible for the District's day-to-day management.

The School Business Administrator (Administrator) oversees the District's business operations and maintains its financial records. The Board, Superintendent and Administrator are responsible for developing and monitoring the annual budget.

Quick Facts	
2023-24 Appropriations	$36.4 million
Recalculated Surplus Fund Balance as of June 30, 2023	$8.6 million
Reserve Funds Balance as of June 30, 2023	$13 million

Recommendations

The audit report includes seven recommendations to help the Board and District officials improve fund balance and reserve management.

District officials generally disagreed with our findings and recommendations. Appendix B includes our comments on issues raised in the District's response.

Financial Management

How Should a School Board and School District Officials Properly Manage Fund Balance?

Fund balance is the difference between revenues and expenditures accumulated over time. School districts (districts) may retain a portion of surplus fund balance[1] for unexpected occurrences and fluctuations in cash flow. However, a school board (board) and district officials must comply with New York State Real Property Tax Law Section 1318, which limits the amount of surplus funds that a district can retain to no more than 4 percent of the budget. District officials must apply any surplus fund balance in excess of the 4 percent limit to reduce the upcoming year's real property tax levy or appropriately fund needed reserves.

To properly manage fund balance, the board and district officials should develop and 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, the board must estimate the amounts the district will spend and receive, the amount of fund balance that will be available at fiscal year-end to use toward the upcoming year's budget, and the expected real property tax levy. Accurate and reasonable budget estimates help ensure that the tax levy is not greater than necessary, the budget is presented transparently to the public, and surplus fund balance does not exceed the legal limit. During the course of the fiscal year, as district officials have a better understanding of the results of financial operations, they should consider using anticipated surplus fund balance to finance one-time expenditures, fund needed reserves or pay off debt.

The Board and District Officials Did Not Adopt Realistic Budgets

We compared estimated revenues and budgeted appropriations with actual operating results for 2020-21 through 2022-23 to determine whether budget estimates were reasonable. Estimated revenues were generally reasonable, with a three-year underestimated variance of $3.5 million (3.5 percent). However, appropriations were overestimated by a total of $13.1 million (14.7 percent) for the three-year period, or an average of approximately $4.4 million each year, as shown in Figure 1.

Figure 1: Overestimated Appropriations (in Millions)[a]

	2020-21	2021-22	2022-23	3-Year Totals
Appropriations	$34.3	$34.1	$34.2	$102.6
Less: Actual Expenditures	29.4	30.7	29.4	89.5
Overestimated Appropriations	$4.9	$3.4	$4.8	$13.1
Percent Overestimated[b,c]	16.7%	11.1%	16.3%	14.7%

a) Excludes unbudgeted transfer activity and reserve use

b) Overestimated appropriations divided by adjusted total expenditures

c) The previous audit report issued by our Office[2] informed District officials that appropriations were overestimated by 5.5%, 7.9% and 9.9% for 2013-14, 2014-15, and 2015-16, respectively.

1 For guidance on fund balance classification and reporting see https://www.osc.ny.gov/files/local-government/publications/pdf/gasb54.pdf

2 See *Gowanda Central School District – Financial Management* (2016M-368), which was released in January 2017.

The overestimated appropriations were spread throughout the budget line items but the largest variances included:

- Health insurance totaling $2.4 million,
- Instructional salaries totaling $2.1 million,
- Employee benefits, including retirement contributions, social security payments and workers' compensation costs, totaling $1.8 million,
- Board of Cooperative Educational Services (BOCES) expenditures totaling $747,000,
- Transportation salaries and custodial salaries totaling $649,000, and
- Special education tuition totaling $542,000.

The Administrator stated that she does not receive health insurance rates until the budget is nearly developed, and therefore does not adjust the budget based on the rates received. However, actual rates were received on March 25, 2020, February 26, 2021 and March 16, 2022, an average of 34 days prior to the Board adopting the budget resolution, which provided ample time for the Board and District officials to adjust the budget to more reasonable figures. While the Administrator provided other explanations for her estimates, including accounting for the potential for individuals to switch to a more expensive family plan, the amounts budgeted exceeded actual costs by an average of over $800,000 each year. While the number of individuals enrolling in health insurance and their plan selection may fluctuate from year to year and could be difficult to predict with certainty, officials should use all information available to them, including previous years' budget-to-actual variances, to prepare more realistic estimates.

Appropriations for instructional salaries were overestimated by between $426,000 and $866,000 and employee benefits were overestimated by between $530,000 and $705,000, annually. The Administrator stated that they budgeted for an additional special education teacher position that was not filled. In addition, the District obtained grant funds to offset the cost of instructional salaries and employee benefits; the grant funds were to be accounted for in the federal fund. However, the grants were not awarded until after the 2021-22 budget had been developed and therefore, the related expenditures were initially budgeted for in the general fund even though the actual expenditures would be paid for by grants and not the tax levy. In fiscal year 2022-23, District officials continued to budget for instructional salaries and employee benefits in the general fund rather than taking grant funds into consideration when developing the budget and accounting for the appropriate amounts in the federal fund. However, if anticipated grant funds had been considered, officials could have provided a more reasonable budget estimate each year and avoided levying real property taxes to pay for expenditures that likely would be covered by grants.

The Administrator told us that District officials annually overestimated certain appropriations to cover expenditures that may be higher than anticipated. Additionally, because instructional salaries were overestimated, retirement costs and other employee benefit cost estimates based on those salaries were also overestimated. The Administrator also told us that instructional salaries were lower than estimated because the rates used to calculate the salaries were higher than the rates that were negotiated in both 2021-22 and 2022-23. The District's collective bargaining agreement with the teachers expired in June 2021 and was not settled until May 2022.

Appropriations for BOCES were annually overestimated by between $105,000 and $500,000. The Administrator told us that after the COVID-19 pandemic, District officials were unsure whether there would be an increased need for BOCES services due to remote learning, so they budgeted for higher levels of service that were ultimately not needed. However, as is noted below, officials were overestimating BOCES appropriations before the pandemic. Furthermore, the previous audit report issued by our Office[3] informed District officials that overestimated appropriations over three fiscal years included health insurance (by $1.3 million, or 15 percent), BOCES (by $862,000, or 23 percent), instructional salaries (by $722,000, or 5 percent) and employee benefits, including retirement, social security and workers' compensation (by $677,000, or 9 percent). While the overestimation for BOCES has declined, the overestimated appropriations for health insurance, employee benefits and instructional salaries have increased (Figure 2).

Figure 2: Comparison of Overestimated Appropriations

	Health Insurance	Employee Benefits	Instructional Salaries	BOCES
Previous Audit	15%	9%	5%	23%
Current Audit	22%	18%	13%	13%

Appropriations for transportation salaries and custodial salaries were annually overestimated by between $142,000 and $303,000. The Administrator told us that salaries were lower than estimated due to bus driver shortages, extended unpaid leave and turnover in certain positions. Furthermore, because the collective bargaining agreement covering these employees expired in June 2022 and was not settled until November 2022, District officials budgeted higher rates than were negotiated for fiscal year 2022-23.

Appropriations for special education tuition were annually overestimated by between $108,000 and $275,000. The Administrator told us they always budget for the potential of a family with high needs moving into the District.

While it is necessary to consider unexpected expenditure fluctuations during budget preparation, the Board and District officials should consider previous years' results of operations and surplus fund balance, which totaled $5.9 million at the end of 2022-23, that is available to accommodate such expenditures. Furthermore, by continually overestimating appropriations year after year, the Board and District officials are not presenting the District's spending plan in a transparent and meaningful manner to taxpayers.

3 Ibid.

Fund Balance Was Appropriated but Not Needed and Surplus Fund Balance Exceeded the Statutory Limit

Because the Board and District officials overestimated appropriations, it appeared that they needed to appropriate fund balance to close projected budget gaps. In the 2020-21 through 2022-23 budgets, the Board appropriated an average of $2.2 million of fund balance each fiscal year. However, the District incurred operating surpluses in each of these three fiscal years, totaling approximately $9.9 million, meaning that appropriated fund balance was not needed or used as budgeted. These practices led to the accumulation of surplus fund balance that was in excess of the legal limit. The District's surplus fund balance exceeded the limit in each of the last three fiscal years, as follows:

- $3.7 million (11 percentage points) in 2020-21,
- $2.6 million (8 percentage points) in 2021-22, and
- $4.5 million (12 percentage points) in 2022-23.

Including appropriated fund balance in the annual budgets, which historically goes unneeded or unused, does not provide a transparent budget process for taxpayers. The Board and District officials' practice of 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 is a circumvention of the statutory limit imposed on the level of surplus fund balance. The practice of appropriating fund balance that is not needed artificially reduces the amount of surplus fund balance subject to the statutory limit.

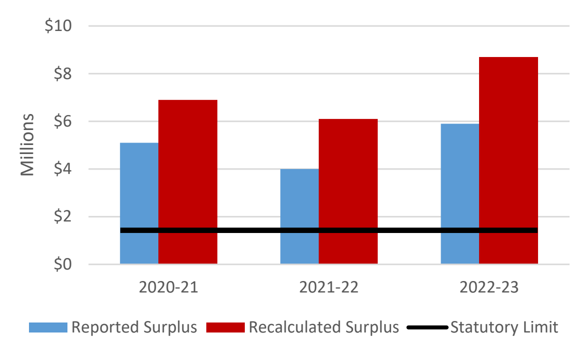
When unused appropriated fund balance is added back, the recalculated surplus fund balance as of June 30, 2023 totaled $8.6 million, which exceeded the statutory limit by $7.2 million, or 20 percentage points (Figure 3).

Furthermore, we reviewed the 2023-24 budget and determined that revenue and expenditure estimates were consistent with the last three fiscal years. As such, the District will most likely generate another operating surplus in 2023-24 and will not need to use the $836,000 of fund balance appropriated in the budget.

By continually appropriating fund balance that was not needed and overestimating budgeted appropriations, the Board and District officials have continued to not present the District's surplus fund balance or budget in a transparent manner, maintained real property taxes at a level higher than necessary for operations and missed opportunities to lower real property taxes.

FIGURE 3

Recalculated Surplus Fund Balance



To the contrary, rather than reducing real property taxes, District officials unnecessarily increased taxes over $200,000 from 2020-21 through 2022-23 even though the surplus fund balance that exceeded the statutorily allowable amount averaged about $3.6 million during this same period. Ultimately, the Board and officials' budgeting practice of consistently overestimating appropriations increased the District's total annual budget beyond what was needed to fund actual expenditures and resulted in a real property tax levy that was higher than actually needed.

How Should a School Board and School District Officials Properly Manage Reserve Funds?

Districts are allowed to establish reserves and accumulate funds for certain future purchases (e.g., unemployment or retirement expenditures). To properly manage reserve funds, a board should adopt a comprehensive written reserve fund policy that states its rationale for establishing reserve funds and the objectives for each reserve, maximum targeted funding levels, conditions under which reserves will be used or replenished, and a periodic review of reserve balances to assess reasonableness. While districts are generally not limited to the amount of funds that can be held in reserves, a board should maintain reserve balances which are reasonable. The board should balance the intent for accumulating funds for identified future needs with the obligation to help ensure real property taxes are not higher than necessary.

In addition, the board should include amounts to be placed in reserve funds in the annual budget. By making provisions to raise resources for reserve funds explicit in the proposed budget, the board gives voters, residents and taxpayers an opportunity to know its plan for funding reserves.

The Board and District Officials Did Not Properly Manage Reserves

The Board did not properly manage reserves. The Board adopted a written reserve fund policy in July 2021, but the policy did not address circumstances under which reserve funds would be used or replenished. Such information would be necessary for officials when determining how and when to use reserve funds.

As of June 30, 2023, the District reported nine general fund reserves totaling nearly $13 million. From July 1, 2020 through June 30, 2023, the reserve balances increased by more than $4.8 million through unbudgeted transfers at fiscal year-end. While District officials properly established all nine reserves, certain reserves were overfunded or not being used for their intended purpose, as follows:

Capital Reserves – The District maintained three capital reserves that were properly established and funded to within their voter-authorized levels but were not used.

- Transportation Reserve Fund 2021 – This reserve was established in May 2021 to purchase vehicles to be used in the transportation program and had a balance of $2.8 million as of June 30, 2023. The Administrator stated that this reserve was not used because District officials used another transportation reserve that was established in 2009 to purchase vehicles. The 2009 reserve had a balance of $242,000 as of June 30, 2023 and officials indicated that the balance of the reserve would be used in fiscal year 2023-24 to finance the purchase of transportation vehicles.

- 2019 Capital Reserve – This reserve was established in May 2019 to pay for the cost of any project that may result in bonds and had a balance of $2.3 million as of June 30, 2023. The Administrator stated that the District intends to use the funds in this reserve for a project that the District intends to put out to vote in December 2025.
- Building, Land and Technology Reserve – This reserve was established in November 2009 with an expected probable term of 10 years, or until November 2019. The purpose of the reserve was to pay for the cost of any project that may result in bonds and had a balance totaling $783,000 as of June 30, 2023. The Administrator stated that the District intends to use the funds in this reserve for a project that the District intends to put out to vote in December 2025. Although the District used nearly $2 million for a capital project totaling $30.5 million that was approved in December 2018, the District also issued $17.7 million in debt for the capital project. We question why District officials did not use more of the funds in the reserve to reduce the amount of debt issued.

Employee Benefit Accrued Liability Reserve (EBALR) – The Board properly established an EBALR to pay accrued leave time benefits, or compensated absences, due to employees when separating from District employment. However, as of June 30, 2023, this reserve had a balance of approximately $2.5 million and a corresponding potential liability of approximately $770,000, meaning this reserve was funded in excess of its current liability by more than $1.7 million.

While the District's reserve plan states that the District will fund the EBALR at a level equal to the current liability plus 50 percent of the long-term liability, the reserve should only be funded to address costs for employees that currently meet established eligibility requirements, generally defined in collective bargaining agreements, and the expenditures must directly correlate to actual leave balances. In addition, although officials appropriately used the EBALR to pay current liabilities totaling $238,000 from 2020-21 through 2022-23, they unnecessarily added $1.8 million to the reserve over the last three fiscal years.

Reserving amounts in an EBALR in excess of what is necessary can result in the District failing to prudently use District funds. The difference between the EBALR fund balance and the District's potential liability for expenditures for compensated unused leave accruals was money that could have been used for other District purposes, and which may have resulted in the Board and officials unnecessarily levying taxes to fund the unnecessary EBALR expenditures. Due to statutory restrictions, the current funds in the EBALR cannot be removed from the reserve unless District officials were to determine that the EBALR was no longer needed. However, officials should develop a spending plan for the EBALR, pay allowable expenditures from the reserve and cease funding the reserve until the balance is sufficiently reduced to a level supported by appropriate liabilities.

Retirement Contribution Reserve (New York State and Local Retirement System) – Although the Board established this reserve to fund contributions to the New York State and Local Retirement System and the reserve had a balance of nearly $2.9 million as of June 30, 2023, District officials did not use the reserve to pay for related expenditures. From 2020-21 through 2022-23, the District incurred associated retirement contribution costs totaling approximately $1.3 million and included appropriations in the annual budget totaling $1.6 million to pay for these costs instead of using the reserve.

The Superintendent and Administrator told us reserve funds were not used because it was not necessary due to general fund operating surpluses. We question the need for this reserve to be maintained at its current funding level considering it was not used during the audit period even though the District's policy states that the reserve should be used to pay any allowable District contributions to the retirement system.

Retirement Contribution Reserve (New York State Teachers' Retirement System) – The Board established this reserve to fund contributions to the New York State Teachers' Retirement System. Districts are allowed to reserve up to 10 percent of teachers' salaries paid in the preceding fiscal year. As of June 30, 2023, this reserve had a balance of nearly $1.1 million, which was within the allowable limit.

From 2020-21 through 2022-23, the District incurred associated retirement contribution costs averaging approximately $1 million, which the District budgeted an average of nearly $1.3 million for and paid from the general fund tax levy, not the reserve. The Superintendent and Administrator told us reserve funds were not used because the District realized annual operating surpluses and reserve funds were not needed to pay expenditures. While the balance in this reserve was within the limit established in statute, we question why the District maintained this reserve at this level, and why the reserve was not used in accordance with the District's reserve policy that states that the reserve would be used to pay any allowable District expenditures to the retirement system contributions.

Insurance Reserve – The Board established an insurance reserve to cover insurance claims that had a balance of approximately $194,000 as of June 30, 2023. This reserve was not used in the three fiscal years reviewed and therefore, we question why it was being maintained.

Unemployment Reserve – The Board established this reserve for the payment of claims to the New York State Unemployment Insurance Fund. As of June 30, 2023, the reserve had a balance of $162,000. Based on the average annual unemployment expenditure of $9,600 for the audit period, the reserve was sufficient to cover the District's annual unemployment expenditures for nearly 17 years. The annual reserve plan includes a targeted funding level of 10 potential claims, which we calculated to be approximately $38,000. The District exceeded its optimal funding level by approximately $124,000. In addition, the District included appropriations for unemployment insurance averaging $25,000 over the last three years to fund and pay for these expenditures through the annual budget rather than this reserve.

Although the Board received a reserve report each year, the reports did not include an analysis of projected needs for the reserve funds in the upcoming fiscal year, or a recommendation regarding funding those needs. Without a comprehensive annual report that contains all required and recommended components, the Board's ability to make informed decisions regarding the funding and use of the reserve funds is limited and its intentions for reserves are not transparent to District taxpayers.

Moreover, in most cases, the Board did not budget to fund the reserves, but instead approved resolutions to fund various reserves with excess surplus fund balance at the end of each fiscal year. As a result, the funding of reserves was not as transparent to the public as it could have been and certain reserves were not reasonably funded.

Funding reserves at levels higher than necessary for operations and/or needs creates an undue burden on taxpayers and withholds funds that may have been used in a more beneficial way to current District residents and taxpayers.

What Do We Recommend?

The Board and District officials should:

1. Develop and adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be appropriated and used to fund operations.
2. Develop and adopt a plan to reduce surplus fund balance to comply with the statutory limit. Surplus funds can be used for:
    - Reducing District property taxes,
    - Funding one-time expenditures,
    - Funding needed reserves, and
    - Paying off debt.
3. Transparently fund reserves by including anticipated funding of reserves in the annual operating budget.
4. Update the reserve policy to address when reserve funds should be used and/or replenished.
5. Ensure a comprehensive annual report on reserves, including all elements required by the reserve policy, is prepared and provided to the Board.
6. Review all reserve balances to determine whether the amounts reserved are necessary and reasonable, reduce overfunded reserves to reasonable levels and liquidate and discontinue reserve funds that are no longer needed or whose purpose has been achieved, in accordance with applicable statutes.
7. Develop a spending plan for the EBALR, pay allowable expenditures from the reserve and cease funding the reserve until it is at a level that is supported by appropriate liabilities.

Recommendations 1, 2 and 6 were also included in the previous audit report issued by our Office.[4]

4 Ibid.

Appendix A: Response From District Officials

GOWANDA CENTRAL SCHOOL

Preparing our students to be leaders and citizens who are ready to be successful and embrace a changing world.

November 18, 2024

Melissa Myers, Chief of Municipal Audits
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, NY 14203-2510

Dear Ms. Myers,

This letter serves as the Gowanda Central School District's response to the draft audit report titled "Financial Management" that covered the fiscal years 2020-21, 2021-22 and 2022-23 issued by your office. We appreciate the work done by the auditors from your office and the dialogue we have had thus far.

While the District acknowledges the findings in your report and appreciates you sharing a portion of the initial responses we provided to you, there are several key factors and explanations missing from the report that we believe are essential for the public and readers of this report. The most important factor to note is the time period of the audit and the overarching events occurring. Two budgets were developed during the COVID-19 pandemic.

Key Finding #1

The report cited the District for not adopting realistic budgets by overestimating appropriations.

See Note 1 Page 15

The budget for first year of the audit, 2020-21, was adopted in the midst of the beginning of the COVID-19 Pandemic. In accordance with the Board adopted Budget Development Guidelines, a complete budget is to be presented to the Board by mid-March. The 2020-21 budget was completed prior to the District shutting down in March of 2020. While the budget adoption and vote date was changed, due to the pandemic, the Board opted to adopt the budget in May that had been complete in March, primarily because there were many unknowns. As was publicly presented May 6, 2020, the budget is both an estimate and a maximum spending limit. Reducing the spending limit of the budget puts the District at risk of not having the funds available to adapt to serve our students, which is our number one priority. The District anticipated students needing additional supports when we would be able to return to school, but did not know what those supports would be exactly.

Adding to the complexity of this budget was the threat of significant aid cuts. Therefore, the District was operating very conservatively and slowed non-essential spending but had budgeted for additional instructional salaries for staff, summer and extended day supports which ultimately were not able to be filled or used. When the District was able to return to school in September, it was a hybrid model with half of the students attending four days a

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week, with one day of remote instruction. Additionally, there were times that the District pivoted to full remote instruction. There also was very limited use of substitute teachers based on the model of teaching. All of this led to surpluses in instructional salaries including amounts for athletics, after school activities and bus driver salaries as there was significantly less transportation. There were also surpluses across the Board due to less in-person instruction, including utilities, supplies and travel. The District did not return to full in-person instruction for all K-12 students until May 20, 2021.

The 2021-22 budget was presented to the Board March 10, 2021 and included the Health Insurance rates adopted by the Trust, contrary to what is stated in your report, and the budget for that expenditure actually decreased.

See Note 2 Page 15

The budget also included an additional special education teacher that was not filled, as noted in your report. However, it was explained there were other positions that were vacant during the year including a Social Worker, a Native American Education Teacher and Teaching Assistants, which assisted in the surpluses in instructional salaries and fringe benefits, including health insurance.

This budget was also affected by the COVID -19 Pandemic when the State adopted its budget in April of 2021 and included a federal allocation to the District of approximately $6.4 million to cover the periods from March 2020 to either September of 2023 or 2024, depending on the source of funds. When the District adopted its General Fund Budget for 2021-22, it had not returned to full in-person instruction and we were still concerned about ensuring we had a budget sufficient to support the additional needs of our students when they returned, whatever that may be. While we knew there were additional federal funds allocated, there was limited information on exactly how we could or would use these funds. The District was required to prepare and submit a plan by July 1, 2021.

We ultimately learned that the federal funds would be grants and were required to be spent to be able to receive them. They also allowed supplanting, which means we could charge existing costs to the funds. We budgeted a mix of new positions and purchases in the grants, but ultimately did not need all of the anticipated additional positions so the salaries and related benefits were transferred to the grants from the General Fund to ensure the District received the additional funding. It would be fiscally irresponsible for the District to not secure these grant funds.

While the audit report criticizes the District for over estimating certain expenditures, the report fails to acknowledge all of the reasons and recognize that conservatively budgeting stabilizes the District. For example, in 2021-22, once we returned to full in-person instruction, the District encountered the need to increase both tuition and contracted transportation for special education students beyond what was budgeted in the amounts of $56,000 and $540,000 respectively.

See Note 3 Page 15

The report insinuates that the Health Insurance rates should have been adjusted to be more reasonable, however as was explained to the auditors, the rates used were the ones either provided by the Trust, or immaterially different and therefore did not require amending. The

See Note 2 Page 15

only exception to that is 2020-21 which given the state of the pandemic and explanations above, we chose not to adjust it. Despite the Administrator explaining the detailed calculations for health insurance budgets, including looking at the historical data for health insurance the report states to look at historical data. The variances in health insurance and fringe benefits are a mix of a lot of things happening at once, including the pandemic and conservatively budgeting in preparation for the unknown. Given this was the first pandemic experienced since 1919, it may be easy to criticize underspending after the fact, but certainly it was not easy planning for the unknown.

See Note 2 Page 15

The report also acknowledges that the instructional salaries budgeted were higher than what was negotiated, but in reality it is that the percentage increases were not paid in the year they were budgeted for in 2021-22 because contracts were not settled and then not paid to the full compounded budgeted amount in 2022-23.

See Note 4 Page 15

In 2022-23, in an effort to stabilize the budget and not experience roller coaster budgets, the District chose to maintain some of the costs of the salaries and benefits that were anticipated to be paid for from the COVID grants in the General Fund because they were positions that the District would be maintaining. This has been openly discussed at board meetings and workshops. Budgeting these salaries differently would not have changed the tax levy. The District is focusing on the long-term financial stability of the District and being able to provide our students with opportunities that they have become accustomed to and may nót be offered by other Districts, who had to lay staff off as the COVID grant funding came to an end.

<u>Key Finding #2</u>

The District is cited for appropriating fund balance that was not needed.

As stated above two of the budgets were adopted during the pandemic and during a time that included threats of significant state aid cuts. We genuinely adopted budgets anticipating increased costs coupled with aid cuts. Given that the District is funded approximately 67% with State Aid, the District had to prepare for reductions both then and now as we look to upcoming changes in Foundation Aid.

See Note 1 Page 15

To suggest that the District unnecessarily increased property taxes during the pandemic is short sighted and does not account for what was happening at the time. Additionally, as discussed frequently during the budget workshops and at board meetings, to not increase taxes, even minimally has a significant long-term negative impact on the District's ability to fund operations.

In times of little to no state aid increases, or even worse – reductions; the District must rely on property taxes or fund balance or both. When this is combined with the State's 2% property tax limit, the District has little to no options to fund operations. In preparation for aid decreases and planning for the future, the district had minimal property tax increases between 1.0% ($50,000) and 1.85% ($95,000).

Carrying more than four percent of the fund balance allowed the District to fund the Emergency Pool Repair in 2022-23 of $500,000 and the Repair Reserve for $1,500,000, which allowed us to repair the track and will allow us to fund other repairs and with no impact on the local taxpayer.

See Note 5 Page 15

Key Finding #3

The Board and District Officials did not properly manage reserves.

The report questions why some reserves were not used in certain years which seems counterintuitive to the reason Districts have reserve funds. Reserve funds are savings accounts with funds set aside for future planned or unplanned expenditures, depending on the reserve. This fact and the focus on the future use of the reserves is fully discussed during at the board workshops and meetings the discussions on budget planning and the funding and use of reserves.

The report also states that certain reserves were overfunded. However, there is little to no legal guidance on what the maximum level of funding is, with the exception of the Retirement Contribution Sub-Fund and Capital Reserves created by the voters.

See Note 6 Page 16

Rather, Districts are to have a plan, specify funding sources and uses and we have determined the maximum funding levels. All of that is published annually on the District's website and openly presented and discussed at Board meetings. Based on our calculations, none of the reserves were overfunded at the end of 2023.

The report questions why more of the Building, Land and Technology Reserve was not used for the 2019 Capital Project despite us explaining that the project was already tax neutral. The $1.96 million used from the reserve was approved by the voters and covered the local share. The amount left in the reserve is earning a significant amount of interest that will reduce the amount needed to be borrowed in the next project. This is a very common approach used by Districts across the state and is the most efficient use of resources.

In regards to the Employee Benefit Accrued Liability Reserve (EBLAR), the report states that the District unnecessarily added $1.8 million to the reserve over the last three fiscal years and we could have used those funds for other District purposes that officials unnecessarily levied taxes for. We respectfully disagree. First, transfers to the reserves are made at the end of the year, after we know where we are financially; therefore they would not have paid for other expenses. Also, during the COVID years, when we ultimately received $6.4m of additional funding, what else could we have spent these funds on? We strategically funded these reserves to pay for upcoming expenditures and lessen the impact on the taxpayer during years with significantly less state and federal aid.

See Note 7 Page 16

The report is inaccurate when it states the District's policy says both Retirement Contribution Reserves would be used to pay any allowable contributions. The Districts reserve plan refers to using these reserves to pay for retirement expenses, but does not state it would be used

See Note 8 Page 16

every year. They are intended to be used in years when the rates rise significantly or there are no aid increases to cover the expenses. During the COVID years, the reserve was not needed however we expect it to be going forward.

The Insurance Reserve was used in 2023-2024. It would be very difficult to predict when the District will have a claim filed to use this reserve.

The District explained to the auditors that the Unemployment Reserve would have been used for an additional $54,500 of expenditures, but the State refunded us along with other Districts unemployment costs during COVID which would have affected the average cost incurred. Additionally, the maximum of 10 claims allowed in New York would total $131,040 which is what our basis is for the reserve, not $38,000 as calculated by the auditors.

See Note 9 Page 16

Conclusion:

We respectfully acknowledge that the Comptroller's Office has a job to do and may have different perspectives than the District. We appreciate the efforts of your office and the recommendations as there is always room for improvement.

We believe our responsibility is to ensure the long-term financial stability for the Districts residents and students and have done a good job at it. We have built up funds to endure tough economic times so that we do not have to reduce services or opportunities provided to our students.

The District will review reserve balances and look into developing a more formalized written plan to supplement the current plan and discussions, including a spending plan if appropriate. We will also revisit the Board Policy. As we have moved out of the COVID years and additional funding, we anticipate the budgets will have significantly less surpluses. When developing the upcoming budget, we will include the estimated use of reserves to provide additional transparency beyond what we already do.

We appreciate being able to provide this response to the report.

Sincerely,

Robert B. Anderson, Ed.D.
Superintendent

Barbara J. Smith, CPA
School Business Administrator

Appendix B: OSC Comments on the District's Response

Note 1

Although the COVID-19 pandemic created a degree of financial uncertainty, District officials consistently overestimated appropriations, appropriated fund balance that was not needed and unnecessarily increased the real property tax levy prior to the pandemic. Furthermore, officials continued overestimating appropriations in the 2022-23 budget after the pandemic.

Note 2

Although the appropriation for health insurance decreased from $3.9 million in 2020-21 to $3.6 million in 2022-23, the actual expenditures for health insurance averaged $2.8 million, or $800,000 less than budgeted in each fiscal year reviewed. Therefore, the appropriation could have been reduced further in line with actual expenditures. Furthermore, while we understand the pandemic created uncertainty for District officials, officials overestimated health insurance prior to the pandemic, as is documented on page five of our prior audit report released in 2017 titled *Gowanda Central School District – Financial Management* (2016M-368), which indicated that officials overestimated health insurance by 15 percent at the time of our review.

Note 3

The Board and District officials' budgeting practices were not transparent and resulted in the District accumulating a significant amount of surplus fund balance in excess of the statutory limit and missing opportunities to lower real property taxes. They consistently overestimated certain expenditures and appropriated fund balance that went unused annually. These practices resulted in surplus fund balance exceeding the statutory limit by more than $7.2 million. Rather than continually overestimating expenditures, the District used its excess to finance unanticipated increases in certain expenditures.

Note 4

While the contract was not settled and paid in full until 2022-23, District officials overestimated instructional salaries by more than $865,000 in that fiscal year, and in 2021-22, instructional salaries were overestimated by approximately $825,000. Because District officials knew the funds were budgeted for in the 2021-22 budget and not used, they could have used appropriated fund balance to finance these obligations, as they had already been budgeted for in 2021-22. Furthermore, the contract was settled in May 2022, at .9 percent and 2.3 percent increases, rather than the 4 to 5 percent increases budgeted by the Administrator, which provided District officials time to adjust the 2022-23 budget closer to actual figures.

Note 5

By maintaining surplus fund balance in excess of the statutory limit, the District is in violation of Real Property Tax Law Section 1318. The District's practice of accumulating and retaining excess funds does have a financial impact on local taxpayers and results in current taxpayers paying for future expenditures without being properly informed through a transparent budget process. Furthermore, the funding of reserves should be included in the budget presented to voters.

Note 6

Unless restricted by statute, districts are generally not limited to the amount of funds that can be held in a reserve. As such, in the case of the District's EBALR, the District's reserve plan states it will fund reserves for all current liabilities and 50 percent of long-term liabilities. However, an expenditure from the EBALR is restricted by statute. Specifically, General Municipal Law Section 6(p) states that funds from the EBALR may only be expended to pay accrued leave time benefits, or compensated absences, due to employees separating from District employment.

Upon reviewing the EBALR, we determined that the District was funding the EBALR for liabilities not currently payable and that may never be realized. As such, the District's supported liability for eligible costs payable from the EBALR totaled approximately $770,000, or nearly $1 million less than the amount held in the reserve. Therefore, the District is funding the EBALR in excess of its potential liabilities. For additional information and guidance on reserve funds, officials can refer to our Local Government Management Guide titled *Reserve Funds* at https://www.osc.ny.gov/files/local-government/publications/pdf/reserve-funds.pdf.

Note 7

It is unnecessary to add $1.8 million to a reserve when the District's current related liability is $770,000. The reserve is currently overfunded by more than $1.7 million. Furthermore, making unbudgeted transfers at fiscal year end is not a transparent budgeting practice.

Note 8

The report states that the District created the retirement contribution reserve with the intent to fund retirement contributions, which is a factual statement and in line with the statute that authorizes its creation, funding and use. To the extent that the District's current reserve policy is not clear as to when the reserve will be used to pay retirement expenditures, the Board should consider amending the policy to clarify this issue.

Note 9

We used actual unemployment bills paid by the District to determine the potential impact of 10 claims. This provides an estimate based on historical figures, not the maximum allowable to be paid in the State.

Appendix C: 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. We obtained an understanding of internal controls that we deemed significant within the context of the audit objective and assessed those controls. Information related to the scope of our work on internal controls, as well as the work performed in our audit procedures to achieve the audit objective and obtain valid audit evidence, included the following:

- We interviewed District officials and reviewed Board meeting minutes, resolutions and policies to gain an understanding of the District's financial management policies, procedures and budgeting practices.
- We reviewed general fund budgets from 2020-21 through 2022-23 to determine whether they were reasonable and structurally balanced by comparing adopted budgets with actual results of operations (excluding interfund transfers and unbudgeted use of reserves) and analyzed significant budget-to-actual variances.
- We analyzed the District's fund balance for fiscal years 2020-21 through 2022-23 to identify trends. We calculated surplus fund balance as a percentage of the upcoming year's budgeted appropriations to determine whether it was within the statutory limit.
- We reviewed the adopted 2023-24 general fund budget to determine whether officials used budgeting practices similar to those used in previous years.
- We recalculated surplus fund balance as a percentage of the budget after adding back the unused appropriated fund balance.
- We reviewed reserve fund activity from 2020-21 through 2022-23 and reserve fund balances as of June 30, 2023 to assess whether they were established properly, used appropriately and funded reasonably.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

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 on the District's website for public review.

Appendix D: Resources and Services

Regional Office Directory
www.osc.ny.gov/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas
www.osc.ny.gov/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems
www.osc.ny.gov/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management
www.osc.ny.gov/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans
www.osc.ny.gov/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders
www.osc.ny.gov/files/local-government/publications/pdf/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.ny.gov/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers
www.osc.ny.gov/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics
www.osc.ny.gov/local-government/academy

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