

# Medina Central School District

## Reserve Funds

JANUARY 2020



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

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# Report Highlights

## Medina Central School District

### Audit Objective

Determine whether the Board and District officials effectively managed the District's reserve funds.

### Key Findings

- District officials have not performed an analysis of the reserves, as the District's reserve policy requires. As a result, they could not demonstrate the need to retain approximately \$2.1 million in four reserves.
- While not adopted in the Board's meeting minutes, District officials have developed a plan to use \$5.4 million from four general fund reserves for a purpose for which they were not established.

### Key Recommendations

- Review reserve funds to determine whether they are necessary and reasonably funded.
- Ensure reserve funds are properly used.

District officials generally agreed with the findings and recommendations and indicated they would take corrective action. Appendix B includes our comments on issues raised in the District's response.

### Background

The Medina Central School District (District) serves portions of the Towns of Alabama, Albion, Barre, Hartland, Ridgeway and Shelby in Genesee, Niagara and Orleans counties.

The seven-member Board of Education (Board) is responsible for managing and controlling the District's financial and educational affairs.

The Superintendent of Schools (Superintendent) is responsible for the District's day-to-day management. The Director of Finance and Human Resources (Director) is responsible for administering the District's day-to-day financial activities. The District Treasurer (Treasurer) assists the Director with these duties.

#### Quick Facts

Employees	400
2018-19 Enrollment	1,620
2019-20 Appropriations	\$40 million
General Fund Balance as of June 30, 2018	\$12 million

### Audit Period

July 1, 2015 – August 14, 2019

# Reserve Fund Management

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## What Is Effective Reserve Fund Management?

A board is allowed to legally set aside, or reserve, portions of fund balance to finance future costs for specific purposes (e.g., capital projects or retirement expenditures) and may also use a portion of fund balance to help finance the next year's budget (referred to as appropriated fund balance). A board should adopt and comply with a formal written policy and subsequent plan that communicates its rationale for the establishment and objective for each reserve, maximum targeted funding levels and conditions for use and replenishment. While school districts are generally not limited to how much money can be held in reserves, the balances should be reasonable. To ensure reserves are not overfunded, a board should weigh the accumulation of fund balance for future needs with its obligation to ensure that the tax levy is not greater than necessary.

## The Board Did Not Analyze Reserves in Accordance With Its Policy

The Board's reserve fund policy, dated August 2017, requires "an analysis of projected needs of the reserves in the upcoming fiscal year and a recommendation regarding funding those projected needs." However, the District did not perform this analysis.

District officials provided us two documents dated March 9, 2015 and October 29, 2015 from the former interim Business Administrator and former Director (now Superintendent), respectively. While neither document was adopted by the Board in its meeting minutes or otherwise presented to the public for transparency, the Treasurer told us that she uses these documents to guide her regarding how the reserves should be managed. The October 29, 2015 document indicates that the District will reduce reserve fund balances by a total of approximately \$6.7 million during fiscal years 2017-18 through 2020-21 for debt payments. However, four<sup>1</sup> of these reserves, totaling \$7.9 million as of June 30, 2018, were established for purposes other than paying debt.

School districts do not have the statutory authority to establish debt reserves other than for situations where this type of reserve is mandated (e.g., unexpended bond proceeds are remaining). As such, we question whether this is a permissible approach to managing reserves. The Board should consult with legal counsel before formally approving this plan for the use of reserves.

The District's reserve fund policy indicates that "any and all District reserve funds shall be properly maintained to promote the goals of creating an open, transparent and accountable use of public funds." As a result, using reserve funds for purposes other than for which they were established and not disclosing this

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<sup>1</sup> Repair (\$2.7 million), retirement contribution (2.5 million), unemployment (\$1.9 million), and tax certiorari (\$804,000).

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publicly to the taxpayers in certain circumstances, may not be in accordance with statute, and is neither transparent or a demonstration of accountability for the use of public funds.

As of June 30, 2018, the District had eight reserves,<sup>2</sup> totaling approximately \$9.1 million or 24 percent of 2018-19 budgetary appropriations. Subsequently, during our audit fieldwork in 2018-19 the District reduced two of these reserves by a total of \$1.7 million.<sup>3</sup> After this reduction, the same eight reserves totaled \$7.4 million.

Because the Board and District officials did not prepare or provide an annual analysis as the policy requires, they could not demonstrate the need to restrict funds at these levels in four reserves with balances totaling \$2.1 million as indicated below.<sup>4</sup> The remaining four reserves were reasonably funded.

Unemployment Insurance Reserve – This reserve is authorized to fund reimbursements to the New York State Unemployment Insurance Fund for claims filed. As of June 30, 2018, the balance was approximately \$1.9 million and sufficient to cover more than 200 years of related costs, which averaged approximately \$8,600 over the last three years. The District budgeted to appropriate from this reserve and in 2018-19 transferred over \$1.1 million to the general fund, reducing the reserve to approximately \$800,000. However, the remaining balance would still be sufficient to cover about 95 years of related expenditures based on average annual costs.

Tax Certiorari Reserve – A tax certiorari is a legal proceeding whereby a taxpayer who has been denied a reduction in property tax assessment challenges the assessment. New York State Education Law<sup>5</sup> authorizes school districts to establish a reserve fund for the potential cost of these proceedings without approval by the voters, provided the total money in the reserve does not exceed the amounts reasonably deemed necessary to meet anticipated judgments and claims.

As of June 30, 2018, this reserve had a balance of about \$804,000 which was reduced to \$200,000 during 2018-19. While the District's supporting documentation showed a potential liability of \$181,000, it was last updated in 2005-06. Because the District did not verify the status of each claim to update this

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2 Repair, retirement contribution, unemployment, tax certiorari, insurance, liability, employee benefit accrued liability and property loss. We excluded two additional reserves from our analysis because the combined balance was nominal (\$644).

3 Unemployment (\$1.1 million) and tax certiorari (\$600,000)

4 Amounts based on journal entry adjustments made during audit fieldwork in 2018-19.

5 New York State Education Law Section 3651[1-a]

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document, it could not demonstrate the need to retain these restricted funds and must return this money to the general fund.<sup>6</sup>

Insurance Reserve – The Board established an insurance reserve to cover insurance claims with a balance of approximately \$557,000 as of June 30, 2018. This reserve has not been used in the last three fiscal years. Because there is no detailed plan for this reserve, we question why it is maintained at this level.

Liability Reserve – The Board established a liability reserve to cover liability claims. The balance was approximately \$537,000 as of June 30, 2018, which was within the 3 percent authorized by Education Law.<sup>7</sup> However, there has been no activity in this reserve and the balance has not changed in the last three fiscal years. Given the lack of a detailed plan for this reserve, we question why it is maintained at this level.

Our prior Report of Examination<sup>8</sup> and the District’s external audit<sup>9</sup> cautioned the Board and District officials about overfunding reserves. While it is a prudent practice for officials to save for future expenditures, because District officials did not fully address all of the findings and recommendations in our previous audit report, there is a risk that by retaining more funds than necessary in reserves the District may miss opportunities to use these funds in a manner that best benefits taxpayers.

## What Do We Recommend?

The Board and District officials should:

1. Comply with the reserve fund policy by preparing “an analysis of projected needs of the reserve funds in the upcoming fiscal year and a recommendation regarding funding those projected needs.”
2. Review reserve balances at least annually and consult with legal counsel to ensure the planned use of reserves is transparent and complies with the applicable statutes.
3. Analyze pending tax certiorari claims and return any excess money in the tax certiorari reserve to the general fund.

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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.

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6 Funds reserved for tax certiorari judgments and claims pursuant to Education Law, Section 3651[1-a] that are not expended for the payment of judgments or claims arising out of tax certiorari proceedings for the tax roll in the year the money is deposited to the fund and/or that will not be “reasonably required to pay any such judgment or claim,” must be returned to the general fund on or before the first day of the fourth fiscal year following the deposit of such money to the reserve fund.

7 Education Law Section 1709[8-c].

8 *Medina Central School District – Reserve Funds* (2014M-155)

9 The external audit indicated that the tax certiorari reserve may not be reasonably funded.

# Appendix A: Response From District Officials



## MEDINA CENTRAL SCHOOL DISTRICT

### BOARD OF EDUCATION

One Mustang Drive  
Medina, New York 14103  
(585) 798-2700 Fax: (585) 798-5676

Mark B. Kruzynski

*Superintendent of Schools*

November 18, 2019

Office of the State Comptroller  
Division of Local Government & School Accountability  
PSU - CAP Submission  
110 State Street, 12th Floor  
Albany, NY 12236

To Whom it May Concern:

The Medina Central School District is in receipt of the audit report prepared by the Office of the State Comptroller on Reserve Funds. The information provided by your office demonstrates your intent to provide us with an opportunity to reflect on our operations and governance procedures.

We are partially in agreement with this report. When the audit states that the Board did not analyze reserves in accordance with this policy, the auditors are drawing conclusions based on the fact that this is not reflected in official board of education minutes. Our Board of Education has adopted Robert's Rules of Order for governance. Robert's Rules states that "in the meetings of ordinary societies and of boards of managers and trustees, there is no object in reporting the debates; the duty of the secretary, in such cases, is mainly to record what is 'done' by the assembly, and not what is said by the members." *Source: Robert, H. M. (1979). Robert's Rules of Order: Revised. New York: Morrow Quill Paperbacks.*

See  
Note 1  
Page 7

The fact of the matter is that the Board of Education has discussed our reserve usage plan at several finance committee meetings per year, during the annual budget preparation, and the annual budget hearings. Our reserve usage plan had been vetted by the Erie 1 BOCES Finance and Legislation Group, our internal auditors, and has been covered in the local media. If the auditors, during their information gathering phase, had spoken to any members of the public who attended board meetings, I am certain that they would be able to corroborate our claims. However, we do understand that these were not included in the official board minutes, and therefore, would lead an auditor from outside the area to believe that these discussions were not shared with the public.

See  
Note 2  
Page 7

We agree with and will implement all of the comptroller's recommendations:

- 1) We will formally discuss and document in the minutes a detailed reserve analysis that looks forward to our district's projected needs.
- 2) We will continue to review reserve balances with legal counsel.
- 3) We will analyze tax certiorari claims and prudently adjust our reserves accordingly.

*Exemplify excellence in education*

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The Board of Education and Administration remain steadfast in their commitment to providing a quality educational program for our students in a cost effective manner. We appreciate the recommendations made by the State Comptroller's office.

Sincerely,

Mark Kruzynski  
Superintendent

Arlene Pawlaczyk  
Board of Education President

# Appendix B: OSC Comments on the District's Response

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## Note 1

While the minutes of the proceedings of the Board of Education do not have to include a verbatim discussion of each Board member, the purpose of the minutes is to provide a measure of transparency and act as an official record of the Board's actions and how each member voted. This is particularly important if a resident is unable to attend a Board meeting but wishes to review the Board's decisions at a later date.

Our review of the minutes for July 2017 through September 2018 show only one reference to the District's reserves. This reference was to adopt the reserve fund policy on August 15, 2017. Without a reference in the minutes, there is no evidence that the Board took any action regarding its reserves during the 2017-18 fiscal year.

## Note 2

The District's reserve fund policy requires that an annual report of each reserve should include an "analysis of the projected needs for the reserve fund in the upcoming year and a recommendation regarding funding those projected needs." That plan can be attached to the minutes after the Board approves it. Furthermore, the District did implement a plan of reserve usage in October 2015, but did not reference that plan or add the attachment to the minutes or any time thereafter and did not act in a transparent manner.

## Appendix C: 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<sup>10</sup> and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and reviewed Board meeting minutes, relevant laws, District policies, annual financial statement audits and our prior audit report to gain an understanding of the District's reserve fund management practices and oversight.
- We analyzed reserve fund financial activity from 2015-16 through 2018-19 to assess whether District officials properly established and used reserves and whether the funding levels were reasonable and requested documentation to support those balances.

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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

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 2116-1(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 next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The CAP should be posted to the District's website for public review.

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<sup>10</sup> We also issued separate audit reports, *Medina Central School District – Capital Projects (2019-163)* and *Medina Central School District – Tax Collection (2019-151)*.

## Appendix D: 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#lgmg](http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lgmg)

### **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/pubs/cyber-security-guide.pdf](http://www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf)

### **Required Reporting** – Information and resources for reports and forms that are filed with the Office of the State Comptroller

[www.osc.state.ny.us/localgov/finreporting/index.htm](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

Office of the New York State Comptroller  
Division of Local Government and School Accountability  
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: [localgov@osc.ny.gov](mailto:localgov@osc.ny.gov)

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

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**BUFFALO REGIONAL OFFICE** – Jeffrey D. Mazula, Chief Examiner

295 Main Street, Suite 1032 • Buffalo, New York 14203-2510

Tel (716) 847-3647 • Fax (716) 847-3643 • Email: [Muni-Bufferalo@osc.ny.gov](mailto:Muni-Bufferalo@osc.ny.gov)

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