

# Allegany-Limestone Central School District

## Financial Management

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AUGUST 2018

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

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# Report Highlights

## Allegany-Limestone Central School District

### Audit Objective

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

### Key Findings

- The Board's budgeting practices included annually appropriating fund balance that was not used to finance operations and overestimating appropriations by \$4.8 million (8 percent annual average) over a three-year period.
- As of June 30, 2017, unrestricted fund balance totaled more than \$2.2 million and was 10 percent of the 2017-18 budgeted appropriations, exceeding the statutory limit by approximately \$1.3 million or 6 percentage points.
- Reserve funds are generally not being used<sup>1</sup> and the retirement, repair and unemployment reserves are overfunded.

### Key Recommendations

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

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

### Background

The Allegany-Limestone Central School District (District) serves the Towns of Allegany, Carrollton, Hinsdale, Humphrey and Olean in Cattaraugus County.

The District is governed by an elected nine-member Board of Education (Board). The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible for day-to-day management under the Board's direction. The Board, Superintendent and Business Executive are responsible for developing the annual budget. The Business Executive is also responsible for the administration and supervision of financial activities.

#### Quick Facts

Enrollment	1,196
Employment	176
Number of Schools	2
2017-18 Budget	\$23.1 million

### Audit Period

July 1, 2014 – April 20, 2018

We expanded our audit scope period through June 6, 2018 to review the 2018-19 adopted budget.

<sup>1</sup> With the exception of the debt and capital reserves

# Financial Management

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## What Is Effective Financial Management?

To effectively manage financial condition, a board should adopt realistic and structurally balanced budgets based on historical or known trends, in which recurring revenues finance recurring expenditures. In preparing the budget, a board must estimate the amounts a school district will spend and receive, the amount of fund balance that will be available for use at year-end and the expected real property tax levy. Accurate estimates help ensure that the tax levy is not greater than necessary.

A board should retain both a reasonable amount of fund balance for cash flow needs or unexpected expenditures and an adequate amount of reserves for other identified or planned needs. Fund balance is the difference between revenues and expenditures accumulated over time. New York State Real Property Tax Law<sup>2</sup> currently limits the amount of unrestricted fund balance that a school district can retain to no more than 4 percent of the subsequent year's budget. Any unrestricted fund balance over this percentage must be used to fund needed reserves or reduce the upcoming fiscal year's real property tax levy.

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

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

We compared budgeted appropriations and estimated revenues with actual operating results for 2014-15 through 2016-17 and found that, while revenue variances were generally reasonable (underestimated by 2 percent), appropriations were overestimated by \$4.8 million, or an average of \$1.6 million (8 percent) each year.

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<sup>2</sup> New York State Real Property Tax Law, Section 1318

**Figure 1: Overestimated Appropriations**

	2014-15	2015-16	2016-17	Totals
<b>Budgeted Appropriations</b>	\$22,095,470	\$22,432,500	\$22,819,140	\$67,347,110
<b>Actual Expenditures<sup>a</sup></b>	\$20,898,444	\$20,847,239	\$20,832,024	\$62,577,707
<b>Overestimated Appropriations</b>	\$1,197,026	\$1,585,261	\$1,987,116	\$4,769,403
<b>Percentage Overestimated</b>	6%	8%	10%	8%

a Does not include unbudgeted transfers of approximately \$4 million (\$105,600 in 2015-16 and \$3.9 million in 2016-17)

The most significant overestimated appropriations were for health insurance (\$366,000, 25 percent), utilities (\$347,000, 120 percent) and special education (\$247,000, 22 percent). The Business Executive told us that he annually overestimates health insurance for potential new enrollees, budgets conservatively for utilities and typically includes funding for one to two extra special education students each year due to the variable nature of these costs. We reviewed the 2017-18 budget and found the same pattern of overestimating these appropriations. Based on our review of the 2018-19 budget, these budgeting practices appear to have continued.

Because the Board overestimated appropriations, it appeared the District needed to use appropriated fund balance to close projected budget gaps. The Board annually appropriated an average of \$586,000<sup>3</sup> of fund balance as a financing source in the 2014-15 through 2016-17 budgets.

When fund balance is appropriated for the subsequent year's budget, the expectation is that there will be a planned operating deficit equal to the amount of fund balance that was appropriated. However, due to overestimated appropriations, the District experienced operating surpluses annually resulting in a three-year cumulative operating surplus totaling approximately \$4.2 million. As a result, unrestricted fund balance increased to more than \$2.2 million as of June 30, 2017 and was 10 percent of the 2017-18 budgeted appropriations, exceeding the statutory limit by approximately \$1.3 million or 6 percentage points.

3 The District appropriated \$759,600 in fund balance as a financing source for the 2014-15 budget.

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

	2014-15	2015-16	2016-17
<b>Beginning Fund Balance</b>	\$4,652,061	\$6,535,547	\$7,857,847
<b>Operating Results</b>	\$783,486	\$1,427,981	\$2,040,730
<b>Add: Unbudgeted Transfers-In<sup>a</sup></b>	\$1,100,000	\$0	\$0
<b>Less: Unbudgeted Transfers-Out<sup>b</sup></b>	\$0	\$105,681	\$3,916,600
<b>Ending Fund Balance</b>	\$6,535,547	\$7,857,847	\$5,981,977
<b>Less: Restricted Fund Balance (Reserves)</b>	\$4,230,589	\$5,082,107	\$3,334,100
<b>Less: Appropriated Fund Balance</b>	\$499,700	\$499,700	\$430,000
<b>Unrestricted Fund Balance</b>	\$1,805,258	\$2,276,040	\$2,217,877
<b>Subsequent Year's Budget</b>	\$22,432,500	\$22,819,140	\$23,097,230
<b>Unrestricted Fund Balance as a Percentage of Subsequent Year's Budget</b>	8%	10%	10%

a The District transferred \$1.1 million from the debt service fund to the general fund.

b The District transferred \$4 million from the general fund to the capital projects fund for a voter approved project.

District officials' practice of annually appropriating fund balance that is not needed to finance operations is, in effect, a reservation of fund balance that is not provided for by statute and a circumvention of the statutory limit imposed on the level of unrestricted fund balance.

Based on our analysis of the 2017-18 adopted budget and year-to-date operations, officials budgeted similarly to previous years and the District will likely experience an operating surplus. Therefore, fund balance will continue to increase and exceed the statutory limit. While the District realized operating surpluses and retained excessive fund balance each year, the Board levied real property taxes averaging \$7.7 million annually from 2013-14 through 2016-17.

Although the tax levy decreased by approximately \$400,000 (5 percent) from 2014-15 through 2016-17 and further decreased by an additional \$126,000 (2 percent) in 2017-18, had officials adopted more accurate budgets, they could have considered using these excess funds to fund one-time expenditures, fund needed reserves, pay off debt or further reduce the levy and provide an even greater benefit to taxpayers.

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## The Board Did Not Adopt an Adequate Reserve Fund Policy and Unreasonably Funded Reserves

The Board adopted a reserve fund policy. However, the policy did not address the maximum funding levels for two reserves,<sup>4</sup> the conditions necessary for using the reserve funds to finance related costs for four reserves<sup>5</sup> or the circumstances under which reserve funds would be replenished.

As of June 30, 2017, the District reported approximately \$3.3 million in six general fund reserve funds<sup>6</sup> and had restricted approximately \$802,000 in the debt service fund. We analyzed the general fund reserves for reasonableness and found the balance in the retirement contribution, repair and unemployment reserves were excessive. The remaining three reserves were reasonably funded. In addition, with the exception of the capital and debt reserves, the reserves are not being used as intended.

- Retirement Contribution Reserve – The Board established a retirement contribution reserve to fund payments to the New York State and Local Retirement System. The balance as of June 30, 2017 was \$1.2 million, sufficient to cover almost four years of contributions, which averaged \$320,000 over the past three years. District officials have not used any reserve funds to pay for these expenditures and instead paid them from general fund appropriations. Additionally, the reserve policy states that the goal of this reserve is to maintain a balance of three years of retirement contributions. We calculated retirement contributions of approximately \$960,000 from 2015 through 2017, which results in the reserve exceeding its approved maximum funding level by \$240,000 or 25 percent.
- Repair Reserve – The Board established a reserve for repairs to fund emergency capital expenditures between building projects. The balance as of June 30, 2017 was \$447,000. Despite the reserve not being used in at least the last seven years, in February 2016, the Board increased the maximum funding level of this reserve to \$1 million to address aging facility concerns. We question the reserve’s balance and the increased maximum funding level due to the lack of recent activity.

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4 Unemployment and insurance reserves

5 Retirement contribution, insurance, employee benefit and accrued liability and repair reserves

6 Retirement contribution (\$1.2 million), capital (\$872,000), repair (\$447,000), employee benefit and accrued liability (\$444,000), insurance (\$283,000) and unemployment reserve (\$76,000)

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- Unemployment Reserve – The Board established an unemployment reserve to fund reimbursements to the New York State Unemployment Insurance Fund for claims filed. The balance as of June 30, 2017 was \$76,000, sufficient to cover more than 12 years of unemployment costs, which averaged \$6,000 over the past three years. District officials have not used any reserve funds to pay for these expenditures and instead paid them from general fund appropriations.

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

### **What Do We Recommend?**

The Board and District officials should:

1. Develop and adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations.
2. Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.
3. Develop a plan to reduce the amount of unrestricted fund balance to comply with the statutory limit. Surplus funds can be used as a financing source for:
  - Funding one-time expenditures;
  - Funding needed reserves;
  - Paying off debt; and
  - Reducing District property taxes.
4. Adopt a more comprehensive reserve policy to include targeted funding levels and conditions under which reserves will be used and replenished.
5. Review reserve balances and develop a plan to reduce balances to reasonable levels in accordance with applicable statutes.

# Appendix A: Response From District Officials



## ALLEGANY-LIMESTONE CENTRAL SCHOOL

3131 Five Mile Road • Allegany, NY 14706

August 14, 2018

### District Office

Phone: 716-375-6600

Fax: 716-375-6629

### Middle/High School

Ext. 2110/2100

Fax: 716-375-6630

### Elementary School

Ext. 4172

Fax: 716-375-6628

### Special Education

Ext. 4164

Fax: 716-375-6601

### Bus Garage

Ext. 6612

Fax: 716-375-6627

Office of the New York State Comptroller

Buffalo Regional Office

Jeffery D. Mazula, Chief Examiner

295 Main Street, Suite 1032

Buffalo, New York 14203-2510

Dear Mr. Mazula,

Please accept the Allegany-Limestone Central School District response and corrective action plan for OSC Audit of Financial Management for the period of July 1, 2014 to April 20, 2018.

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

**Corrective Action Plan** – Efforts are already in place to establish more reasonable estimates for appropriations. The adopted 2018-2019 budget represents a .77% increase in appropriations from the prior year which is well below the CPI rate of 2.13%.
- 2. Recommendation** – Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.

**Corrective Action Plan** – The District has decreased appropriated fund balance from \$759,700 in 2014-2015 to \$430,000 for 2017-2018 or a 43% decrease. The appropriated fund balance in support of the 2018-2019 budget is \$265,000 or a 38% decrease from the prior year.
- 3. Recommendation** – Develop a plan to reduce the amount of unrestricted fund balance to comply with the statutory limit.

**Corrective Action Plan** – The District will work with the financial advisor to reduce unrestricted fund balance by identifying one-time expenditures, funding needed reserves, paying off debt and funding the Smart Bonds Investment Plan. Reducing taxes will continue to be a priority as witnessed by the 11% decrease in the tax levy from 2014-2015 to 2018-2019 (a 9 year low).
- 4. Recommendation** – Adopt a more comprehensive reserve policy to include targeted funding levels and conditions under which reserves will be used and replenished.



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Ext. 6612  
Fax: 716-375-6627

**Corrective Action Plan** – The Board of Education revised the Financial Reserve Plan on June 6, 2018 to establish funding levels, conditions for use and replenishment.

5. **Recommendation** – Review balances and develop a plan to reduce balances to reasonable levels in accordance with applicable statutes.

**Corrective Action Plan** - The Board of Education revised the Financial Reserve Plan on June 6, 2018 to establish a plan to reduce balances to reasonable levels to be included in the 2019-2020 budget development.

Sincerely,

Anthony Giannicchi  
Superintendent

## Appendix B: Audit Methodology and Standards

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We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials to gain an understanding of the District's financial management policies and procedures and budgeting practices.
- We analyzed the general fund from 2014-15 through 2016-17 to determine whether unrestricted fund balance was within the statutory limit. We also evaluated any factors contributing to any increase or decline identified.
- We reviewed the adopted general fund budgets from 2014-15 through 2016-17 to determine whether they were reasonable and structurally balanced by comparing the adopted budgets with actual results of operations.
- We reviewed actual revenues and expenditures for 2014-15 through 2016-17 to determine which types contributed the most to the budget-to-actual variances.
- We reviewed the 2017-18 adopted general fund budget and projected results of operations to determine whether budgeted revenues and appropriations and projected results were reasonable based on historical data, supporting documentation and discussions with District officials.
- We analyzed reserves from 2014-15 through 2016-17 to determine whether District officials properly used reserves and whether the funding was reasonable.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law, Section 2116-1(3) (c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make the CAP available for public review in the District Clerk's office.

## Appendix C: Resources and Services

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### **Regional Office Directory**

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

### **Cost-Saving Ideas** – Resources, advice and assistance on cost-saving ideas

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

### **Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems

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

### **Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management

[www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm](http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm)

### **Planning and Budgeting Guides** – Resources for developing multiyear financial, capital, strategic and other plans

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

### **Protecting Sensitive Data and Other Local Government Assets** – A non-technical cybersecurity guide for local government leaders

[www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf](http://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](http://www.osc.state.ny.us/localgov/finreporting/index.htm)

### **Research Reports/Publications** – Reports on major policy issues facing local governments and State policy-makers

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

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

## Contact

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

Local Government and School Accountability Help Line: (866) 321-8503

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