



# Vestal Central School District Fund Balances

## Report of Examination

Period Covered:

July 1, 2015 – March 31, 2017

2017M-91



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

July 2017

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Vestal Central School District, entitled Fund Balances. This audit was conducted 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.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## Background

The Vestal Central School District (District) is located in the Towns of Vestal and Binghamton in Broome County and the Town of Owego in Tioga County. The District is governed by the Board of Education (Board), which is composed of nine elected members. The Board is responsible for the general management and control of 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 day-to-day management of the District under the Board's direction.

The District operates seven schools with approximately 3,200 students and 700 employees. The District's budgeted appropriations for the 2017-18 fiscal year are \$76.2 million, which are funded primarily with State aid and real property taxes.

## Objective

The objective of our audit was to examine the District's financial management practices. Our audit addressed the following related question:

- Did District officials properly manage fund balances?

## Scope and Methodology

We examined the District's financial management practices for the period July 1, 2015 through March 31, 2017. We extended our scope back to July 1, 2013 and forward through June 30, 2017 to analyze trends in financial activity and fund balances.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

## Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report.

The Board has the responsibility to initiate corrective action. 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, 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, with a copy forwarded to 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 Board should make the CAP available for public review in the District Clerk's office.

## Fund Balances

The Board and Superintendent are responsible for making sound financial decisions that are in the best interests of the District, the students it serves and the residents who fund its programs and operations. Sound budgeting practices based on accurate estimates, together with prudent fund balance management, ensure that sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future expenditures. A key component of budgeting is managing fund balance, which represents moneys accumulated from prior years and reserve balances. The Superintendent and Board must ensure that budgeted appropriations are estimated reasonably and fund balance appropriated as a funding source is actually used in the next fiscal year to cover expenditures. While the District may retain a portion of fund balance (unassigned fund balance), New York State Real Property Tax Law limits the amount allowable to 4 percent of the ensuing year's budgeted appropriations. The Board may establish and fund reserves for various purposes; however, these reserves should be supported by clear plans for their use and replenishment.

District officials could improve their management of fund balances. Total fund balance has increased by \$6.3 million (38 percent) to \$22.6 million from 2013-14 through 2015-16. While District officials have maintained unassigned fund balance in compliance with the statutory limit each year, they consistently overestimated expenditures and appropriated fund balance that was not used. When the unused appropriated fund balance was added back, the District's recalculated unassigned fund balance significantly exceeded the statutory limits.

**Figure 1: Unassigned Fund Balance at Year-End and Unused Fund Balance**

Fiscal Year	2013-14	2014-15	2015-16
Total Unassigned Fund Balance at Year-End	\$2,610,538	\$2,805,741	\$2,841,096
Unassigned Fund Balance as a Percentage of Ensuing Year's Appropriations	3.5%	3.7%	3.8%
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	\$4,564,130	\$4,700,673	\$3,793,445
Total Recalculated Unassigned Fund Balance	\$7,174,668	\$7,506,414	\$6,634,541
Recalculated Unassigned Fund Balance as a Percentage of Ensuing Year's Appropriations	9.7%	10.0%	8.8%

Overly conservative budgeting practices have contributed to an average of \$4.4 million of appropriated fund balance and reserves not being used as budgeted in the last three years; however, District officials have decreased the amounts planned for use from 2014-15 through 2016-17. While revenue variances averaged less than 1 percent over the past three years, expenditures have averaged over 8 percent,

leading to operating surpluses totaling \$6.3 million in those years. The expenditure variances were driven primarily by overestimates in special education, health insurance, teachers' retirement and bus drivers' salaries. For example, District officials told us they budgeted for health insurance coverage at the family rate, rather than the lower single rate, for unfilled positions.

Furthermore, District officials maintained and established some informal written guidelines for six reserves totaling \$16.9 million. While three<sup>1</sup> reserves had adequate support and plans for the balances, three reserves did not:

- **Retirement Contribution Reserve** — This reserve is authorized to pay retirement contributions to the New York State and Local Retirement System (NYSLRS). As of June 30, 2016, this reserve had a balance of more than \$6.6 million. Over the last three years, the District paid average expenditures of approximately \$1.2 million. Based on the average, this reserve could fund almost six years of expenditures; however, the informal guidelines established a targeted balance of three to five times the annual expenditures. Furthermore, District officials have financed retirement expenditures through the operating budget. However, in June 2017, District officials used \$1 million of this reserve, which brings the balance within the targeted level for the 2016-17 fiscal year-end.
- **Unemployment Insurance Reserve** — This reserve is authorized to fund payments when a school district elects to reimburse the New York State Unemployment Insurance Fund for actual claims filed. As of June 30, 2016, this reserve had a balance of almost \$312,000. Over the last three years, the District paid average expenditures of approximately \$22,000. Based on the average, this reserve could fund over 14 years of expenditures. Additionally, District officials have financed unemployment insurance expenditures through the operating budget.
- **Insurance Reserve** — This reserve is authorized to fund certain uninsured losses, claims, actions or judgments for which a school district is authorized or required to purchase insurance. As of June 30, 2016, this reserve had a balance of approximately \$658,000. Although the guidelines state it will be used if the District incurs an eligible expenditure, it has not been used since it was established. Further, District officials

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<sup>1</sup> Capital Reserve, Repair Reserve and Tax Certiorari Reserve

did not have any specific guidelines or support for the targeted balance, nor have they analyzed the District's uninsured risks to determine the appropriate funding for the insurance reserve.

Although District officials have established some guidelines for the purpose of and some target balances for reserves, these guidelines do not address when the reserves should be used. Finally, these guidelines were not formally adopted by the Board.

Consistently overestimating expenditures and appropriating fund balance that will not be used are not transparent to taxpayers. Over the past three years, District officials levied real property taxes within the real property tax cap<sup>2</sup> while continuing to build fund balance. While taxes have remained steady for the past two fiscal years, District officials project the general fund will have another operating surplus of \$2.3<sup>3</sup> million for 2016-17 and, therefore, they will not use the \$2.2 million of fund balance they had budgeted to use.

## Recommendations

The Board should:

1. Develop and adopt annual budgets that include realistic estimates for expenditures and only budget for the use of fund balance, when necessary.
2. Analyze all reserve balances and transfer overfunded amounts to unassigned fund balance, where allowed by law, or other reserves established and maintained in compliance with statutory directives.
3. Update and adopt a formal plan that indicates the targeted amount of funds to be reserved, how each reserve will be funded and when the balances will be used.
4. Use the excess accumulated fund balance for one time expenditures, fund needed reserves, to pay down debt or to reduce taxes.

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<sup>2</sup> The tax cap precludes a school district from adopting a budget that requires a tax levy that exceeds the prior year's tax levy by more than 2 percent or the rate of inflation, whichever is less, and certain exclusions permitted by law, unless 60 percent of District voters approve the budget.

<sup>3</sup> We reviewed the District's estimate and determined it to be reasonable.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

The District officials' response to this audit can be found on the following pages.



ADMINISTRATIVE OFFICES  
201 Main Street  
VESTAL, NEW YORK 13850

July 19, 2017

Office of the State Comptroller  
Binghamton Regional Office  
State Office Building, Suite 1072  
44 Hawley Street  
Binghamton, New York 13901

**RE: 2017M-91 Audit Response**

To Whom It May Concern,

The Vestal Central School District is in receipt and has reviewed the Report of Examination for 2017M-91, an audit that focused on the District's fund balances. The correspondence herein, from the President of the Board of Education and the Superintendent of Schools, is the official response of the District. In addition, the District acknowledges that a written corrective action plan (CAP) must be submitted in accordance with the applicable sections of New York State's General Municipal Law, Educational Law and the Regulations of the Commissioner of Education.

The District agrees that *"the Board and Superintendent are responsible for making sound financial decisions that are in the best interests of the District, the students it serves and the residents who fund its programs and operations,"* and it takes this obligation very seriously. In doing so, the District firmly believes in both short and long term fiscal health, and it is always looking for ways to improve the sustainability of its programs and operations. The Comptroller's Fiscal Stress Monitoring System is evidence of the District's financial prudence. During the period of this audit, the Vestal CSD received a fiscal stress score of zero percent, the highest rating attainable. It is also important to note that the District's financial health has resulted in a highly favorable Aa2 Moody's credit rating. As such, the District is considered to be very low risk. This allows the District to attain better interest rates, the savings of which are passed on to the taxpayers.

With great uncertainty surrounding state and federal funding for public education, the District employs a conservative budgeting approach to ensure its continued viability. While the scope of this audit analyzes a three year period, the District recognizes that it must focus on a much longer range. These

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budgeting practices and the funding and use of reserves are a vital component of the District's commitment to its taxpayers. The core philosophy is to provide stability through both mild and difficult times. An example of this is the District's establishment and funding of a capital reserve. This reserve was created within the years that this audit analyzed, and it accounts for the majority of the increase in fund balance. The funds being held in the capital reserve will be used towards a planned capital improvement project, that will address educational, operations and safety needs at all of the District's buildings. The use of the reserve will minimize the impact to the taxpayers' local share of the project. These fiscal strategies allow the District to avoid significant fluctuations in its tax levy and, more importantly, provide consistency for its tax base.

Finally, the Board and Superintendent appreciate the report's acknowledgement that the District continues to operate within the statutory limits of New York State Real Property Law. The comments and recommendations of this report will be reviewed thoroughly, and the District will implement changes as deemed appropriate and in the best interest of both the students and the taxpayers it serves.

Respectfully,

Michon M. Stuart  
President of the Board of Education

Jeffrey J. Ahearn  
Superintendent of Schools

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials and reviewed Board minutes and District officials' reserve plan and guidelines to obtain an understanding of the District's fund balances and reserve management practices.
- We analyzed the total fund balance trend from 2013-14 through 2015-16 and calculated the unassigned fund balance as a percentage of the ensuing year's appropriations to determine whether the District was within the statutory limit for these fiscal years.
- We calculated the results of operations from 2013-14 through 2015-16 and compared them to the appropriated fund balances to determine whether these amounts were actually used. We added the unused appropriated fund balances to the general fund's unassigned fund balances to determine whether the District exceeded the statutory limits.
- We reviewed District officials' 2016-17 year-end operating surplus projection for reasonableness and compared it to the appropriated fund balance to determine whether the appropriated fund balance was expected to be used.
- We compared the District's 2013-14 through 2015-16 budgeted revenues and appropriations to actual revenues and expenditures to determine whether the budgets were reasonable.
- We analyzed District officials' use of, and balances maintained in, reserves during the last three fiscal years to determine whether balances were excessive by reviewing related expenditures, liabilities and supporting documentation, including District officials' informal reserve plan.
- We compared real property tax levies from 2013-14 through 2016-17 to real property tax cap limits to determine whether they were within statutory limits.

We conducted this performance audit in accordance with 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.

## APPENDIX C

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