REPORT OF EXAMINATION | 2022M-97

Jamestown City School District

Fund Balance and Reserves

SEPTEMBER 2022

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

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Report Highlights

Jamestown City School District

Audit Objective

Determine whether the Jamestown City 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 fund balance and reserves and need to improve their budgeting practices and transparency with District residents and taxpayers. The Board and District officials:

- Maintained surplus fund balance in excess of the 4 percent statutory limit and annually appropriated fund balance that was not used to fund operations. As of June 30, 2021, surplus fund balance exceeded the statutory limit by 7 percentage points or $6.3 million.
- Overestimated budgetary appropriations by an annual average of $6.5 million (8 percent), which resulted in annual operating surpluses and increased fund balance by $9.2 million, or 72 percent, over the last three fiscal years.
- Could not demonstrate that the balances in five reserves, totaling approximately $8.7 million, were reasonable and lacked a sufficient reserve fund plan that detailed each reserve's funding and use.

As a result, more real properly taxes were levied then necessary to fund operations.

Key Recommendations

- Adopt budgets that include reasonable estimates for appropriations, appropriated fund balance and reserve funds that will be used to fund operations.
- Comply with the surplus fund balance statutory limit.
- Reduce overfunded reserves in accordance with applicable statute.

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

Background

The District serves the City of Jamestown and the Towns of Busti, Carroll, Ellicott and Kiantone in Chautauqua County.

The seven-member Board is responsible for managing and controlling the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The Director of Budget and Finance (Director) oversees the District's Business Office and maintains its financial records. The Board, Superintendent and Director are responsible for developing the budget.

Quick Facts	
2021-22 Appropriations	$89.9 million
Enrollment	4,264
Employees	816
Number of Schools	10

Audit Period

July 1, 2018 – April 14, 2022

Financial Management

How Should Fund Balance Be Properly Managed?

To properly manage fund balance, a school board should adopt reasonably estimated and structurally balanced budgets based on historical or known trends in which recurring revenues finance recurring expenditures. In preparing the budget, a school 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 fiscal year-end and the expected real property tax levy needed to balance the budget. Accurate estimates help ensure that the tax levy is not greater than necessary.

A school 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. New York State Real Property Tax Law Section 1318 currently limits the amount of surplus fund balance that a school district can retain to no more than 4 percent of the next year's budget. A school board must use any surplus fund balance over this percentage to reduce the upcoming fiscal year's real property levy or fund needed reserves.

The Board and District Officials Appropriated Fund Balance That Was Not Needed

The Board annually appropriated an average of $2 million of fund balance to finance operations in the adopted budgets for fiscal years 2018-19 through 2020-21. However, the District did not use these funds as budgeted. While annual revenue estimates were generally reasonable, the Board adopted budgets that consistently overestimated appropriations by an annual average of approximately $6.5 million (8 percent), or a cumulative total of approximately $19.4 million (Figure 1).

Figure 1: Overestimated Appropriations (In Millions)

	2018-19	2019-20	2020-21	Totals
Appropriations[a]	$86.5	$91.0	$88.8	**$266.3**
Less: Adjusted Expenditures[b]	84.3	84.2	78.4	**246.9**
Overestimated Appropriations	$2.2	$6.8	$10.4	**$19.4**
Percentage Overestimated[c]	3%	8%	13%	**8%**

a Includes encumbrances (prior year funds scheduled to be paid or disbursed in the current fiscal year and recorded with the current year's expenditures)
b Includes budgeted portion of transfers to other funds
c Overestimated appropriations divided by adjusted total expenditures

The most significant overestimated appropriations were for employee benefits and teaching salaries, which were overestimated by an annual average between $2.3

million and $1.4 million, respectively. Because large portions of these costs are determined by contractual agreements, District officials had sufficient information to reasonably estimate anticipated expenditures.

The Director and one Board member told us that the District annually overestimated certain appropriations, including employee benefits and teaching salaries, to provide budgetary flexibility in the event expenditures were higher than anticipated. For example, the Director told us that health insurance costs are overestimated to accommodate employees having qualifying events such as adding new members to their policy that would increase the cost. The Director and Board member also told us they budgeted for the District's optimum employment levels; however, the Director said the District has not been able to fill all the positions included in the Board-adopted budgets. However, a historical trend analysis demonstrates that actual expenditures for employee benefits and teaching salaries have been consistently less than the appropriations budgeted. Moreover, if unanticipated expenditures were to occur, District officials could make certain budget transfers from other unused appropriations rather than consistently overestimating these appropriations.

When school district officials appropriate fund balance in a budget developed with reasonable revenue and expenditure estimates, the school district should incur a planned operating deficit in the next fiscal year equal to the amount of fund balance appropriated. This allows a school district to reduce excess surplus fund balance accumulated in prior years to within legal limits.

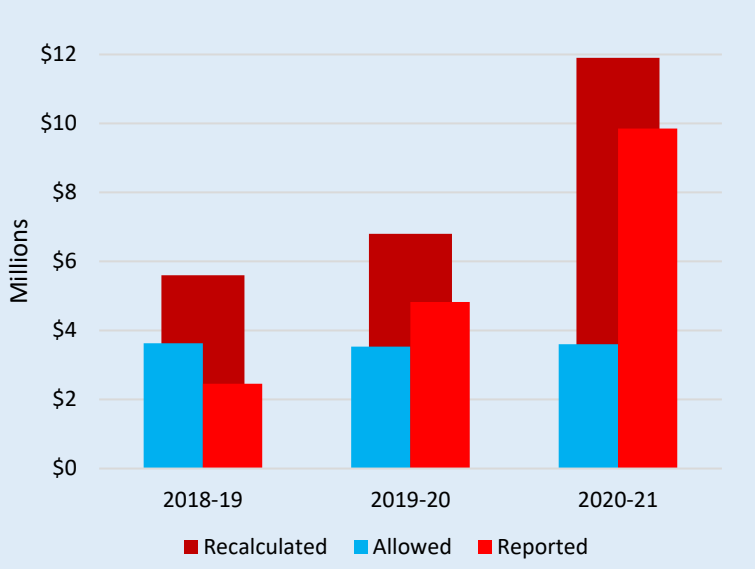
Because the Board and District officials overestimated appropriations, they made it appear the District needed to use appropriated fund balance to close projected budget gaps. However, the District's actual revenues were more than sufficient to cover annual expenditures. As a result, the District realized a cumulative operating surplus totaling approximately $10.4 million and total fund balance continued to increase. Over the three-year period reviewed, total fund balance increased by more than $9.2 million, or 72 percent (Figure 2). As of June 30, 2021, surplus fund balance totaled nearly $9.9 million and exceeded the statutory limit by 7 percentage points.

The Board and District officials' practice of appropriating fund balance that is not needed is, in effect, a reservation of fund balance that is not provided for by statute and circumvents the statutory limit on 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, giving the appearance that surplus fund balance is within or close to the statutory limit. In addition, including appropriated fund balance in the annual budgets that have a history of not being needed or used does not afford a transparent budget process to taxpayers.

The District's surplus fund balance exceeded the statutory limit at fiscal year-end, but when the unused appropriated fund balance is considered, surplus fund balance exceeds the statutory limit by approximately $2 million to $8 million, or 2 to 9 percentage points over the last three fiscal years (Figure 2).

FIGURE 2

Surplus Fund Balance



Based on our review of the 2021-22 budget and year-to-date operating results as of April 2022, if current spending and revenue trends continue for the remainder of the 2021-22 fiscal year, the District will have an operating surplus in 2021-22 and will not need to use the $2 million in fund balance appropriated in the budget.

The Director and a Board member told us that the District would appropriate fund balance as needed. They said it was important that the real property tax levy remain consistent and did not fluctuate steeply so taxpayers knew what to expect. While the District's tax levy has remained fairly consistent over the past four fiscal years, by appropriating surplus fund balance that was not needed and maintaining surplus fund balance in excess of the statutory limit, the District has maintained real property taxes at a level higher than necessary for operations and missed opportunities to lower real property taxes.

How Should the Board Properly Manage Reserve Funds?

School districts are allowed by law to establish reserves and accumulate funds for certain future purposes (e.g., unemployment or retirement contribution

expenditures). While school districts are generally not limited as to the amount of funds that can be held in reserves, the balances should be reasonable. A school board should balance the intent for accumulating funds for identified future needs with the obligation to ensure real property taxes are not higher than necessary.

To help ensure that reserve balances do not exceed the amount necessary to address long-term obligations or planned expenditures, a school board should adopt a comprehensive written 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. In addition, amounts to be placed in reserve funds should be included in the annual budget. By making provisions to raise resources for reserve funds explicit in the proposed budget, the school board gives the residents an opportunity to know and approve its plan for funding its reserves.

Reserves Were Not Used and Managed Properly

The Board did not adopt a written policy for reserve funds. Instead, District officials created a reserve fund plan that the Board periodically reviewed and approved. This plan does not address a maximum funding level for each reserve or when reserve funds should be used and replenished. It is essential that the Board first establish its expectations through a Board-adopted policy that District officials can further implement through the development of comprehensive written plans and procedures.

As of June 30, 2021, the District reported seven reserves in the general fund totaling approximately $9.7 million. While the Board properly established reserves and maintained a reasonable balance in the tax certiorari (legal claims challenging real property tax assessments) and within voter-authorized amounts in the capital reserves, District officials could not demonstrate that the balances in the five remaining reserves, totaling approximately $8.7 million, were reasonable. The District's Board and officials also lacked a sufficiently detailed plan for their funding and use. The Board appropriated an average of $800,000 in reserves to finance operations for fiscal years 2019-20 and 2020-21.[1] Although the District generally used reserve funds as budgeted, District officials also consistently replenished the reserves using annual operating surpluses.

Retirement Contribution Reserve (New York State and Local Retirement System)– The Board established this reserve to fund contributions to the New York State and Local Retirement System. As of June 30, 2021, this reserve had a balance of approximately $4 million.

1 The 2018-19 budget did not include appropriated reserves.

From 2018-19 through 2020-21, the District incurred associated retirement contribution costs totaling approximately $3.1 million. Although District officials used $500,000 from this reserve towards these expenditures, they replenished the reserve in the same year the funds were spent. Because the District ultimately replenished the reserve, in effect, no reserve funds were actually used to pay for these expenditures and the reserve balance remained unchanged. Furthermore, District officials added an additional $1.3 million to this reserve without including a provision to fund it in the Board-adopted budgets.

While the balance is within the limit established by the reserve fund plan for this reserve, we question why this reserve is being maintained at this level because there is no formalized policy stating when the reserve will be used, its funding is not transparently included in the annual operating budget, and the balance is sufficient to pay approximately four years of retirement contribution expenditures.

Employee Benefit Accrued Liability Reserve (EBALR)– The Board established this reserve to pay accrued leave time benefits due to employees when separating from District employment. As of June 30, 2021, this reserve had a balance of approximately $1.5 million. The corresponding potential liability as of June 30, 2021 was $540,000, resulting in this reserve being overfunded by $960,000. The Director and a Board member told us that the EBALR overfunding was a result of an erroneous calculation which included costs for employees that did not meet eligibility requirements.

From 2018-19 through 2020-21, the District used this reserve to erroneously pay approximately $175,000 to employees for retirement incentives that were not based on accrued leave time. However, over this same period, the District incurred and paid over $220,000 in eligible expenditures that could have been paid from the EBALR but were instead paid from the general fund. The Director stated that during a period of transition in the Business Office, mistakes were made and ineligible costs were paid from the EBALR instead of the general fund.

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. As of June 30, 2021, this reserve had a balance of approximately $1.3 million.

From 2018-19 through 2020-21, the District incurred associated retirement contribution costs totaling approximately $8.5 million which were budgeted for and paid from general fund appropriations. While the balance in this reserve is within the limit established by the reserve fund plan, we question why this reserve is being maintained at this level because there is no formalized policy stating when the reserve will be used and its funding is not included in the annual operating budget.

Workers' Compensation Reserve– The Board established this reserve to pay for workers' compensation claims. As of June 30, 2021, the reserve had a balance of approximately $1.3 million.

From 2018-19 through 2020-21, the District paid approximately $630,000 in workers' compensation claims. In 2020-21, the District used the $100,000 that was appropriated in the adopted budget from this reserve towards workers' compensation expenditures; however, the District replenished the reserve in the same year. Because the District ultimately replenished the reserve, in effect, no reserve funds were actually used to pay for these expenditures and the reserve balance remained unchanged. Furthermore, District officials added an additional $320,000 to increase the reserve's total funding level.

As there is no detailed written policy providing the expected use and funding of this reserve and the balance is sufficient to pay average annual workers' compensation claims for the next six years, we question why the funding of this reserve was increased and is maintained at its current level.

Unemployment Insurance Reserve– The Board established this reserve for the payment of claims to the New York State Unemployment Insurance Fund. As of June 30, 2021, the reserve had a balance of approximately $677,000.

From 2018-19 through 2020-21, average annual unemployment expenditures were approximately $72,000 and were paid from general fund appropriations, not the reserve. As there is no detailed policy providing the expected use and funding of this reserve and the balance is sufficient to pay average annual unemployment expenditures for the next nine years, we question why it was funded and maintained at this level.

The Director and one Board member told us that while District officials and the Board discuss reserves at Board meetings, including suggestions for planned usage and funding, these discussions did not lead to the development of a comprehensive written reserve fund policy that included details such as funding levels and intended use. Without a formally adopted comprehensive written reserve fund policy, the Board is not clearly communicating its intentions for funding and using reserves to taxpayers in a transparent manner.

While it is a prudent practice for District officials to save for future expenditures, when excess funds are held in reserves that are not needed or used, it results in missed opportunities to use these funds in a manner beneficial to taxpayers. Because the Board did not adopt a comprehensive written reserve fund policy that defined when reserves would be used or how they would be transparently funded, District officials could not demonstrate that the balances held in the reserves were necessary.

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 and reserves that will be appropriated and used to fund operations.
2. Discontinue the practice of appropriating fund balance and reserves that is not needed or used to fund operations.
3. 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.
4. Adopt a comprehensive written reserve fund policy that addresses the objective of each reserve, targeted or maximum funding levels and conditions under which reserves will be used and replenished.
5. Review the funding and use of the EBALR to ensure the reserve is funded and used only for permissible expenditures in accordance with statute.
6. Consult with legal counsel as to the appropriate remedy for addressing the improper use of the EBALR.

Appendix A: Response From District Officials

JAMESTOWN PUBLIC SCHOOLS
TRADITION OF EXCELLENCE SINCE 1867

Kevin J. Whitaker, Ed.D.
SUPERINTENDENT OF SCHOOLS

September 8, 2022

Melissa A Myers, Chief Examiner
Office of the New York State Comptroller
295 Main Street, Suite 1032
Buffalo, NY 14203-2510

Re:Jamestown City School District Response to Report of Examination 2022M-97

Dear Ms. Myers,

The Jamestown City School District is in receipt of the State Comptroller's Office Draft Report of the Examination for Financial Management for the period of July 1, 2018 through June 30, 2021. On behalf of the District, I would like to thank the Office of the State Comptroller for providing auditors who we found to be professional and courteous throughout the audit process. Our district welcomes feedback, and appreciates the opportunity you have provided through this process to improve our practices based on our review of your observations.

The District understands the purpose of the examination is to identify areas of operations that may benefit from these types of outside recommendations. The District recognizes this and realizes that the underlying goal of these reports is to support the District's ongoing effort to improve our overall fiscal operation. We note that throughout the audit fieldwork many aspects of District internal procedures were reviewed, and we believe it was evident during that review that the District has established policies and procedures that demonstrate a commitment to compliance in generally accepted school district operations. Additionally, the District is pleased that the report does not suggest any malfeasance or impropriety with respect to general business operations.

To the extent the Comptroller's audit represents a review of the operations, practices and policies for compliance, the District generally agrees with the findings.

Again, the District would like to thank your office, our auditor and his supervisor for their insight and assistance. We are proud that the Jamestown City School District has been able to develop local school budgets that have resulted in the operation of a District that has not had to increase taxes to its community in over 10 years. The Jamestown City School District governance team is committed to continue to dedicate our time and efforts toward being good fiscal stewards to our stakeholders, and to continue to improve our ongoing practice.

Sincerely,

[redacted]

Kevin Whitaker, Ed.D.
Superintendent of Schools

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Appendix B: Audit Methodology and Standards

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

- We interviewed District officials and reviewed Board meeting minutes, resolutions and policies to gain an understanding of the District's financial management policies, procedures and budgeting practices.
- We analyzed general fund financial records from 2018-19 through 2020-21 and evaluated any factors contributing to fluctuations in fund balance, including real property tax levy fluctuations and trends.
- We reviewed the adopted general fund budgets from 2018-19 through 2020-21 to determine whether they were reasonable and structurally balanced by comparing adopted budgets with actual results of operations and analyzing significant budget-to-actual variances.
- We reviewed the District's results of operations from 2018-19 through 2020-21 and calculated surplus fund balance as a percentage of the next year's appropriations for compliance with the statutory limit.
- We recalculated surplus fund balance as a percentage of the next year's appropriations after adding back appropriated fund balance not used to fund the next year's operations.
- We reviewed reserve fund balances as of June 30, 2021 to assess whether they were properly established, compliant with appliable statutes, used and reasonably funded.
- We evaluated the District's 2021-22 budget and inquired with District officials regarding their financial projections for the end of the 2021-22 fiscal year as of April 2022.

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.

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 C: Resources and Services

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

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

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

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

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

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

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

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

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