



Gilboa-Conesville Central School District

Fund Balance Management

2022M-175 | January 2023

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Report Highlights

Gilboa-Conesville Central School District

Audit Objective

Determine whether the Gilboa-Conesville Central School District (District) Board of Education (Board) and officials effectively managed fund balance.

Key Findings

The Board and District officials did not effectively manage the District's fund balance. As a result, they were not transparent with taxpayers and the District levied more taxes than needed to fund operations.

- The Board overestimated appropriations from fiscal years 2019-20 through 2021-22 by an average of \$585,636, or 6 percent and appropriated fund balance that was not used.
- Surplus fund balance exceeded the 4 percent statutory limit in each of the last three fiscal years by 3.1 to 12.8 percentage points.
- Reserves totaling \$2.4 million could cover expenditures for retirement contributions for at least nine years, workers' compensation for 10 years and unemployment for 31 years.

Key Recommendations

- Adopt realistic budgets and appropriate fund balance only when needed to fund operations.
- Reduce surplus fund balance to comply with the statutory limit in a manner beneficial to taxpayers.
- Adopt a written reserve policy that establishes optimal or targeted funding levels.

District officials agreed with our recommendations and indicated they will initiate corrective action.

Background

The District serves the Town of Roxbury in Delaware County, the Towns of Ashland, Lexington and Prattsville in Greene County and the Towns of Blenheim, Broome, Conesville, Fulton and Gilboa in Schoharie County.

The District is governed by an elected five-member Board 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 for the District's day-to-day management under the Board's direction.

The Board, Superintendent and District Treasurer are responsible for developing the annual budget.

Quick Facts

2022-23 Appropriations	\$11.2 million
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2022-23 Real Property Tax Levy	\$6.9 million
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Enrollment	280
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Employees	127
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Audit Period

July 1, 2019 – August 31, 2022

Fund Balance Management

How Should School District Officials Effectively Manage Fund Balance?

To effectively manage a school district's fund balance, the difference between revenues and expenditures accumulated over time, a school board should adopt realistic and structurally balanced budgets. Budgets should be based on historical data or known trends in which recurring revenues finance recurring expenditures. Reasonable budget estimates should be used to help ensure the tax levy is not greater than necessary and the budget is transparently presented to the public. When fund balance is appropriated in the budget to finance operations, a school district is budgeting for a planned operating deficit (expenditures exceeding revenues) equal to the amount of fund balance appropriated.

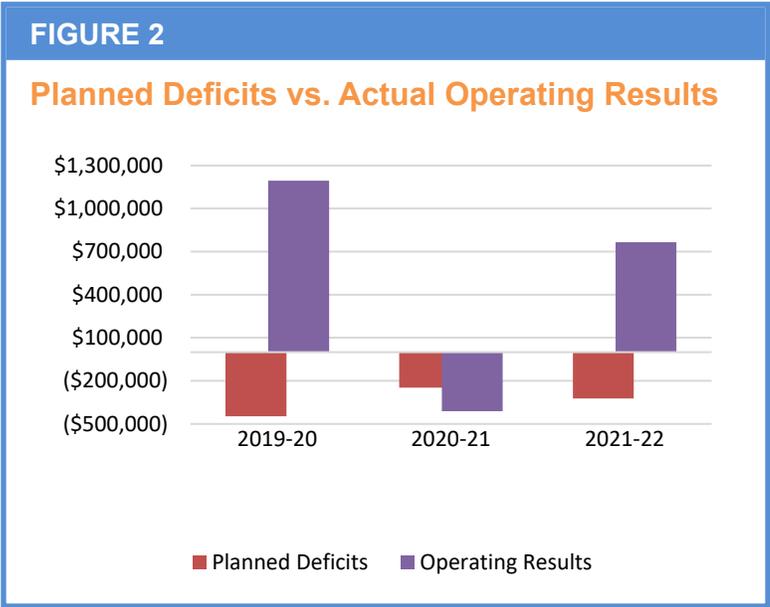
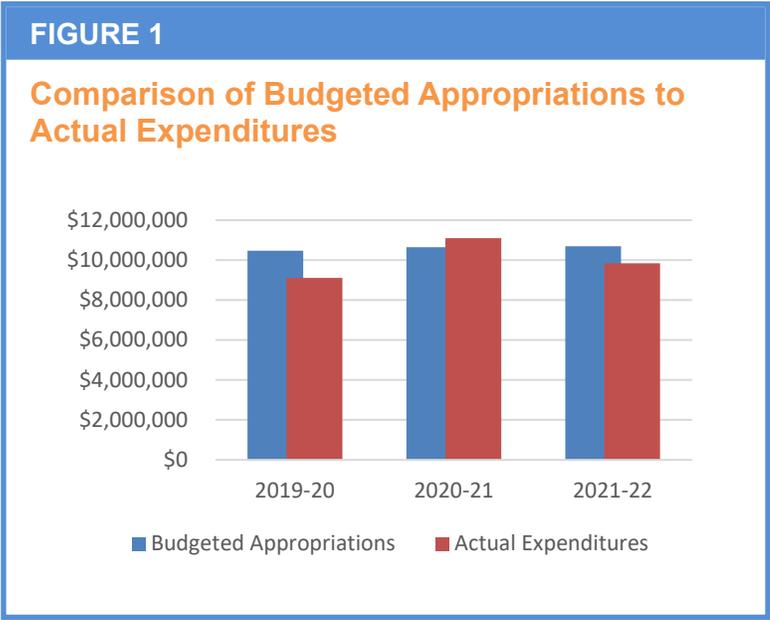
School district officials may retain a portion of surplus fund balance¹ for unexpected occurrences and fluctuations in cash flow. However, officials must comply with New York State Real Property Tax Law Section 1318 which limits the amount of surplus fund balance that a school district can retain to no more than four percent of the next year's budgeted appropriations. Officials must use any funds that exceed the four percent surplus fund balance limit to reduce the next year's real property tax levy or fund needed reserves.

School district officials can legally set aside, or reserve, portions of fund balance to finance future costs for specific purposes (e.g., capital projects or retirement expenditures). School boards should develop a formal written policy for reserves that includes the rationale for establishing the reserve, optimal or targeted funding levels and conditions under which the reserves will be used. School boards should also periodically analyze the reasonableness of the reserves' balances. Combining a reasonable level of surplus fund balance with specific legally established reserves provides both for unanticipated events and for other identified or planned needs to help ensure that tax levies are not greater than necessary.

The Board Overestimated Appropriations

We compared the estimated revenues and budgeted appropriations with actual operating results between fiscal years 2019-20 and 2021-22 and determined estimated revenues were generally reasonable, but budgeted appropriations were overestimated by an average of \$585,636 per year, or 6 percent (Figure 1 and 2).

¹ 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://www.osc.state.ny.us/files/local-government/publications/pdf/gasb54.pdf>.



In aggregate, these variances contributed to an increase in surplus fund balance between fiscal years 2019-20 and 2021-22. There were three expenditure accounts with variances over \$100,000 in two of the last three years:

- Health insurance premiums were overestimated by an average of \$223,517 (10 percent), with variances ranging from \$139,727 to \$307,307.
- Extra bus routes were overestimated by an average of \$164,015 (80 percent), with variances ranging from \$155,814 to \$172,216.

- Elementary school teacher salaries were overestimated by an average of \$128,803 (28 percent), with variances ranging from \$111,064 to \$146,543.

The Superintendent, Treasurer and Board President acknowledged they budget for health insurance premiums with all employees having family plans which are more expensive than individual plans even though new employees have not always been signing up for the family plans. Additionally, they told us that due to the COVID-19 pandemic, the extra bus routes were not needed because students were at home and field trips decreased. Finally, the teacher salaries variances were due to vacant positions that they have been unable to fill.

Because the Board and officials overestimated appropriations, it appeared that more revenue and financing sources (fund balance) were needed to maintain a structurally balanced budget and address budgeted operating deficits, despite historical trends showing otherwise. Had the Board and officials used historical trend analyses and previous years' actual results of operations to develop their budget estimates, they would have likely estimated more accurately and been more transparent with the public.

The Board Appropriated Unnecessary Fund Balance and Exceeded the Statutory Limit for Surplus Fund Balance

The Board, over the last three fiscal years, adopted budgets that appropriated a total of \$770,777 fund balance to account for planned operating deficits. However, operating surpluses totaling \$1.9 million were experienced for two of the last three fiscal years (Figure 2). The District's bus garage burned down in October 2020, which caused the operating deficit that fiscal year. Otherwise, the District would have incurred an operating surplus all three fiscal years.

The District reported surplus fund balance that exceeded the 4 percent statutory limit in each of the last three fiscal years (Figure 3).

Figure 3: Recalculated Surplus Fund Balance

Fiscal Year	2019-20	2020-21	2021-22
Surplus Fund Balance Reported at Fiscal Year-End	\$1,791,211	\$762,627	\$1,578,250
Add: Unused Appropriated Fund Balance	\$0	\$222,660	\$162,517
Recalculated Fund Balance	\$1,791,211	\$985,287	\$1,740,767
As a Percentage of Next Year's Budgeted Appropriations			
Reported by Officials	16.8%	7.1%	14.0%
Recalculated by OSC	16.8%	9.2%	15.5%
Legal Limit	4.0%	4.0%	4.0%

Based on year-to-date revenues and expenditures as of August 31, 2022 and historical revenues and expenditures, we project an operating surplus for the 2022-23 fiscal year. Therefore, we project that none of the \$162,517 of appropriated fund balance for that fiscal year will be used. The Treasurer agreed with our projection of an operating surplus. Therefore, as of June 30, 2022, the District's recalculated surplus fund balance was 15.5 percent exceeding the 4 percent limit by 11.5 percentage points (Figure 3).

The Superintendent, Treasurer and Board President told us that they would be meeting to determine how they intended to reduce the fund balance. However, annually appropriating fund balance that is not needed to finance operations is, in effect, a reservation of fund balance that is not provided by statute and circumvents the statutory limit imposed on the level of surplus fund balance. Consistently including appropriated fund balance in the annual budgets that is not needed does not afford a transparent budget process for taxpayers. Additionally, maintaining surplus fund balance that exceeds the statutory limit results in real property tax levies being higher than necessary.

Certain Reserves Were Not Reasonably Funded

We analyzed the 10 reserves reported in the general fund totaling \$5.3 million for reasonableness as of June 30, 2022. We compared the balance of each reserve to the three-year historical expenditures related to the purpose of the reserve. We determined that the capital, insurance, liability claims, property loss, repair and retirement contributions for teachers reserves were reasonably funded. However, the other four reserves were not reasonably funded and/or have not been recently used as follows:

Retirement Contributions for Employees Reserve – The \$1.3 million in this reserve is sufficient to cover at least nine years of New York State Employee Retirement System expenditures, which averaged \$135,335 over the last three years. This reserve was not used to pay for associated expenditures for the last three years.

Employee Benefit Accrued Liability Reserve – The \$428,445 balance in this reserve exceeds the amount to cover the compensated absences balance of \$378,000 by \$50,241. While this reserve has been used for two of the last three years to pay for associated expenditures, the balance still exceeds the total liability.

Workers' Compensation Reserve – The \$486,621 in this reserve is sufficient to cover at least 10 years of workers' compensation expenditures, which averaged \$47,713 over the last three years. This reserve was not used to pay for associated expenditures for the last three years.

Unemployment Reserve – The \$256,435 in this reserve is sufficient to cover at least 31 years of unemployment expenditures which averaged \$8,214 over the last three years. The reserve balance has increased \$13,000 while the reserve was used once in the last three years to pay for associated expenditures.

District officials did not always use funds from these reserves because they were able to pay for these related expenditures from the operating budget while still generating operating surpluses for two of the last three fiscal years. The Board did not adopt a written reserve policy providing the rationale for the reserved money, optimal or targeting funding levels and conditions under which the reserves will be used. Additionally, the Board did not periodically analyze the reasonableness of the balances in the reserves. The Superintendent, Treasurer and Board President told us that they would be reviewing the reserves to determine whether adjustments would be made to the reserve balances.

Although it is prudent to plan and save for unforeseen circumstances, overfunding and/or not using reserves for their intended purpose results in real property taxes being higher than necessary because the funds are not being used to fund related expenditures.

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 that will be used to fund operations.
2. Discontinue the practice of appropriating fund balance that is not needed or used to finance operations.
3. Develop a plan to reduce surplus fund balance in a manner that benefits District taxpayers. Surplus funds can be used for funding one-time expenditures such as capital improvements, funding needed reserves, paying off debt or reducing District real property taxes.
4. Review reserve fund balances and develop a plan to reduce balances to reasonable levels or use them to fund operations in accordance with applicable statutes.
5. Adopt a written reserve policy that establishes optimal or targeting funding levels and conditions under which each reserve will be used or replenished.

Appendix A: Response From District Officials



Gilboa-Conesville Central School

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Jack Etter, Superintendent
Shawn Davis, Principal

11/27/2022

Ann C. Singer, Chief of Municipal Audits
State Office Building
Suite 1702 • 44 Hawley Street • Binghamton, New York 13901-4417

cc: Michael Fleischman, President of the Board of Education
Karl Gockel, Member Board of Education
Heather Cunningham, Treasurer

Dear Chief Singer,

The Gilboa Conesville Central School District has the draft audit report prepared by the Office of the State Comptroller. I want to thank the team from your office that came to our district. They could not have been more professional at guiding our business office, my office, and the Board of Education through this process. The information presented in the audit aligned with the conversation we had with your team after the audit was complete and we are anxious to work on our corrective plan once we get the go ahead from your office. Below is our response to your suggestions both in the report as well as in the section “Key Recommendations” or “What Do We Recommend.”

We are committed to work toward the goals outlined in the report. Our first goal is to reexamine our budget process and see where we can improve to get a budget that matches closer to our actual expenses. One area we are struggling with is budgeting for staff positions we have open, both teaching and non-teaching, that we cannot fill. We will look at our hiring practices historically and see where we can adjust have a more accurate budget projection.

In addition, we are committed to reducing our surplus fund balance to comply with the statutory limit that is beneficial to our taxpayers. We are currently looking at our long-term projects that are critical including repaving of all parking and driveway sites, especially those disrupted during our recent bus garage rebuild. We have completed the bus garage as well as a major upgrade to our existing septic field, both projects ending I the 2022-2023 school year. We are also in need of upgrading our septic holding tanks as well as major upgrade is needed for our fire alarm system in the school. Finally, as you know, all districts have started looking at electric buses as the state is requiring us to move forward with this transition.

Finally, we are going to be working with our new school law firm as well as with our accounting firm to review, change as needed, and adopt our written reserve policies and will work towards optimal funding levels as suggested by your audit.



Gilboa-Conesville Central School

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Jack Etter, Superintendent
Shawn Davis, Principal

Once we have the permission to move forward we will begin working on our Corrective Action Plan as outlined in your guidelines. This plan will align to your outline as well as embody our Mission Statement and Goals. On behalf of our District, I appreciate the work and insight your team imparted to us and we are ready to get started.

✓ Jack Etter
Superintendent
Gilboa-Conesville Central School District
132 Wyckoff Road, Gilboa, New York, 12076

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 planning and budgeting procedures.
- We compared estimated revenues to actual revenues and budgeted appropriations to actual expenditures for fiscal years 2019-20 through 2021-22 to analyze budget reasonableness. For appropriations, we analyzed expenditure accounts with budget variances equal to or exceeding \$100,000.
- We calculated the results of operations for fiscal years 2019-20 through 2021-22 to determine whether there was an operating surplus or operating deficit and whether appropriated fund balance was used.
- We analyzed the District's fund balance for fiscal years 2019-20 through 2021-22 to identify trends. We calculated surplus fund balance as a percentage of the next year's budgeted appropriations to determine whether it was within the statutory limit. We recalculated surplus fund balance as a percentage of the next year's budgeted appropriations after adding back unused appropriated fund balance.
- We used the last three-year averages to project revenues, expenditures and results of operations for the end of the 2022-23 fiscal year as of August 31, 2022. We used those results to project whether the District would have an operating surplus or an operating deficit and whether appropriated fund balance would be used.
- We analyzed reserve balances as of June 30, 2022 and usage from fiscal years 2019-20 through 2021-22 to determine whether they were reasonably funded according to historical expenditures and anticipated uses.

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.

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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