

Half Hollow Hills Community Library

Fund Balance

NOVEMBER 2018



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

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Report Highlights

Half Hollow Hills Community Library

Audit Objective

Determine if the Board of Trustees (Board) effectively manages the Library's fund balance.

Key Findings

- The Library's fund balance policy does not address the maintenance of surplus fund balance, how the Board expects to use surplus funds and the timeframe for doing so.
- As of 2016-17 fiscal year-end, the level of unrestricted fund balance retained by the Library was \$4.7 million or 72 percent of operating expenditures, and the Library has no plan for the use of these surplus funds.

Key Recommendations

- Amend the Library's policy to address the maintenance of surplus funds, how they will be used and the timeframe for doing so.
- Develop a plan to use unexpended surplus funds in a manner that benefits the Library's taxpayers.

Library officials disagreed with certain aspects of our findings and recommendations. Appendix B includes our comments on issues raised in the Library's response letter.

Background

The Half Hollow Hills Community Library (Library) is a school district public library. The Library was established in 1964 and operates two buildings. The Library has approximately 122 employees and serves a total population of approximately 48,500 residents from the Towns of Huntington and Babylon in Suffolk County.

The Board is responsible for the general management and control of the Library's financial affairs. The Library Director is responsible for the Library's day-to-day management.

Quick Facts

Population	48,558
Employees	122
2016-17 Actual Expenditures	\$6.5 million
2017-18 Adopted Budgeted Appropriations	\$7.7 million
Unassigned Fund Balance at June 30, 2017	\$3.3 million

Audit Period

July 1, 2012 – November 30, 2017

Fund Balance

How Can the Board Manage Fund Balance?

Fund balance is the difference between revenues and expenditures accumulated over time. When a local government ends its fiscal year with an operating surplus, fund balance continues to accumulate. Fund balance is classified into several categories: non-spendable, restricted and unrestricted (comprising committed, assigned and unassigned funds). Unrestricted funds can be set aside for particular purposes, as a cushion for unforeseen circumstances or appropriated in the budget to reduce taxes. Committed funds are set aside for an identified purpose by a formal Board action before year-end and require the same level of formal action to remove the constraint.

The board should assess what would be considered a prudent or reasonable amount of fund balance to retain and create a policy outlining this determination. Such a policy should include: the specific purposes for each category¹ of fund balance accumulated; a specific amount or range of amounts for each category; the rationale to support the amount set aside in each category; and the conditions under which the funds will be used including the timeframe. In the absence of specific policies, the Board resolution setting aside the funds should communicate the purpose for each category of fund balance and a timeframe for how and when they plan to use funds in each category. The adoption of a fund balance policy to address how money should be managed and used will help ensure there is sufficient funding for necessary operations and that the real property tax levy is not greater than necessary.

The Board Has Not Communicated the Purpose or the Timeframe for How and When to Use Unrestricted Fund Balance

The Board adopted a fund balance policy in June 2011, which requires the Library to maintain unassigned fund balance at a minimum of 20 percent of general fund operating expenditures to guard against temporary revenue shortfalls or unpredicted expenditures. The policy also requires the Library to establish a plan to replenish unassigned fund balance should it fall below the minimum. However, the policy does not set a maximum for unassigned fund balance and does not address the other categories of fund balance reported by the Library, such as assigned or committed funds.

The Library classifies a portion of its fund balance as restricted funds, but the majority of fund balance is retained as unrestricted, most of which is unassigned.

¹ The fund balance classified as committed according to the Library's financial statements are still available for any Library purpose at the Board's discretion.

Figure 1: General Fund - Fund Balance Composition

	2012-13	2013-14	2014-15	2015-16	2016-17
Total at Fiscal Year-End	\$3,857,754	\$4,257,561	\$4,825,248	\$4,069,615	\$4,867,856
Restricted:					
Non-Spendable	\$183,906	\$115,742	\$100,582	\$172,872	\$169,309
Unrestricted: Assigned	\$124,500	\$31,500	\$53,500	\$53,500	\$55,000
Unrestricted: Committed	\$0	\$138,000	\$376,000	\$614,000	\$1,352,000
Unrestricted: Unassigned	\$3,549,348	\$3,972,319	\$4,295,166	\$3,229,243	\$3,291,547
Unassigned Fund Balance as a Percentage of Operating Expenditures	53%	58%	65%	51%	51%

Assigned Fund Balance – The Library appropriated a portion of its fund balance in each of the last five fiscal years, totaling \$318,000, to reduce the tax levy. However, due to operating surpluses in each of those years, the Library did not use any of the appropriated amount. In the current fiscal year, the Library is projecting it will not use the \$55,000 of appropriated fund balance, due to a projected surplus. In the 2018-19 adopted budget the Library did not appropriate fund balance.

Committed Fund Balance – From 2012-13 through 2016-17, the Library has committed \$1.35 million of its unassigned fund balance to address long-term liabilities, such as other post-employment benefits (OPEB), net pension liability and compensated absences.

- OPEB – OPEB are employee benefits, other than pensions, provided to retirees such as life or health insurance. Local governments are not required to fund their OPEB liability. However, they can designate (commit) a portion of unassigned fund balance for OPEB purposes and explain the designation in their financial statements. Starting in fiscal-year 2013-14 and each year thereafter, the Board has included appropriations in the budgets totaling \$852,000 with the intention of committing the funds for future OPEB expenditures. As of June 30, 2017 the Board has committed a total of \$852,000 indicating OPEB as the intended purpose of the funds. However, the Board has not communicated the rationale for the amount set aside or a timeframe for how and when they plan to use the funds. Further, the budget for the current fiscal year 2017-18 and the adopted 2018-19 budget both include a \$238,000 appropriation for additional OPEB commitments. If the Board commits these funds as planned, by June 30, 2019 they will have committed over \$1.3 million to the OPEB liability, without a plan to use it.

-
- Net Pension Liability – The Governmental Accounting Standards Board² requires employers whose financial statements are prepared on a modified accrual basis to report their proportionate share of the NYSLRS³ net pension liability. At June 30, 2017, the Library reported a liability of \$854,102 for its proportionate share of net pension liability. In November 2016, the Board committed \$400,000 of excess unassigned fund balance indicating net pension liability as the intended purpose of these committed funds. However, the resolution only specifies the purpose and dollar amount and does not specify the timeframe for how and when it plans to use the funds.
 - Compensated Absences Payable – Upon separation from Library employment, employees may be entitled to cash payments for unused and unpaid sick leave, personal leave, holiday leave and vacation time. Libraries are not required to fund the liability for compensated absences, but they are required to calculate this liability and to report it in their annual financial statements. As of June 30, 2017, the Library reported an accumulated liability totaling \$503,071 for compensated absences. In November 2016, the Board committed \$100,000 of excess unassigned fund balance indicating compensated absences as the intended purpose of these committed funds. However, the resolution only specifies the purpose and dollar amount but does not specify the timeframe for how and when it would use the funds.

The Library's excess surplus funds are being committed without a plan in place to actually use them. Moreover, long-term liabilities for OPEB and the net pension liability do not require funding on a current basis. The Library pays these expenditures from the general fund each year. In addition, commitments of these funds do not represent restricted funds. Therefore, these amounts remain a part of unrestricted fund balance. The Board has an obligation to expend money that it commits for designated purposes while retaining this money results in the accumulation of fund balance.

Several Trustees told us that they fund these long-term liabilities based on recommendations of the Library's external CPA firm and because some Trustees are concerned these liabilities could grow to unsustainable levels. They assume the Library will eventually spend the committed funds, but they could not specify how much they ultimately plan to set aside, when they plan to spend the funds or under what conditions they would spend them.

Unassigned Fund Balance – From 2012-13 through 2016-17, the Library maintained unassigned fund balance of over 50 percent of operating

² The Government Accounting Standards Board (GASB) is a private non-governmental organization that creates accounting reporting standards, or generally accepted accounting principles (GAAP), for State and local governments.

³ New York State and Local Retirement System

expenditures, and as high as 65 percent, without a rationale to support the amounts in excess of the policy minimum of 20 percent, or the conditions under which excess funds will be used including a timeframe for using them. As of June 30, 2017, the level of unassigned fund balance totals almost \$3.3 million, which represents 51 percent of the Library's operating expenditures, or 2.5 times the amount established by policy.

We asked several Trustees about the policy requiring a 20 percent of operating expenditures minimum unassigned fund balance, but none of them were familiar with the policy. None of the Trustees we spoke to felt the current levels were excessive. One Trustee considered an unassigned fund balance equivalent to about 6 months of operating expenditures to be reasonable, which represents what the Library currently has set aside. However, without a comprehensive policy or Board resolutions, the Board is not transparent about how much fund balance is appropriate, how much it intends to set aside and how it plans to address any excess. Moreover, a policy that requires the Library to maintain significant fund balance levels places an unnecessary burden on taxpayers.

The Board has failed to explain why a minimum unassigned fund balance of 20 percent of operating expenditures is necessary. Negative revenue or expenditure variances have not occurred at the Library and considering that committed fund balance can also be used for any purpose at the Board's discretion, total unrestricted fund balance at June 30, 2017 is over \$4.6 million or 72 percent of annual expenditures. Because the Board has no plan to use the funds in the future, we question the practice of budgeting to accumulate additional fund balance. In addition, because the Board has never expended the funds set aside for these purposes, we question whether the \$4.6 million fund balance is necessary and in the best interest of taxpayers.

What Do We Recommend?

The Board should:

1. Amend the Library's fund balance policy to address the maintenance of surplus fund balance, how much the Board expects to set aside in each category, how the Board expects to use funds in each category and the timeframe for doing so.
2. Consider amending the fund balance policy to make 20 percent the maximum to be set aside, not the minimum.

3. Develop a plan to use unexpended surplus funds in a manner that benefits the Library's taxpayers. Such uses could include, but are not limited to:

- Financing one-time expenditures,
- Funding needed reserves,
- Paying down debt, and
- Reducing property taxes.

Appendix A: Response From Library Officials



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October 25, 2018

Ira McCracken, Chief Examiner
Division of Local Government and School Accountability
Office of the State Comptroller
NYS Office Building 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788

RE: Half Hollow Hills Community Library
Fund Balance
Report of Examination
2018M-127

Dear Mr. McCracken:

Please consider this to be the “Reply” and “Corrective Action Plan” (CAP) submitted by the Half Hollow Hills Community Library (HHHCL) in response to the *Fund Balance, Draft Report of Examination 2018M-127* forwarded to the Library from your office.

With respect to the recommendations made by your office, the HHHCL Board of Trustees and Administration have met to discuss and agree upon the Library’s actions. Please see below for the Library’s responses to each of the recommendations included in the audit report.

Audit Recommendation 1:

The Board should amend the Library’s fund balance policy to address the maintenance of surplus fund balance, how much the Board expects to set aside in each category, how the Board expects to use funds in each category and the timeframe doing so.

Library Response 1:

The Library’s Board and Administration have been maintaining the fund balance in conjunction with the long-term planning of a new building construction project. The Library has conducted extensive community outreach and been very proactive in terms of informing residents of the Library’s intentions and the related cost. To reinforce this transparency, the Library will work on developing a course of action to disclose its full financials and related policies on the Library’s website.

Audit Recommendation 2:

The Board should consider amending the fund balance policy to make 20 percent the maximum to be set aside, not the minimum.

See Note 1 Page 9



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Library Response 2:

After careful consideration and review, the Library’s Board and Administration has determined it is more reasonable and prudent to continue to manage to a minimum fund balance policy versus establishing a maximum fund balance policy. The Library is committed to maintaining a reasonable fund balance, taking into account the Library’s specific financial requirements, and considering several factors including:

- Timing of cash flow requirements
- Current reserves
- Future debt obligations

Audit Recommendation 3:

The Board should develop a plan to use unexpended surplus funds in a manner that benefits the Library’s taxpayers. Such uses could include, but are not limited to:

- Financing one-time expenditures
- Funding needed reserves
- Paying down debt, and
- Reducing property taxes.

Library Response 3:

The Library has had a long-term project goal to build a new library at its Dix Hills location and renovate the existing library at Melville. This intention dates back to the year 2000 when two bond votes were held, and both failed (January and June 2000). As far back as FY 06/07, there has been a budget line item for “Transfer to Capital”. The amount in this line item has ranged from \$30,000 to \$350,000 in recent years. In October 2017, the Community passed a \$14.5 million bond which will help fund a planned \$19.2 million construction project; the remaining \$4.7 million will come from the Library’s capital reserves. Leading up to the bond vote, several public meetings on the proposal were held. During these meetings, it was communicated to residents that the amount of the bond was significantly lower than the project’s total cost, as a direct result of excess funds accumulated by the Library over the last several years. Furthermore, this plan was specifically mentioned in several newspaper articles including *Newsday* (7/31/17) and *Long-Islander News* (8/17/17).

Respectfully,

Helen Crosson
Library Director

cc: Half Hollow Hills Community Library Board of Trustees
Kevin Verbese, Director, Suffolk Cooperative Library System
Charlene Muhr, Assistant Director, HHHCL
Michele Peluso, Business Manager, HHHCL

See
Note 2
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Note 3
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Appendix B: OSC Comments to Library Officials' Response

Note 1

The Library's planned capital improvements include \$4.7 million in financing from the capital fund. As of the end of the audit period, November 30, 2017, the Library had accumulated \$5.2 million in the capital fund for this purpose, with another \$350,000 planned transfer from the general fund by the end of the fiscal year. Our recommendation is directed at the \$4.8 million fund balance in the general fund, not the additional \$5.2 million in the capital fund. The Board policy does not address how much it plans to set aside in each category of fund balance in the general fund, such as the assigned or committed funds or how and when it plans to use it.

Note 2

The Board has failed to explain why a minimum unassigned fund balance of 20 percent of operating expenditures is necessary, especially given that there have been no negative revenue or expenditure variances. Further, the level of unrestricted fund balance retained by the Library in the general fund is about \$4.7 million, or 72 percent of annual operating expenses, for which there is no planned use.

Note 3

In addition to the transfers to the capital fund that were included in the annual budgets, the Library transferred another \$3.5 million of excess surplus funds to the capital fund during the audit period that was not included in the annual budgets. Our recommendation is directed at the \$4.7 million unrestricted fund balance being maintained in the general fund not the \$5.2 million in the capital fund (capital reserve). The Board should develop a plan to use the excess funds in the general fund in a manner that benefits taxpayers rather than accumulate these funds with no plan to use it.

Appendix C: Audit Methodology and Standards

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

- We interviewed Library officials and reviewed the Library's policies, Board meeting minutes, and financial records to obtain an understanding of the budget process, the organization and financial position.
- We inquired with Library officials about the Library's financial condition, and if there were plans for funding or usage of surplus of funds, along with the timeframe for such usage.
- We analyzed operating results and changes in fund balances to determine if there are any discernible trends during the audit period and analyzed changes in the composition of fund balance.
- We examined committed fund balances to determine if the levels of funding were aligned with the respective liabilities.

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

A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report.

We encourage the Library Board of Trustees to make the CAP available for public review in the Office of the Library Director.

Appendix D: Resources and Services

Regional Office Directory

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

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

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

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

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

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

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

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

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

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

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

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

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

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

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