



Margaretville Central School District Fund Balance

Report of Examination

Period Covered:

July 1, 2013 — October 20, 2014

2015M-55



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2015

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Margaretville Central School District, entitled Fund Balance. This audit was conducted 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.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Margaretville Central School District (District) provides education to children residing in eight towns in Delaware, Greene and Ulster counties. The District is governed by a five-member Board of Education (Board). The Board is responsible for the general management and control of the District's financial and educational affairs, including budget development. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The District Treasurer plays a key role in the budget development process along with performing the daily accounting duties.

The District operates one school with 382 students and 121 employees. The District's general fund budgeted appropriations for the 2014-15 fiscal year were \$10.8 million, funded primarily with real property taxes and State aid.

Objective

The objective of our audit was to evaluate the District's financial condition. Our audit addressed the following related question:

- Did the Board and District officials effectively manage the fund balance of the general fund?

Scope and Methodology

We examined the District's fund balance for the period July 1, 2013 through October 20, 2014. We expanded our scope back to July 1, 2009 and projected it forward to June 30, 2015 to analyze the District's financial condition, budgeting trends and fund balance.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. 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, 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, with a copy forwarded to 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 Board should make the CAP available for public review in the District Clerk's office.

Fund Balance

A school district's financial condition is a determining factor in its ability to provide educational services to students. The responsibility for accurate and effective financial planning rests with the Board members and other District officials and includes the adoption of realistic budgets that are based on historical trends adjusting for known differences. A district may retain a portion of fund balance, referred to as unrestricted fund balance,¹ but districts are required to use any unrestricted fund balance above 4 percent of the following year's appropriations to reduce the real property tax levy. A district can also reserve portions of fund balance to finance future costs for a variety of specified purposes. District officials should ensure that reserve balances do not exceed what is necessary to address long-term obligations or planned expenditures. Once the Board has addressed those issues, any remaining fund balance, exclusive of the amount allowed by law to be retained to address cash flow and unexpected occurrences, should be used to benefit the taxpayers, such as by reducing the tax levy.

The Board and District officials did not effectively manage the fund balance of the general fund. As a result, the District had unrestricted fund balance in the general fund totaling \$670,000 or 6.2 percent of the following year's appropriations as of June 30, 2014 and reserve fund balances that increased by almost \$2 million (131.1 percent) from 2009-10 through 2013-14. If the real property tax levies remained at the level of the 2009-10 fiscal year, the total taxes paid would have been \$1.1 million less than the amounts actually paid, while still generating more than \$270,000 in surpluses.

Even though the general fund's fund balance was over the statutory limit and several reserves were overfunded, the Board continually adopted budgets that included tax levy increases that were not necessary. As of the end 2013-14, the general fund's unrestricted fund balance was 6.2 percent of the ensuing year's appropriations.² While the Board has adopted budgets that included an average use of more than \$570,000 in fund balance for each of the last five fiscal

¹ The Governmental Accounting Standards Board (GASB) issued Statement 54 which replaced the fund balance classifications of reserved and unreserved with new classifications non-spendable, restricted and unrestricted (comprising committed, assigned and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. The portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54) is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (post-Statement 54).

² According to New York State Real Property Tax Law

years, operations have generated a combined surplus of more than \$1.3 million during the same time.

Figure 1: Fund Balance Percentages					
	2009-10	2010-11	2011-12	2012-13	2013-14
Unrestricted Fund Balance at Year End	\$1,801,510	\$1,895,064	\$1,236,777	\$1,029,789	\$668,871
Unrestricted Fund Balance as a % of Ensuing Year's Budget	16.6%	18.3%	11.9%	9.7%	6.2%

Moreover, the District's increase in reserves from 2009-10 to 2013-14 occurred because the District has not used any reserve moneys, except for about \$16,800 of the repair reserve. The following reserves are overfunded:

- Unemployment Insurance Reserve³ – The balance has remained at more than \$220,000 for the last three fiscal years. The District has spent just over \$42,000 in total over the last five years, or an average of just over \$8,000 annually.
- Retirement Contribution Reserve⁴ – The balance has grown from \$180,000 as of the fiscal year ended 2011 to \$580,000 (222.2 percent) as of the fiscal year ended 2014. The average related expenditure over the last five fiscal years has been just over \$145,000; although this may not be excessive, the District has not utilized this reserve.

In addition, the Treasurer stated that the District plans to use moneys from the retirement contribution reserve, the employee benefit accrued liability reserve and capital reserves⁵ in 2014-15. However, as of the end of our fieldwork, no moneys from these reserves had been used. Additionally, there were excessive moneys in the committed fund balance⁶ as of the end of 2013-14 totaling \$70,500, which either did not have valid invoices or supporting documentation or were purchased for the 2014-15 school year.

³ The unemployment insurance reserve fund is used to reimburse the New York State Unemployment Insurance Fund for payments made to claimants where the district has elected to use the benefit reimbursement method.

⁴ The retirement contribution reserve fund is used for the payment of "retirement contributions," which are defined as all or any portion of the amount payable to the New York State and Local Employees' Retirement System.

⁵ The capital reserves include a capital reserve fund and restricted fund balance for the purchase of buses.

⁶ The District's committed fund balance was composed of encumbrances that existed at the end of the fiscal year. Encumbrances are obligations in the form of unfilled purchase orders or contracts that are carried over to the next fiscal year. These amounts should be supported by purchase orders that were issued before the end of the fiscal year, for which the goods and services had been ordered but not yet received.

Finally, the District also has an additional \$647,000 in a debt service fund that has not been used to pay debt principal and interest, even though the general fund has paid over \$1.1 million annually in debt service for more than the last five fiscal years.

The excessive fund balance has been accumulating due to the Board adopting budgets for appropriations that were not based on historical expenditure trends. Over the past five fiscal years, the appropriations have been over budgeted by \$4.2 million in total or an annual average of 7.9 percent. The District officials were generally overestimating certain expenditures including health insurance, special education, teachers' retirement and certain teachers' salaries. The Treasurer stated that the District officials add a cushion to certain expenditures in case of emergencies; however, some of these expenditures have been overestimated for each of the past five fiscal years.

Even though there is a large fund balance, the adopted budgets continue to increase the real property tax levy. Although the average annual increase in the total tax levies for the 2011, 2013 and 2014 fiscal years was 2.6 percent, our analysis shows that the increases in tax levies for those years may not have been necessary. If the real property tax levies remained at the level of the 2009-10 fiscal year, the total taxes paid by residents would have been approximately 3.03 percent or \$1.1 million less than the amounts actually paid, while still generating more than \$270,000 in surpluses.

Recommendations

The Board and District officials should:

1. Ensure that the amount of the District's unrestricted fund balance is in compliance with Real Property Tax Law statutory limits and reduce the amount of unrestricted fund balance in a manner that benefits District taxpayers. Such uses could include, but are not limited to, paying off debt, financing one-time expenditures and reducing property taxes.
2. Develop more realistic budget appropriations based on prior year's actual results and anticipated operations and avoid raising more real property taxes than necessary.
3. Review all reserve balances and transfer excess funds to unrestricted fund balance, where allowed by law, or other reserves established and maintained in compliance with statutory directives.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following page.

The District's response letter refers to a page number that appeared in the draft report. The page numbers have changed during the formatting of this final report.

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August 18, 2015

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Binghamton, NY 13901

To Whom It May Concern:

This letter is in response to the recommendations stated on page 8 of the State Comptrollers Audit # 2015M-55.

1. While the current fund balance is in excess of the allowed 4%, it has dwindled over the past few years. The Board of Education has been working hard to maintain the long term financial stability of the District. The Board has established reserves and will be managing excess fund balance to maintain a sound educational program during the current economic challenges.
2. The district will attempt to build future budgets based on more realistic projections to avoid raising more taxes than necessary. However, please note that in some cases it is necessary to anticipate some unexpected expenses, for example, high cost special education students so as not to over expend a budget.
3. The District is taking steps to bring existing reserves in line to cover realistic liabilities. All remaining reserves have a specific purpose and are maintained in compliance with statutory directives.

Sincerely,

Dr. Robert L. Chakar, Jr.
Superintendent

RLC/khd

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed District officials and employees, tested selected records, and examined pertinent documents for the period July 1, 2013 through October 20, 2014. We expanded our scope back to July 1, 2009 and projected it forward to June 30, 2015 to analyze the District's financial condition, budgeting trends and fund balance. Our examination included the following:

- We interviewed District officials and reviewed Board minutes to gain an understanding of the budgeting process for the general fund, including the rationale for determining the amount of unrestricted funds available for appropriation and the procedures for monitoring and controlling the budget.
- We calculated the general fund's unrestricted fund balance as a percentage of the ensuing year's appropriations to determine if the District was within the statutory limitation during fiscal years 2009-10 through 2013-14.
- We calculated the results of operations over the last five fiscal years for the general fund by comparing actual revenues and expenditures and compared these results to appropriated fund balance when applicable.
- We added the unused appropriated fund balance to the general fund's unrestricted fund balance to determine how much further the District was over the statutory limitation during the last five fiscal years.
- We projected 2014-15 fiscal year results of operations for the general fund by comparing prior year-to-date results to the current year-to-date results and calculated ratios to project revenues and expenditures through the fiscal year end of June 30, 2015.
- We compared the budgeted revenues and appropriations to the actual revenues and expenditures for the general fund for 2009-10 through 2013-14 to determine if the District's budget estimates were reasonable.
- We analyzed the general fund's reserves to identify the trends and to determine if they were properly supported, reasonably funded and used during the last five fiscal years.
- We analyzed the debt service fund to identify the trend in fund balance and to determine if fund balance had been used during the last five fiscal years.
- We reviewed the District's tax levies, taxable assessments and tax rates for 2009-10 through 2013-14 to determine if the tax levies and rates had been increasing.

We conducted this performance audit in accordance with 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.

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