

# Edmeston Central School District

## Fund Balance

MARCH 2020



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

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# Report Highlights

## Edmeston Central School District

### Audit Objective

Determine whether the Board and District officials effectively managed fund balance.

### Key Findings

- The Board appropriated approximately \$929,100 in fund balance from 2016-17 through 2018-19 and did not use any of that amount to fund operations because of generated operating surpluses.
- As of June 30, 2019, surplus fund balance totaled approximately \$972,000, exceeding the statutory limit by approximately \$535,000 or 5 percentage points.
- When unused appropriated fund balance was added back to the surplus fund balance, it totaled over \$1.1 million, exceeding the statutory limit by approximately \$680,500 or 6 percentage points.

### Key Recommendations

- Adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations.
- Reduce surplus fund balance to comply with the statutory limit and use excess funds in a manner beneficial to taxpayers.

District officials generally agreed with our recommendations.

### Background

The Edmeston Central School District (District) serves the Towns of Burlington, Edmeston, Exeter, New Lisbon, Otsego, Pittsfield and Plainfield in Otsego County and the Town of Brookfield in Madison County.

The District is governed by a five-member Board of Education (Board) responsible for the general management and control of financial and educational affairs. The Superintendent of Schools is the District's chief executive officer responsible, along with other administrative staff for the day-to-day management under the Board's direction. The Business Manager is responsible for the development of the annual budget and the supervision of financial activities.

#### Quick Facts

Student Enrollment	378
Employees	111
2019-20 General Fund Appropriations	\$10.9 million

### Audit Period

July 1, 2018 – November 5, 2019

We extended our audit period back to July 1, 2016 to review financial operations and trends.

# Fund Balance

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## How Should the Board and Officials Properly Manage Fund Balance?

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. In preparing the budget, a board must estimate the amounts a school district will spend and receive, the amount of fund balance that may be available at year-end to use towards 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 district may retain a portion of fund balance to provide a cushion against unforeseen events and to provide for fluctuations in cash flow. Officials should ensure that surplus fund balance<sup>1</sup> does not exceed the amount allowed by New York State Real Property Tax Law, which is no more than 4 percent of the next year's budgeted appropriations.<sup>2</sup>

## The Board Overestimated Certain Appropriations

We compared the 2016-17 through 2018-19 estimated revenues and appropriations to actual operating results and found that total revenue variances were generally reasonable (averaging 1 percent) and total appropriation variances were generally reasonable (averaging 4 percent). However, some appropriations were significantly overestimated. Programs for students with disabilities was overestimated an average \$187,000, or 15 percent and employee benefits were overestimated an average \$184,000, or 7 percent.

While the current Business Manager was not involved in developing the current or past budgets, officials told us that these budgets provided a cushion in certain budget line items in case of emergency or to cover unexpected expenditures. Although 2019-20 was only partially completed at the end of our audit fieldwork, a comparison to the past three years' budgets indicated that these trends will continue for this year as well.

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<sup>1</sup> Surplus fund balance is defined as unrestricted fund balance minus appropriated fund balance and encumbrances included in committed and assigned fund balance. See our accounting bulletin at <https://www.osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>.

<sup>2</sup> New York State Real Property Tax Law Section 1318

## The Board Appropriated More Fund Balance Than Needed

The Board increased the tax levy from \$2.5 million in 2016-17 to \$2.65 million in 2019-20 and planned to use fund balance each year as a financing source. However, because the District experienced surpluses during the last three years, none of the approximately \$439,700 appropriated fund balance was used to fund operations. In addition, \$489,400 in appropriated reserve funds were not used as planned. As a result, the surplus fund balance increased to almost \$972,000 by the end of 2018-19 (Figure 1).

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

	2016-17	2017-18	2018-19
<b>Beginning Total Fund Balance</b>	\$1,746,342	\$1,897,110	\$2,184,262
<b>Add: Operating Results</b>	\$150,768	\$287,152	\$344,880
<b>Ending Total Fund Balance</b>	\$1,897,110	\$2,184,262	\$2,529,142
<b>Less: Restricted Fund Balance (Reserves)</b>	\$1,086,172	\$1,074,397	\$1,371,429
<b>Less: Appropriated Fund Balance</b>	\$233,422	\$94,300	\$145,319
<b>Less: Assigned Fund Balance</b>	\$0	\$0	\$35,000
<b>Less: Encumbrances</b>	\$69,600	\$25,663	\$5,420
<b>Surplus Fund Balance</b>	\$507,916	\$989,902	\$971,974
<b>Ensuing Year's Budgeted Appropriations</b>	\$10,807,243	\$10,823,886	\$10,920,327
<b>Surplus Fund Balance as a Percentage of Next Year's Budgeted Appropriations</b>	5%	9%	9%
<b>Percent Exceeding the Legal Limit</b>	1%	5%	5%
<b>Amount Exceeding the Legal Limit</b>	\$75,626	\$556,947	\$535,161

The District exceeded the allowable statutory limit for surplus fund balance from 2016-17 through 2018-19 by 1 to 5 percentage points. Annually appropriating fund balance that is not needed to finance operations is, in effect, a reservation of fund balance not provided by statute and a circumvention of the statutory limit imposed on the surplus fund balance level. When unused appropriated fund balance is added back, surplus fund balance exceeded the limit each year by 3 to 6 percentage points (Figure 2).

**Figure 2: Recalculated Surplus Fund Balance at Year-End**

	2016-17	2017-18	2018-19
<b>Surplus Fund Balance</b>	\$507,916	\$989,902	\$971,974
<b>Add: Unused Appropriated Fund Balance</b>	\$233,422	\$94,300	\$145,319 <sup>a</sup>
<b>Recalculated Surplus Fund Balance</b>	\$741,338	\$1,084,202	\$1,117,293
<b>Ensuing Year's Budgeted Appropriations</b>	\$10,807,243	\$10,823,886	\$10,920,327
<b>Recalculated Surplus Fund Balance as a Percentage of the Next Year's Budgeted Appropriations</b>	7%	10%	10%
<b>Percentage Exceeding the Legal Limit</b>	3%	6%	6%
<b>Amount Exceeding the Legal Limit</b>	\$309,048	\$651,247	\$680,480

a Based on the results of the last three completed years' operations, a surplus is expected for 2019-20.

Officials told us that they would address the excessive fund balance by continuing to fund the retirement reserve at the allowed level and by establishing a capital reserve for a future project.

The budgeting practices made it appear that the District needed to both increase real property taxes and use appropriated and reserve funds to close projected budget gaps. However, the District realized operating surpluses and, consequently, fund balance was not needed to finance operations during the past 3 years and is expected not to be needed in 2019-20. Given the District's budgeting practices and fund balance levels, the Board levied more taxes than necessary to sustain operations and may have missed opportunities to more effectively manage fund balance and reduce real property taxes.

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

The Board and District officials should:

1. Adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations.
2. Develop a plan to reduce surplus fund balance to comply with the statutory limit. Unrestricted fund balance can be used for:
  - Reducing property taxes.
  - Funding one-time expenditures.
  - Funding needed reserves.
  - Paying off debt.

# Appendix A: Response From District Officials

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## Edmeston Central School

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New York State Office of State Comptroller  
Binghamton Regional Office  
Attn: Ann C. Singer, Chief Examiner  
State Office Building, Suite 1702  
44 Hawley Street  
Binghamton, NY 13901-4417

Dear Ms. Singer:

Edmeston Central School is in receipt of the New York State Office of the State Comptroller's draft audit report entitled "Edmeston Central School District Fund Balance Report of Examination" covering the period July 1, 2018 to November 5, 2019. Key findings of the report include: (1) The Board appropriated approximately \$929,100 in fund balance from 2016-17 through 2018-19 and did not use any of that amount to fund operations because of generated operating surplus, (2) As of June 30, 2019, surplus fund balance totaled approximately \$972,000, exceeding the statutory limit by approximately \$535,000 or 5 percentage points, (3) When unused appropriated fund balance was added back to the surplus fund balance, it totaled over \$1.1 million, exceeding the statutory limit by approximately \$680,500 or 6 percentage points.

The District offers the following response:

The District uses conservative estimates in developing a budget based on historical expenditures while looking ahead for any possible changes that may affect the district's budget in the coming school year. In addition, the school continues to use competitive bidding and the use of State Contract pricing to obtain the best price, which could result in additional savings. The District also provides for possible contingencies that might occur throughout the fiscal year and potentially put a financial strain on the district and its taxpayers. In a rural district such as ours, the District believes that it is necessary to be mindful of the possible contingencies that may occur such as special education services, mandated transportation services, and changes in health care and related benefits, as a small change in any of these areas can significantly change our financial standing.

The district has been fortunate in recent years and has not had to utilize any of its appropriated fund balance in the adopted budget to cover any such contingencies.

The district wishes to thank the New York State Comptroller's Office and the examiners that worked with the district for their professionalism and cooperation throughout the audit.

Sincerely,

Dr. Gary Furman  
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 District officials and reviewed Board minutes and policies to gain an understanding of financial management policies and procedures and budgeting practices.
- We reviewed the adopted general fund budgets from 2016-17 through 2018-19 to determine whether they were reasonable and structurally balanced by comparing adopted budgets with actual results of operations and analyzing significant budget-to-actual variances to determine why they occurred.
- We reviewed the adopted 2019-20 general fund budget to determine whether similar budgeting trends existed in comparison with the 2016-17 through 2018-19 adopted budgets.
- We reviewed the fund balance appropriated for 2016-17 through 2018-19, calculated how much was actually used and estimated what we expected the District to use in 2019-20.
- We calculated surplus fund balance as a percentage of the next year's appropriations for 2016-17 through 2018-19 to assess compliance with statute.
- We recalculated surplus fund balance as a percentage of the next year's appropriations after adding back unused appropriated fund balance for 2016-17 through 2017-18 and projected unused appropriated fund balance for 2018-19.
- We analyzed the tax levy for 2016-17 through 2019-20 to determine whether there were increases to the levy and whether they were necessary.

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.

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 to the District's website for public review.

## 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

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### **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/pubs/cyber-security-guide.pdf](http://www.osc.state.ny.us/localgov/pubs/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/localgov/finreporting/index.htm](http://www.osc.state.ny.us/localgov/finreporting/index.htm)

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