

Pine Valley Central School District

Financial Management

JUNE 2019



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

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Report Highlights

Pine Valley Central School District

Audit Objective

Determine whether the Board and District officials properly managed finances by ensuring budget estimates and surplus fund balance were reasonable.

Key Findings

- The Board overestimated appropriations by a total of almost \$3.2 million (7 percent) over a three-year period.
- As of June 30, 2018, surplus fund balance totaled \$2.4 million, 15 percent of the 2018-19 budgeted appropriations, exceeding the statutory limit by more than \$1.8 million.
- Despite the District generating operating surpluses totaling almost \$2.2 million during the 2015-16 through 2017-18 fiscal years, the Board raised real property taxes by \$50,000 during that same period.

Key Recommendations

- Adopt annual budgets that include reasonable estimates for appropriations.
- Reduce surplus fund balance to within the statutory limit and use excess funds in a manner more beneficial to taxpayers.

District officials agreed with our findings.

Background

Pine Valley Central School District (District) serves the Towns of Arkwright, Charlotte, Cherry Creek, Ellington and Villenova in Chautauqua County and the Towns of Conewango, Dayton, Leon and New Albion in Cattaraugus County.

The nine-member Board of Education (Board) is responsible for the management and control of financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for day-to-day management under the Board's direction. The Business Executive oversees the business office and maintains financial records. The Board, Superintendent and Business Executive are responsible for developing the budget.

Quick Facts

Enrollment	571
Employees	117
2018-19 Appropriations	\$15.8 million

Audit Period

July 1, 2015 – January 22, 2019.

Financial Management

What Is Proper Financial Management?

To properly manage financial condition, a board must adopt reasonably estimated and structurally balanced budgets based on historical data or known trends, in which recurring revenues finance recurring expenditures. In preparing the budget, a board and school district officials 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 is permitted to retain both a specified amount of fund balance for cash flow needs or unexpected expenditures and reserves for other identified or planned needs. Fund balance is the difference between revenues and expenditures accumulated over time. The New York State Real Property Tax Law¹ currently limits the amount of surplus fund balance² that a school district can retain to no more than 4 percent of the next year's budget. Any surplus fund balance over this percentage must be used to reduce the upcoming fiscal year's real property tax levy or to fund needed reserves.

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

We compared budgeted appropriations and estimated revenues with actual operating results for 2015-16 through 2017-18 and found that, while revenue variances were generally reasonable, appropriations were overestimated by an annual average of approximately \$1 million (7 percent) each year or a total of \$3.2 million.

Figure 1: Overestimated Appropriations^a

	2015-16	2016-17	2017-18	Totals
Appropriations	\$14,983,000	\$15,561,000	\$16,216,000	\$46,760,000
Actual Expenditures	\$14,301,000	\$14,426,000	\$14,843,000	\$43,570,000
Overestimated Appropriations	\$682,000	\$1,135,000	\$1,373,000	\$3,190,000
Percentage Overestimated ^b	4.8%	7.9%	9.3%	7.3%

a Excludes budgeted and actual transfer activity

b Overestimated appropriations divided by actual expenditures

¹ New York State Real Property Tax Law, Section 1318

² Surplus fund balance is defined as unrestricted fund balance minus appropriated fund balance and encumbrances included in committed and assigned fund balance. See our accounting bulletin at <https://www.osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>

The most significant overestimated appropriations were for employee benefits (\$2.1 million or 27 percent, an average of \$724,000) and personal services (by \$1.1 million or 7 percent, an average of \$378,000). The Business Executive³ told us that appropriations were overestimated because the District's previous method of budgeting used a standard percentage increase throughout the budget based on a forecasted increase in expenditures.

In the 2018-19 budget, officials began using trend analysis of past operating expenditures to budget appropriations. According to officials, this new method resulted in a 3 percent (\$500,000) decrease in appropriations in the 2018-19 budget. In addition, there was no tax levy increase or use of fund balance. However, historically revenues have exceeded expenditures and although there is a reduction in appropriations, officials are projecting an operating surplus of approximately \$500,000. Therefore, fund balance will continue to increase and surplus fund balance will likely continue to exceed the statutory limit. District officials also told us that unsettled collective bargaining agreements have played a role in overestimating appropriations because they included anticipated retroactive payments in each year's budget.

Because the Board and District officials overestimated appropriations, it appeared the District needed to appropriate fund balance to close projected budget deficits in two fiscal years of our audit period. This practice did not continue in the 2018-19 budget. When fund balance is appropriated for the next 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, primarily due to overestimated appropriations, the District experienced annual operating surpluses resulting in a three-year cumulative operating surplus totaling almost \$2.2 million. As a result, surplus fund balance increased to more than \$2.4 million as of June 30, 2018, and was 15 percent of the 2018-19 budgeted appropriations, exceeding the statutory limit by \$1.8 million or 11 percentage points.

³ Appointed September 15, 2016

Figure 2: Surplus Fund Balance Reported at Year-End

	2015-16	2016-17	2017-18
Beginning Fund Balance	\$3,896,000	\$4,105,000	\$4,810,000
Add: Operating Surplus	\$310,000	\$680,000	\$1,180,000
Add: Budgeted Transfers In	\$367,000	\$136,000	\$3,000
Less: Budgeted Transfers Out	\$27,000	\$111,000	\$116,000
Less: Unbudgeted Transfers Out ^a	\$441,000	\$0	\$0
Ending Fund Balance	\$4,105,000	\$4,810,000	\$5,877,000
Less: Encumbrances	\$30,000	\$2,000	\$67,000
Less: Restricted Fund Balance	\$2,607,000	\$2,561,000	\$3,373,000
Less: Appropriated Fund Balance	\$550,000	\$212,000	\$0
Surplus Fund Balance at Fiscal Year-End	\$918,000	\$2,035,000	\$2,437,000
Next Year's Budgeted Appropriations	\$15,688,000	\$16,333,000	\$15,834,000
Surplus Fund Balance as a Percentage of Next Year's Budget	5.9%	12.5%	15.4%
Surplus Fund Balance in Excess of the Statutory Limit	\$290,000	\$1,382,000	\$1,804,000

a The District transferred \$441,000 from the general fund to the capital projects fund for a bus purchase (\$315,000) and an emergency water treatment building project (\$126,000).

District officials told us that they needed to maintain fund balance in excess of the statutory limit due to projections in their multiyear financial plan. This plan indicated recurring expenditures were increasing more rapidly than recurring revenues, resulting in operating deficits in future fiscal years.

According to this plan, operating deficits begin in 2021-22 of approximately \$31,000 and increase to almost \$1.8 million in 2028-29. We reviewed the plan and it did not appear to be reasonable due to underestimated revenues. After we discussed the plan with the Business Executive, it was updated to include a more reasonable projection for revenues that showed smaller operating deficits in future years.

In addition, the Board adopted a fund balance policy in February 2018 and has a written reserve fund plan, dated June 30, 2018, which address unassigned fund balance levels (i.e., surplus fund balance). While the policy states the District will retain no more than four percent unassigned fund balance as a percentage of next year's budgeted appropriations, the plan states the District will retain unassigned fund balance in the range of 4 to 6 percent. The Board President indicated that she was unaware that the policy and plan differed and clarified that the Board's goal is to retain fund balance in the range of 4 to 6 percent.

While the District realized operating surpluses and retained excessive fund balance each year, the Board levied real property taxes averaging \$3.3 million annually from 2015-16 through 2018-19. Although the tax levy net increase was \$50,000 during that time period, had officials adopted more reasonable budgets, they could have considered using these excess funds to fund one-time expenditures, fund needed reserves, pay off debt or reduce the levy and provide an even greater benefit to taxpayers.

What Do We Recommend?

The Board and District officials should:

1. Develop and adopt annual budgets that include reasonable estimates for appropriations.
2. Develop a plan to reduce surplus fund balance to comply with the statutory limit. Surplus funds can be used for:
 - Funding one-time expenditures
 - Funding needed reserves
 - Paying off debt
 - Reducing District property taxes.
3. Update the written reserve fund plan to ensure it appropriately addresses the District's compliance with the statutory limit for surplus fund balance.

Appendix A: Response From District Officials

SCOTT E. PAYNE
Superintendent
(716) 988-3293 ext. 3399
FAX: (716) 988-3142

PINE VALLEY CENTRAL SCHOOL
South Dayton, NY
District Offices/Elementary School: 7755 Rt. 83
Jr./Sr. High School: 7827 Rt. 83



April 18, 2019

Jeffrey D. Mazula
Chief Examiner of Local Government and
School Accountability
295 Main Street, Suite 1032
Buffalo, NY 14203-2510

Dear Mr. Mazula,

Thank you for the time and detail your team has invested in the preliminary draft findings of the Pine Valley OSC Audit. At this time, I am writing to notify you that the district agrees with the findings as presented.

Should you require additional documentation or further information please do not hesitate to reach out to me.

A handwritten signature in blue ink that reads "Scott E. Payne". The signature is written in a cursive style.

Scott E. Payne

Appendix B: Audit Methodology and Standards

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

- We interviewed District officials and reviewed Board meeting minutes, resolutions and policies to gain an understanding of the District's financial management policies and procedures and budgeting practices.
- We analyzed general fund financial records from 2015-16 through 2017-18 and evaluated any factors contributing to fluctuations in fund balance.
- We reviewed the adopted general fund budgets from 2015-16 through 2017-18 to determine whether they are reasonable and structurally balanced by comparing adopted budgets with actual results of operations and analyzing significant budget-to-actual variances.
- We reviewed the adopted 2018-19 general fund budget to determine whether any significant changes had been made to the District's budgeting practices.
- We reviewed 2018-19 expenditure projections prepared by the Business Executive and performed our own projection of 2018-19 operating results based on historical trends.
- We reviewed the multiyear financial plan to determine whether it was reasonable.
- We reviewed the real property tax levy for fluctuations and trends.

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

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

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/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

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

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