

# Bolton Central School District

## Fund Balance Management

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FEBRUARY 2019

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

# Contents

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- Report Highlights . . . . . 1**
  
- Fund Balance Management . . . . . 2**
  - What Is Effective Fund Balance Management? . . . . . 2
  - Unrestricted Fund Balance Exceeded the Statutory Limit . . . . . 3
  - The Board Overfunded Reserves . . . . . 5
  - What Do We Recommend? . . . . . 6
  
- Appendix A – Response From District Officials . . . . . 7**
  
- Appendix B – Audit Methodology and Standards . . . . . 9**
  
- Appendix C – Resources and Services . . . . . 11**

# Report Highlights

## Bolton Central School District

### Audit Objective

Determine whether District officials effectively managed general fund balance.

### Key Findings

- Unrestricted unappropriated fund balance at the end of 2017-18 was \$2.7 million or 29 percent of 2018-19 appropriations, exceeding the 4 percent statutory limit by almost 25 percentage points.
- Annual budgets overestimated appropriations by more than \$4.1 million or by almost 13 percent from 2015-16 through 2018-19.
- The unemployment insurance reserve was overfunded and the retirement contribution reserve was not being used as intended.

### Key Recommendations

- Adopt annual budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations based on historical trends or other relevant information.
- Reduce unrestricted fund balance to within the statutory limit and use surplus funds in a manner more beneficial to taxpayers.
- Review and reduce reserve balances to reasonable levels in accordance with applicable statutes.

District officials generally agreed with our recommendations and have initiated, or indicated they planned to initiate corrective action.

### Background

The Bolton Central School District (District) serves the Towns of Bolton, Hague and Horicon in Warren County.

The District is governed by a Board of Education (Board), which has seven elected members. The Board is responsible for the general management and control of financial and educational affairs. The Superintendent of Schools is responsible for the District's day-to-day management, budget development and administration, assisted by the Business Manager.

#### Quick Facts

Enrollment	194
Employees	82
2018-19 Appropriations	\$9.4 million

### Audit Period

July 1, 2015 – September 30, 2018

# Fund Balance Management

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## What Is Effective Fund Balance Management?

To effectively manage a district's fund balance, a board must adopt realistic and structurally balanced budgets based on historical trends or other known factors in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. A district may retain a portion of fund balance, referred to as unrestricted fund balance to provide a cushion against unforeseen events and to provide for fluctuations in cash flow.

District officials should ensure that unrestricted fund balance does not exceed the amount allowed by New York State Real Property Tax Law,<sup>1</sup> which is no more than 4 percent of the ensuing year's budgeted appropriations. At the time of adopting the annual real property tax warrant, any unrestricted fund balance over this percentage must be used to reduce the real property tax levy by appropriating fund balance to lower the unrestricted fund balance. At other times, a district can use excess fund balance for purposes such as paying for one-time expenditures, funding reserves and/or debt reduction.

When fund balance is appropriated to finance operations, a district is budgeting for a planned operating deficit equal to the amount of the appropriated fund balance. If the district instead experiences a surplus, the amount of appropriated fund balance was not actually used to finance operations. Similarly, if the district realizes a deficit that is less than the planned operating deficit, the amount of fund balance used to finance operations was less than the amount of fund balance appropriated.

Districts can establish reserves and accumulate reasonable funds for certain future purposes (e.g., unemployment insurance claims, retirement expenditures). District officials should plan for funding and using reserves by balancing the desire to accumulate funds for future needs with the obligation to make sure real property taxes are not higher than necessary, and that reserved funds are used for their intended purpose. Therefore, it is important that the Board adopt a written policy that states its rationale for establishing reserve funds, objectives for each reserve, maximum targeted funding levels and conditions under which reserves will be used or replenished.

Furthermore, district officials should include a schedule of all reserve funds in the annual budget document as required by New York State Education Law.<sup>2</sup> This schedule should include the name of each reserve fund, a description of its purpose, the balance as of the close of the third quarter of the current year, and a brief statement explaining any plans for the use of each reserve in the ensuing year.

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<sup>1</sup> New York State Real Property Tax Law, Section 1318

<sup>2</sup> NYS Education Law 1608 and 1716 require school districts to include a schedule of all reserve funds in the annual budget document.

## Unrestricted Fund Balance Exceeded the Statutory Limit

District officials need to improve budgeting practices to more effectively manage general fund balance. The District accumulated unrestricted fund balance of more than \$2.7 million as of June 30, 2018, or 29 percent of 2018-19 appropriations and exceeded the statutory limit by almost 25 percentage points. While District officials appropriated fund balance annually, none of the appropriated fund balance was actually used to finance operations from 2015-16 through 2017-18. Furthermore, for 2018-19, District officials appropriated \$750,000 of fund balance to finance operations. However, the District is projected to realize an operating surplus of approximately \$115,935 that year.

**Figure 1: Unrestricted Fund Balance at Year-End**

	2015-16	2016-17	2017-18	Projected 2018-19
<b>Beginning Fund Balance</b>	\$2,811,912	\$3,419,228	\$3,896,264	\$4,217,008
<b>Add: Operating Surplus</b>	\$607,316	\$477,036	\$320,744	\$115,935
<b>Year-End Fund Balance</b>	\$3,419,228	\$3,896,264	\$4,217,008	\$4,332,943
<b>Less: Restricted and Assigned Funds</b>	\$372,730	\$646,789	\$747,308	\$820,372
<b>Less: Appropriated Fund Balance for the Ensuing Year</b>	\$570,000	\$766,977	\$750,000	\$750,000
<b>Less: Transfer into Capital Fund</b>	\$0	\$0	\$0	\$1,275,000 <sup>a</sup>
<b>Total Unrestricted Unappropriated Funds at Year-End</b>	\$2,476,798	\$2,482,498	\$2,719,700	\$1,487,571
<b>Ensuing Year's Budgeted Appropriations</b>	\$8,976,112	\$9,239,998	\$9,423,401	\$9,380,905 <sup>b</sup>
<b>Unrestricted Funds as Percentage of the Ensuing Year's Budget</b>	27.6%	26.9%	28.9%	15.9%

<sup>a</sup> On October 30, 2018, District voters passed a referendum authorizing the Board to construct and fund a capital project including a \$1.28 million transfer from fund balance.

<sup>b</sup> Projections for \$750,000 of appropriated fund balance and \$9.4 million in appropriations for the 2019-20 budget were provided by District officials.

We compared budgeted revenues and appropriations with actual results of operations from 2015-16 through 2018-19. While revenue estimates were reasonable, the Board adopted budgets that overestimated appropriations by \$4.1 million or almost 13 percent over the four-year period.

Based on our review of the District's adopted 2018-19 budget totaling approximately \$9.4 million, estimated revenues appear reasonable based on prior years' actual results. However, appropriations are projected to be overestimated by \$812,500. The amount and percent of this overestimation has declined in proportion to prior years' actual results.

**Figure 2: Overestimated Appropriations**

	2015-16	2016-17	2017-18	Projected 2018-19	Totals
<b>Appropriations</b>	\$8,802,149	\$8,976,112	\$9,239,998	\$9,423,401	\$36,441,660
<b>Actual Expenditures</b>	\$7,645,854	\$7,858,766	\$8,272,785	\$8,610,900	\$32,388,305
<b>Overestimated Appropriations</b>	\$1,156,295	\$1,117,346	\$967,213	\$812,501	\$4,053,355
<b>Percentage Overestimated</b>	15.1%	14.2%	11.7%	9.4%	12.5%

Overestimated appropriations were spread among numerous accounts throughout the budgets. The most significant overestimations in 2017-18 were for services provided by the Washington-Saratoga-Warren-Hamilton-Essex Board of Cooperative Educational Services (BOCES) overestimated by \$158,911 (37 percent) and transportation-gas and oil overestimated by \$44,510 (66 percent).

The Board overestimated these same appropriations each year. Expenditures for BOCES services were overestimated by \$229,402 (55 percent) in 2015-16 and \$157,404 (37 percent) in 2016-17. Transportation-gas and oil expenditures were overestimated by \$45,007 (66 percent) in 2015-16 and \$40,527 (60 percent) in 2016-17. The remaining overestimated appropriations were spread between several accounts including employee health insurance, which was overestimated by \$142,847 (9 percent) in 2015-16, \$128,050 (8 percent) in 2016-17 and \$92,929 (6 percent) in 2017-18.

As a result, the District experienced operating surpluses from 2015-16 through 2017-18, total fund balance increased and unrestricted unappropriated fund balance exceeded the statutory limit by 23 to 25 percentage points. These appropriations were overestimated because the Business Manager prepared budgets that included amounts for BOCES services and related costs and potential increased insurance premiums for employee health insurance that were not realized.

The Board was aware of the excess accumulated unrestricted unappropriated fund balance. The Superintendent and Business Manager told us that they plan to use approximately \$1.3 million of this excess to fund a capital project that was approved by District voters in October 2018. If the projected expenditures are recognized, fund balance will decrease to approximately \$1.5 million or 16 percent of the estimated ensuing year's budget (Figure 1). However, even with

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fund balance being used for a capital project the District will continue to have unrestricted fund balance in excess of the statutory limit.

## **The Board Overfunded Reserves**

As of June 30, 2018, the District reported approximately \$597,000 in two general fund reserve funds.<sup>3</sup> We analyzed these reserves for reasonableness and found the balance in the unemployment insurance reserve was excessive and the retirement contribution reserve was not being used as intended.

The Board-adopted reserve policy does not address the maximum funding levels for reserves, plans for using the reserves to finance related costs or the circumstances under which reserves would be replenished. Additionally, District officials have not included a schedule of reserve funds in the annual budget document, as required.

Retirement Contribution Reserve – The Board established this reserve to fund payments to the New York State and Local Retirement System (NYSLRS). The balance as of June 30, 2018 was \$518,424, sufficient to cover almost four years of payments, which averaged \$130,446 over the past three years.

The Board established this reserve in 2016-17 with a \$304,959 transfer from general fund unrestricted fund balance and transferred an additional \$213,265 to the reserve in 2017-18. District officials do not have a plan to use this reserve and continue to pay NYSLRS expenditures from annual general fund appropriations. The Business Manager told us that this reserve has not been used because it is a new reserve and the District wanted to build up the balance. Without a plan for the use of the reserve and enough accumulation for about four years of expenditures we could not determine why they would want to accumulate more.

Unemployment Reserve – The Board established this reserve to fund reimbursements to the New York State Unemployment Insurance Fund for claims filed. The balance as of June 30, 2018 was \$79,313, sufficient to cover approximately 26 years of unemployment costs, which averaged \$3,110 over the past three years.

District officials used both reserve fund and general fund appropriations to pay for these expenditures. For example, during 2017-18, the Business Manager paid one \$1,621 unemployment claim from the general fund and one \$2,058 claim from the reserve.

The Business Manager told us that the balance of this reserve was increased several years ago when there were concerns of possible layoffs, which might lead to increased unemployment expenditures. District officials have not

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<sup>3</sup> The two general fund reserves are retirement contribution reserve and unemployment insurance reserve.

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added funds to this reserve since 2015-16. The Business Manager anticipates that approximately \$10,000 will be expended from the reserve in 2018-19 for one position that was eliminated. After that claim is processed and paid, unemployment costs are expected to decrease to prior year levels.

While it is a prudent practice for officials to save for future expenditures, retaining more funds than necessary in reserves may result in missed opportunities to use these funds in a manner that best benefits taxpayers.

## **What Do We Recommend?**

The Board and District officials should:

1. Develop and adopt annual budgets with reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations based on historical trends and other known factors.
2. Discontinue the practice of appropriating fund balance that is not needed or used to finance operations.
3. Develop a plan to reduce unrestricted unappropriated fund balance to comply with the statutory limit. Excess funds can be used for:
  - Funding one-time expenditures
  - Funding needed reserves
  - Paying off debt
  - Reducing District property taxes.
4. Adopt a comprehensive reserve policy, which includes targeted funding levels and conditions under which reserves will be used and replenished.
5. Review reserve balances and develop a plan to reduce balances to reasonable levels in accordance with applicable statutes.

## Appendix A: Response From District Officials<sup>4</sup>

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January 14, 2019

The Bolton Central School District is in receipt of the draft Report of Examination by the Office of the State Comptroller for the period July 1, 2015 - September 30, 2018. The District would like to thank the State Comptroller's auditors for their professionalism while working in the district.

The Bolton Central School District audit response below will also serve as our Corrective Action Plan. We agree substantially with the findings of the audit report.

Unit Name: Bolton Central School District  
Audit Title: Fund Balance Management  
Audit Report Number: 2018M-246

*Audit Recommendation: Adopt annual budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations based on historical trends or other relevant information.*

The District recognizes that the review of the past year budgets and expenditures may result in the belief that the original appropriations were more than needed. We are especially cautious in the areas of special education, utilities and employee benefits as these areas can dramatically increase from the time of budget planning to budget enactment.

We would like to note that the District has been at or below the tax levy limit requirements since its implementation in 2012-2013 and has had modest budget increases. Also over the audit period, our budgets have gotten tighter. Working with our long range forecast, the Board of Education will continue to refine budget figures to better reflect actual expenses and continue to determine reasonable levels of appropriations.

*Audit Recommendation: Reduce unrestricted fund balance to within the statutory limit and use surplus funds in a manner more beneficial to taxpayers.*

The District will lower the fund balance by funding capital projects, one-time expenditures and reducing annual property taxes.

In October of 2018, the voters approved a capital project which will use a large percentage of fund balance (\$1,275,000).

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<sup>4</sup> The District's response refers to an incorrect report number that was included in the draft report. The report number has been corrected in this final report.

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The 2019-2020 budget will include using \$750,000 to fund the budget.

In May of 2019 or 2020, the Board of Education will look to create a voter approved Capital Reserve or Capital Repair Reserve to minimize the impact that future projects will have on the tax levy.

*Audit Recommendation: Review & reduce reserve balances to reasonable levels in accordance with applicable statutes.*

The District currently has only two reserves; an Unemployment Reserve and an Employee Retirement Reserve.

The Unemployment Reserve is used to fund the benefits of laid off employees. The district intends to use at least \$11,000 of this reserve to pay the claims for the 2018-2019 school year. The Employee Retirement Reserve is newly created and will be used to help fund the annual mandatory Employer Contributions. This reserve will be extremely valuable if the mandated contribution level spikes.

The Board of Education will review its reserve policy going forward and will attach a schedule of reserve funds to the annual budget document.

The Bolton Central School District strives to deliver the best possible educational experience to all students while being fiscally responsible to our taxpayers. The district welcomes the opportunity to apply the recommendations and findings of the audit report to help improve our current practices.

Sincerely,

Michael J. Graney  
Superintendent

## Appendix B: 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 the Business Manager and District officials to gain an understanding of financial management policies, procedures and budgeting practices.
- We reviewed the 2015-16 through 2017-18 Board-adopted general fund budgets to determine whether they were realistic and structurally balanced by comparing them with actual results of operations.
- We compared total revenues and appropriations realized to adopted and modified budgets for 2015-16 through 2018-19 to determine whether revenue and appropriation estimates as a whole were reasonable.
- We compared individual budgeted revenues and appropriations to actual results of operations from 2015-16 through 2018-19 to identify variances.
- We analyzed the District's general fund financial records for the audit period to determine whether unrestricted fund balance increased or decreased and whether increases were reasonable. We evaluated any factors contributing to the identified increase or decrease.
- We reviewed the reported reserve accounts balances for 2015-16 through 2017-18 and compared them to the average reported expenditure amount to determine whether they were reasonable. We reviewed the reserve balances to determine whether they declined by the amount expended or remained the same for 2015-16 through 2017-18.
- We reviewed the adopted general fund budget for 2018-19 to determine whether budgeted revenues and appropriations were reasonable based on historical data and supporting documentation.

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.

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 relevant population size and the sample selected for examination.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within

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90 days, pursuant to Section 35 of General Municipal Law, Section 2116-1(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 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. We encourage the Board to make the CAP available for public review in the Clerk's office.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://www.osc.state.ny.us/localgov/researchpubs/index.htm)

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

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