

# Van Hornesville-Owen D. Young Central School District

## Financial Management

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**JANUARY 2021**

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

# Contents

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- Report Highlights . . . . . 1**
  
- Financial Condition and Budgeting. . . . . 2**
  - What Is Effective Financial Management?. . . . . 2
  - Officials Overestimated Appropriations and Appropriated  
Unneeded Fund Balance . . . . . 3
  - Surplus Fund Balance Exceeded the Statutory Limit . . . . . 5
  - The Board Did Not Adopt a Multiyear Financial Plan . . . . . 7
  - What Do We Recommend? . . . . . 7
  
- Appendix A – Response From District Officials . . . . . 9**
  
- Appendix B – OSC Comment on the District’s Response. . . . . 11**
  
- Appendix C – Audit Methodology and Standards . . . . . 12**
  
- Appendix D – Resources and Services. . . . . 14**

# Report Highlights

## Van Hornesville-Owen D. Young Central School District

### Audit Objective

Determine whether the Van Hornesville-Owen D. Young Central School District's (District) Board of Education (Board) and District officials effectively managed the District's financial condition.

### Key Findings

The Board and District officials did not effectively manage financial condition. The practice of overestimating appropriations each year and annually appropriating fund balance that was not needed to finance operations contributed to the District maintaining a surplus fund balance that exceeded the statutory limit by \$1.5 million and resulted in higher tax levies than necessary.

- Actual expenditures from 2016-17 through 2018-19 were less than budgeted appropriations by \$1.4 million or 8.6 percent.
- Over the last three years, the District budgeted for operating deficits totaling \$358,300 but actually had operating surpluses totaling \$535,400, a difference of \$893,700.
- A multiyear financial plan was not adopted.

### Key Recommendations

- Adopt realistic budgets, based on actual expenditures.
- Comply with the surplus fund balance statutory limit and use the excess funds in a manner beneficial to taxpayers.
- Adopt a multiyear financial plan.

District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on an issue raised in the District's response letter.

### Background

The District serves the Towns of Stark, Columbia, Danube, German Flats, Little Falls and Warren in Herkimer County, the Town of Minden in Montgomery County and the Town of Springfield in Otsego County. The District is governed by an elected five-member Board.

The Superintendent of Schools (Superintendent) is responsible, along with other administrative staff, for managing day-to-day operations under the Board's direction. The Business Manager is responsible for the administration and supervision of financial activities, including working with the Superintendent to develop and administer the budget. During our previous audit of the District, we identified surplus fund balance totaling approximately five times the statutory limit. Refer to *Van Hornesville-Owen D. Young Central School District – Financial Condition (2016M-63)*, issued in July 2016. Officials failed to implement our recommendation to ensure that the amount of surplus fund balance complied with the statutory limit.

#### Quick Facts

2019-20 Appropriations	\$5.9 million
2018-19 Expenditures	\$5.2 million
Employees	40
Enrollment	190

### Audit Period

July 1, 2018 – February 29, 2020. We extended our audit period back to July 1, 2016 to review fund balance and budgeting practices for trend analysis.

# Financial Condition and Budgeting

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## What Is Effective Financial Management?

To effectively manage financial condition, a board should adopt accurate 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 district officials must estimate the amounts a district will spend and receive, the amount of fund balance that may be available at year-end to use toward the next year's budget 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 a specified amount of fund balance (the difference between revenues and expenditures accumulated over time) for cash flow needs or unexpected expenditures. New York State Real Property Tax Law<sup>1</sup> 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.<sup>2</sup> Any surplus fund balance exceeding this percentage must be used to reduce the upcoming fiscal year's tax levy or to fund needed reserves.

When fund balance is appropriated in the budget, there is an expectation of a planned operating deficit (expenditures exceeding revenues) in the amount of the appropriated fund balance. This allows a district to use excess fund balance accumulated in prior years to fund current operations. Sound budgeting practices provide that adopted annual budgets should not routinely appropriate fund balance that will not actually be needed.

Multiyear financial planning enables district officials to identify revenue and expenditure trends, establish long-term priorities and goals, consider the impact of near-term budgeting decisions on future fiscal years, and assess the merits of alternative approaches (such as using surplus funds or establishing and using reserves) to finance operations. Any multiyear (long-term) financial plan should be periodically reviewed and updated to provide a reliable framework for preparing budgets and ensure that information used to guide decisions is current and accurate.

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Sound budgeting practices provide that adopted annual budgets should not routinely appropriate fund balance that will not actually be needed.

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1 New York 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. Refer to our accounting bulletin at <https://osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>.

## Officials Overestimated Appropriations and Appropriated Unneeded Fund Balance

We compared appropriations and estimated revenues in the adopted general fund budgets with actual revenues and expenditures for 2016-17 through 2018-19 and found that revenue estimates were generally reasonable. However, District officials overestimated appropriations, spending about \$1.4 million (8.6 percent) less than budgeted (Figure 1).

**Figure 1: General Fund Budget-to-Actual Comparison**

	2016-17	2017-18	2018-19	Totals
<b>Appropriations</b>	\$5,291,140	\$5,296,685	\$5,884,409	\$16,472,234
<b>Actual Expenditures<sup>a</sup></b>	\$4,707,980	\$5,147,617	\$5,187,343	\$15,042,940
<b>Amount Overestimated</b>	<b>\$583,160</b>	<b>\$149,068</b>	<b>\$697,066</b>	<b>\$1,429,294</b>
<b>Percentage</b>	<b>11.0%</b>	<b>2.8%</b>	<b>11.8%</b>	<b>8.6%</b>
<b>Operating Surplus<sup>b</sup></b>	<b>\$323,822</b>	<b>\$20,787</b>	<b>\$190,810</b>	<b>\$535,419</b>

a In 2017-18, officials made a one-time \$500,000 unbudgeted expenditure to pay bond anticipation note principal on a capital project. Without this expenditure, the budget variance would have been \$649,068 (12.3 percent) and the operating surplus would have been \$520,787 that year.

b Operating Surplus = Actual Revenues less Actual Expenditures

Some of the more significant average variances between budgeted and actual expenditures for the three-year period were in the following budget line items:

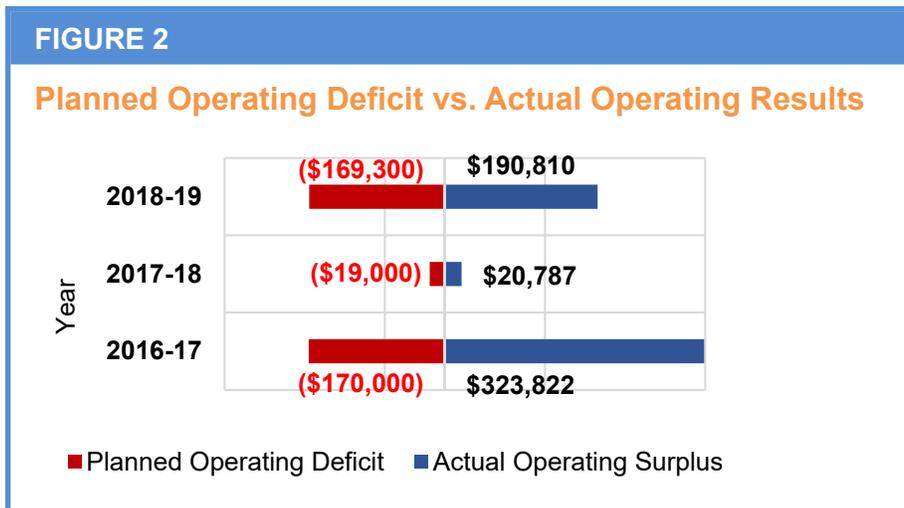
- Regular School Board of Cooperative Educational Services – overestimated by \$720,194 or 37 percent for an average of approximately \$240,000 each year. The Superintendent told us the District prefers to overestimate this type of expenditure in the event the District receives additional special education students during the school year.
- Contracted Transportation – overestimated by \$57,506 or 28 percent for an average of approximately \$19,000 each year. The District prefers to budget more than needed in the event there's an increase in additional bus runs due to sports or other non-school activities.
- Fuel Costs for Transportation – overestimated by \$99,600 or 52 percent for an average of approximately \$33,000 each year. The Business Manager told us they budget a greater amount in the event fuel prices change due to unforeseen economic conditions. However, given the significant average budget variance, the District's budget estimates do not appear reasonable.
- Health Insurance – overestimated by \$473,807 or 20 percent for an average of approximately \$158,000 each year. The District currently participates in a health insurance consortium, which has a minimum 100 employee requirement to participate. Since 2015-16, the District has not

met the minimum number of employees. Officials were concerned that the consortium would not allow the District to participate because it did not meet the requirement to participate. If this happens the District would be forced into the open market to obtain health insurance for employees.

Consequently officials were annually anticipating a change to the health insurance provider and felt the necessity to budget a greater amount in anticipation of the increased cost. However, over the past four years the District continued to participate in the consortium. Given this, the District should re-evaluate its budget estimates for health insurance.

In addition, in 2016-17 and 2017-18, District officials budgeted a total \$166,708 for interest on bond anticipation notes (BANs) but only expended \$58,923 for a variance of \$129,631 (78 percent). Although the District had a debt payoff schedule that detailed the amount needed to repay these BANs each year, officials budgeted more appropriations than actually needed.

During the same three-year period the District appropriated a combined total of \$358,300 in fund balance, which should have resulted in operating deficits in that amount. However, because officials overestimated appropriations, the District actually generated total combined operating surpluses of approximately \$535,400 during the same period (Figure 2). Also, the operating surplus in 2017-18 would have been much greater had the District not made an unbudgeted expenditure of \$500,000 to pay off BAN principal related to a capital project.



While we commend District officials for paying off this debt earlier than planned, had this payment not been made, this budgeting practice would have resulted in an operating surplus of approximately \$520,787 in 2017-18 instead of \$20,787.

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Based on our review of the 2019-20 budget, the Board and District officials continued their past budgeting practices of overestimating appropriations. As a result, the District did not need to use any of the \$190,000 of fund balance appropriated to finance the budget.

Our audit fieldwork was completed during the COVID-19 pandemic (pandemic). Although the pandemic caused substantial changes to the District's programs and operations starting in March 2020, the District's 2019-20 year-end results showed the District had another operating surplus and did not need to use any of the fund balance appropriated to fund operations.

The practice of overestimating appropriations each year and annually appropriating fund balance that is not needed to finance operations contributed to the District maintaining surplus fund balance in excess of the statutory limit during our audit period and has resulted in a higher tax levy than needed.

### **Surplus Fund Balance Exceeded the Statutory Limit**

During our previous audit of the District, we identified surplus fund balance totaling approximately five times the statutory limit.<sup>3</sup> At that time, we advised the Board that, although it adopted a policy stating it is no longer necessary for the District to maintain its fund balance within legal limits, there is no legal authority to exceed these limits. In our prior audit report, we recommended that the Board adopt realistic budgets that reflect actual needs based on realistic revenue and appropriation estimates, and develop a plan to reduce the amount of surplus fund balance in compliance with legal limits in a manner that benefits District taxpayers.

Although the Board revised its policy, surplus fund balance continued to exceed the statutory limit during our audit period. On average from 2016-17 through 2018-19, the District reported year-end surplus fund balance that was about 30 percent of the next year's budget, or more than seven times the limit. As of June 30, 2019, the District's reported surplus fund balance totaled approximately \$1.7 million, which was about 29 percent of the 2019-20 appropriations, exceeding the statutory limit by approximately \$1.5 million or six times the statutory limit.

Furthermore, the practice of appropriating fund balance each year that is not needed to finance operations is, in effect, a reservation of fund balance that is not provided for by statute and that circumvents the statutory limit on surplus fund balance.

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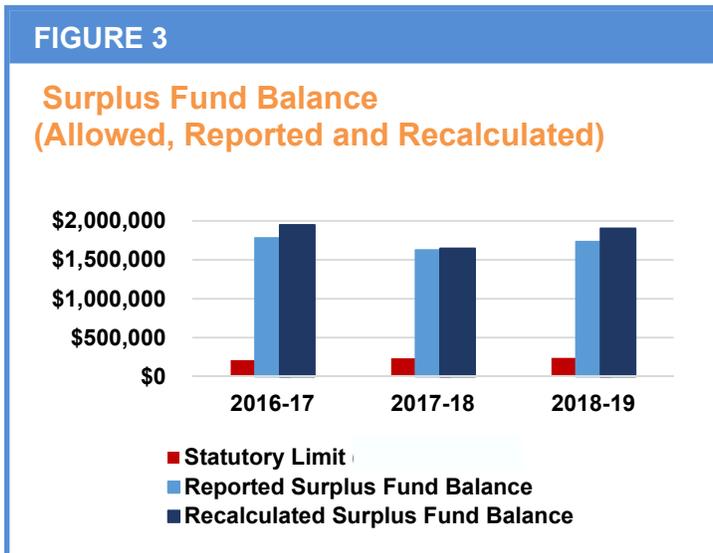
...[O]verestimating  
appropriations  
each year  
and annually  
appropriating  
fund balance...  
not needed to  
finance operations  
contributed to...  
surplus fund  
balance in excess  
of the statutory  
limit...

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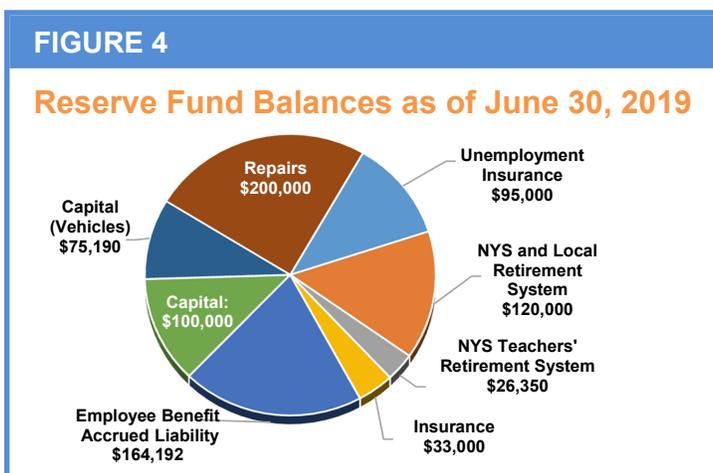
<sup>3</sup> Refer to *Van Hornesville-Owen D. Young Central School District – Financial Condition (2016M-63)*, issued in July 2016.

For perspective, when we added the unused appropriated fund balance amounts back to surplus fund balance, the District's recalculated surplus fund balance for the three-year period averaged about 32 percent of the next year's budget, or \$1.6 million above the legal limit (Figure 3).



While there is no legal provision that allows the District to maintain surplus fund balance above the statutory limit, the Board may accumulate funds in properly established reserves that provide a mechanism for saving money for specific future purposes. In uncertain economic times, reserve funds can also provide the Board with various budgetary options that can help mitigate the need to cut services or to raise taxes.

At the end of 2018-19, the District reported eight general fund reserves with balances totaling nearly \$814,000 (Figure 4).



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According to the District's reserve funds plan for 2019-20, reserves were fully funded to meet the District's needs as of the June 30, 2019.

By fully funding reserves and maintaining excessive surplus funds beyond the District's operational needs, District officials have withheld funds from productive use which resulted in real property tax levies that are higher than necessary. From 2016-17 through 2019-20, the Board increased the real property tax levy by a total of approximately \$68,000, or 3.9 percent.

### **The Board Did Not Adopt a Multiyear Financial Plan**

It is important for District officials to develop a comprehensive written multiyear financial plan that projects operating and capital needs and financing sources over a three- to five-year period. According to the Board president and Superintendent, the Board often discusses ways to reduce the District's excessive fund balance. However, they have not taken formal action to adopt a written plan.

Multiyear planning allows officials to identify emerging revenue and expenditure trends, set long-term priorities and goals and avoid large fluctuations in tax rates. In addition, multiyear plans allow officials to assess the effect and merits of alternative approaches to address financial issues such as the use of surplus fund balance to finance operations and the accumulation of money in reserve funds.

Long-term financial plans work in conjunction with Board policies and procedures to provide guidance to employees on the District's financial priorities and goals. The failure to develop and adopt an adequate multiyear plan limits the District's ability to effectively manage its finances.

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

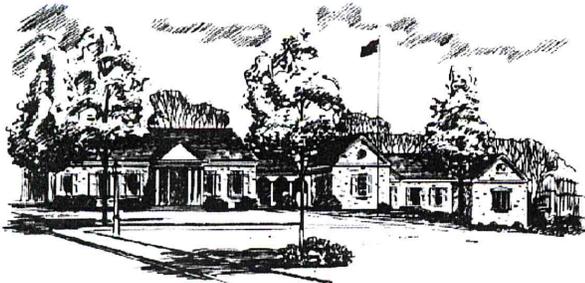
The Board and District officials should:

1. Develop and adopt budgets that include realistic estimates for expenditures based on historical or known trends and only appropriate the amount of fund balance that will be needed and used to fund operations.
2. Develop a plan to reduce surplus fund balance to within legal limits in a manner that benefits District taxpayers. Such a plan could include:
  - Funding one-time expenditures such as capital improvements
  - Funding needed reserves
  - Paying off debt
  - Reducing District property taxes

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3. Develop a comprehensive written multiyear financial plan to establish long-term objectives for funding long-term needs, provide a framework for future budgets and to guide the management of financial condition. This plan should be periodically reviewed and updated as appropriate.

# Appendix A: Response From District Officials

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November 30, 2020

Dear Ms. Wilcox;

The Owen D. Young Central School District is in receipt of the Draft Audit Report titled *Financial Management* for the period of July 1, 2016 through February 29, 2020, prepared by the office of the State Comptroller. During the course of this audit, the Comptroller's Office conducted a comprehensive examination of the District's financial practices. We are pleased that no fraud, waste or abuse was identified by this examination. On behalf of the Board of Education and the District administration, we would like to thank the Comptroller's staff for their professionalism and courtesy in conducting their duties associated with this audit.

See Note 1 Page 11
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The Board of Education and District administration strive to maintain the highest standard of fiscal management, balancing the needs of the instructional program with the community's desires, aspirations and ability to pay. The District has been able to maintain an average tax increase of only 0.97% over the four fiscal years audited.

The four budgeting areas cited in the report are all areas that are extremely difficult to predict. The Board and district officials feel that they were being fiscally responsible to the community in providing these estimates. At any time, an unforeseen circumstance could occur beyond the district's control and knowledge. As you may know BOCES Special Education programs can be relatively costly and for a school our size if one student moves into the district it could drastically affect our budget. So, the district does set a small percentage aside in the event this occurs to help offset these high costs. For fuel prices, at any time during a year fuel price could climb without warning. Contractual transportation costs are dependent on available runs for drivers along with any repairs that are needed on the school buses in a given year. The final budgeting area that we have been asked to take a closer look into is our health insurance line item. Also, due to our small size there is law that is currently being reviewed that would affect any

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employer under 100 employees to be removed any consortium. While our historic trends show a surplus, we have been fortunate to be able to remain in our health consortium, have no high costs students move into the district, and transportation operating healthy, while still maintaining low tax increases. However, the Board has agreed to take a closer look at the historical pricing and produce a tighter budget.

Also, we have received a recommendation to adopt a multi – year financial plan. As the Board and District Administrative have a fluid verbal communication it has been recommended to have a written plan in place in order to help guide the management of funds into future years.

Upon further review and analysis, we shall develop a corrective action plan, which shall document how we intend to use the report to positively improve our operations, while taking into consideration the ever-increasing constraints that school districts face.

Thank you once again for your valuable feedback concerning our district’s finances.

Sincerely,

^Brennan Fahey  
District Superintendent

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

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## Note 1

As indicated in Appendix C, we conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we adequately plan our audit, which was limited to the District's financial condition management. We did not audit other operational areas outside of the District's budgeting practices and management of financial condition. Therefore, the audit report draws no conclusions on any areas that were outside the scope of our audit and cannot be interpreted as such.

## 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 and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and reviewed Board minutes, policies, plans, budgets and financial records to gain an understanding of the District's financial management processes.
- We compared the general fund's total estimated revenues and budgeted appropriations with actual revenues and expenditures for 2016-17 through 2018-19 and followed up with District officials on significant budget variances.
- We analyzed the trend in fund balance for 2016-17 through 2018-19. We compared the budgeted appropriated fund balance to operating results to determine how much appropriated fund balance was used.
- We recalculated surplus fund balance as a percentage of the next year's appropriations to determine whether it was within the statutory limit from 2016-17 through 2018-19.
- We interviewed District officials and reviewed the Board minutes and the District's reserve fund plan for information on the establishment, ideal funding levels and planned use of reserves. We reviewed general fund budgets to identify any provisions for funding or using reserves and reviewed the balances in the reserve funds as of June 30, 2019 to determine whether the balances were reasonable.
- We reviewed Board minutes and resolutions, accounting records, audited financial statements, applicable statutes and activity within the reserves to determine whether reserves were properly funded and used.
- We interviewed District officials to determine whether they adopted a multiyear financial plan, both for operational and capital purposes.

We conducted this performance audit in accordance with generally accepted government auditing standards (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.

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.

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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 D: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional\\_directory.pdf](http://www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf)

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

[www.osc.state.ny.us/local-government/publications?title=&body\\_value=&field\\_topics\\_target\\_id=263196&issued=All](http://www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All)

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

[www.osc.state.ny.us/local-government/fiscal-monitoring](http://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?title=&body\\_value=&field\\_topics\\_target\\_id=263206&issued=All](http://www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263206&issued=All)

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

[www.osc.state.ny.us/local-government/resources/planning-resources](http://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/sites/default/files/local-government/documents/pdf/2020-05/cyber-security-guide.pdf](http://www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/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](http://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?title=&body\\_value=&field\\_topics\\_target\\_id=263211&issued=All](http://www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All)

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

[www.osc.state.ny.us/local-government/academy](http://www.osc.state.ny.us/local-government/academy)

## Contact

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

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