



# **Afton Central School District**

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## **Fund Balance Management**

**2023M-18 | June 2023**

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# Report Highlights

## Afton Central School District

### Audit Objective

Determine whether the Afton 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 levied more taxes than needed to fund operations and were not transparent with taxpayers.

- The Board annually overestimated appropriations from fiscal years 2019-20 through 2021-22 by an average of \$1.1 million or 7 percent.
- Surplus fund balance exceeded the 4 percent statutory limit in each of the last three fiscal years by approximately \$2.9 million (17.5 percentage points) to \$5.6 million (31.5 percentage points).
- The Board unnecessarily appropriated fund balance that was not needed, which in effect is a reservation of fund balance that is not provided by statute and circumvents the statutory limit.
- The District incurred \$63,561 in unnecessary interest and other associated costs for the issuance of bond anticipation notes (BANs) to purchase school buses.

### 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.
- Perform a cost-benefit analysis and evaluate the financial impact of debt issuance versus using surplus fund balance on District operations.

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

### Background

The District serves the Towns of Colesville and Sanford in Broome County, and the Towns of Afton, Bainbridge and Coventry in Chenango County.

The District is governed by the elected five-member Board that is responsible for managing and controlling 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 (Treasurer) are responsible for developing the annual budget. The Superintendent and the Treasurer are new to the District. The Superintendent was hired on July 18, 2022 and the Treasurer on March 7, 2022.

### Audit Period

Quick Facts	
Enrollment	492
Employees	145
2022-23	
Appropriations	\$17.8 million
Real Property Tax Levy	\$4.9 million

July 1, 2019 – October 31, 2022

We expanded our scope to include the issuance of BANs as it related to the financing of certain transactions.

# Fund Balance Management

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## 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 and school district officials should develop and 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 presented transparently 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 balance<sup>1</sup> 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 4 percent of the next year's budgeted appropriations. Officials must use any funds that exceed the 4 percent surplus fund balance limit to reduce the next year's real property tax levy or fund needed reserves.

Additionally, school district officials may issue BANs, which are short-term debt instruments issued for larger purchases such as, buses or capital projects. The notes must be redeemed by repaying principal and interest to the financing institution within one year and may generally be renewed up to five years. Officials should weigh the costs and benefits of using BANs to purchase school buses when there is sufficient cash to purchase buses without financing the expenditure.

## The Board Overestimated Appropriations

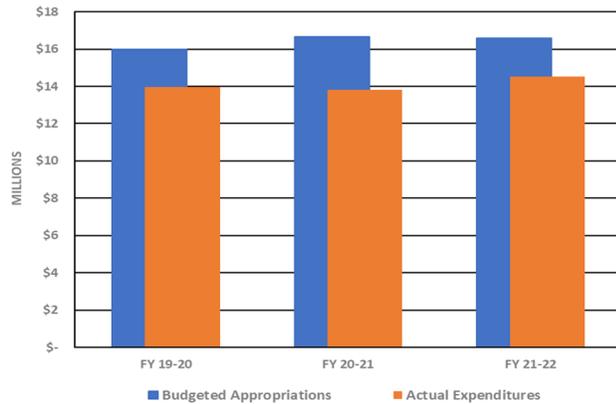
We compared the estimated revenues and budgeted appropriations with actual operating results for fiscal years 2019-20 through 2021-22. Estimated revenues were generally reasonable, but budgeted appropriations were overestimated by an average of \$1.1 million per year, or 7 percent (Figure 1).

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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. Refer to our accounting bulletin at <https://www.osc.state.ny.us/files/local-government/publications/pdf/gasb54.pdf>.

**FIGURE 1**

**Comparison of Budgeted Appropriations to Actual Expenditures**



In aggregate, these variances contributed to an increase in surplus fund balance between 2019-20 and 2021-22. There were seven expenditure accounts with an average variance of more than \$100,000 in the last three fiscal years. The Board overestimated expenditures for:

- Medical insurance by an average of \$411,155 with variances ranging from \$322,775 to \$543,720.
- Special education tuition by an average of \$229,568 with variances ranging from \$166,429 to \$298,623.
- Teachers' retirement contribution by an average of \$130,375 with variances ranging from \$107,870 to \$171,970.
- Workers' compensation by an average of \$101,711 with variances ranging from \$93,451 to \$115,314.
- Fuel oil by an average of \$108,407 with variances ranging from \$82,829 to \$129,125.
- Special education aide salaries by an average of \$146,723 with variances ranging from \$75,290 to \$230,297.

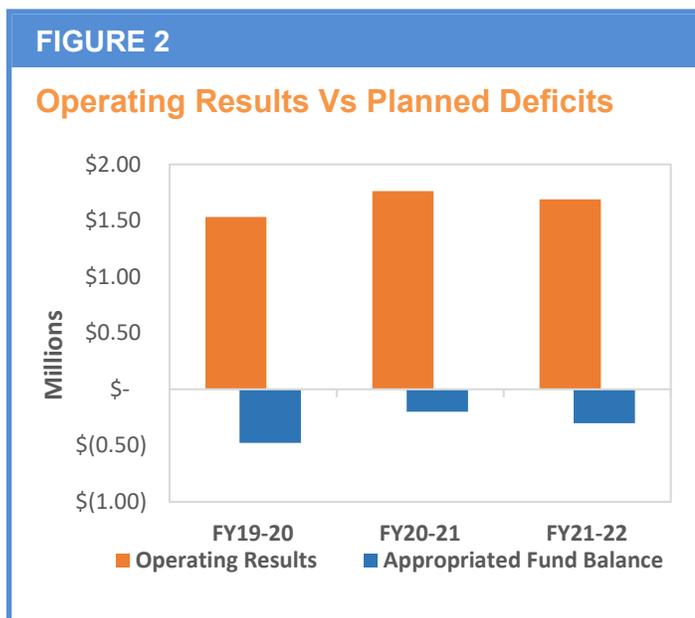
The Treasurer acknowledged that the budget process can be improved and the budgets that we reviewed during the audit period were created by the previous administration and, therefore, the current administration was not aware of their budgeting process.

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, despite historical trends showing otherwise. Had the Board and officials used historical trend analysis 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 Unneeded Fund Balance and Exceeded the Statutory Limit

During the last three fiscal years, the Board adopted budgets that appropriated a total of \$980,238 in fund balance for planned operating deficits. However, the District had operating surpluses totaling \$5 million during this time (Figure 2).



The numbers exclude a one-time transfer to the capital projects fund during the 2019-20 fiscal year, which was a result of a building project proposition that was approved in the previous fiscal year. The District reported surplus fund balance that exceeded the 4 percent statutory limit in each of the last three fiscal years by approximately \$2.9 million (17.5 percentage points), \$4.4 million (26.8 percentage points) and \$5.6 million (31.5 percentage points).

Based on the year-to-date revenues and expenditures as of October 5, 2022, and historical revenues and expenditures, we project an operating surplus for the 2022-23 fiscal year. As a result, we project that the District will not use any appropriated fund balance (\$302,971) that was budgeted to be used for this fiscal year. As a result, the District's recalculated surplus fund balance would have been \$6.6 million (37.2 percent), which exceeds the 4 percent limit by 33.2 percentage

points (Figure 3). The Treasurer agreed the District is unlikely to use any of the appropriated fund balance.

**Figure 3: Recalculated Surplus Fund Balance**

Fiscal Year	2019-20	2020-21	2021-22
<b>Surplus Fund Balance at Fiscal Year End</b>	\$3,578,825	\$5,095,237	\$6,344,592
<b>Add: Unused Appropriated Fund Balance</b>	476,101	201,166	302,971
<b>Recalculated Surplus Fund Balance</b>	<b>\$4,054,926</b>	<b>\$5,296,403</b>	<b>\$6,647,563</b>
As a percent of Next Year's Budgeted Appropriations			
<b>Reported by Officials</b>	21.5%	30.8%	35.5%
<b>Percentage Points Over the Legal Limit of 4%</b>	17.5%	26.8%	31.5%
<b>Recalculated by OSC</b>	24.4%	32.0%	37.2%
<b>Percentage Points Over the Legal Limit of 4%</b>	20.4%	28.0%	33.2%

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. Also, it functions as a means to circumvent the statutory limit imposed on the level of surplus fund balance that the District may retain at the end of each fiscal year. Consistently appropriating fund balance that is not needed does not provide a transparent budget process for taxpayers. In addition, maintaining surplus fund balance that exceeds the statutory limit causes real property tax levies being larger than necessary.

### The District Incurred Unnecessary Expenditures

Over the last three fiscal years, the District incurred interest and other associated costs for the issuance of BANs to purchase school buses. The District issued BANs totaling \$680,000 and incurred a total of \$55,841 in interest costs and \$7,720 in other debt issuance related costs.

Officials did not perform any cost-benefit analysis to show that issuing debt was a more cost-effective method than using surplus fund balance for paying for the school buses. As a result of the debt issuance, the District incurred \$63,561 in interest and additional related costs. Officials could not determine why the previous administration chose to issue debt instead of using fund balance to purchase the school buses. Had they performed a cost-benefit analysis, officials may have decreased the excess surplus fund balance and saved taxpayers money.

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.

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## 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. Perform a cost-benefit analysis and evaluate the financial impact of debt issuance versus using surplus fund balance on District operations.

# Appendix A: Response From District Officials

**BOARD OF EDUCATION**  
Tina Miner-James, President  
Brenda James, Vice-President  
Henry Bostelman  
Jim Parkinson  
Justin Baciuska

## Afton Central School

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**Crimson Knights**

Nicholas A. Colosi, Superintendent  
Joel Carle, Secondary Principal  
Uday Mukhlis, Elementary Principal

Nicole Ermlich, Director of Special Education/Pupil Personnel  
Kristyn DeGroat, Business Manager/Treasurer  
Connie Beames, District Clerk

June 1, 2023

Office of New York State Comptroller  
Division of Local Government and School Accountability  
110 State Street, 12<sup>th</sup> Floor  
Albany, NY 12236

Re: Fund Balance Management, report of Examination, Response

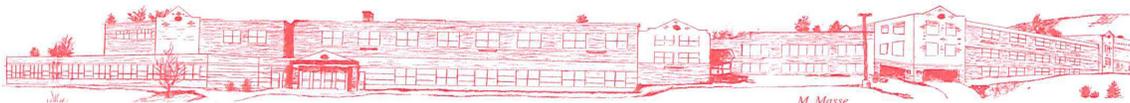
Dear Sir/Madame:

We are in receipt of the draft audit of the Fund Balance Management for the Afton Central School. The district's position concerning the findings of the Audit is one of agreement. At the time of the onset of this audit, District officials had already developed a plan to reduce surplus fund balance. This plan included one-time expenditure in the areas of Security, Safety, and Education. The plan also included the establishment of Capital reserves.

We thank you for your recommendations and have already started to implement aspects of our plan to use our unappropriated Fund Balance.

Sincerely,

Tina Miner-James   
President, Afton Board of Education



## 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 meeting minutes, resolutions and policies to gain an understanding of the District's financial planning and budgeting procedures.
- 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 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 the three fiscal-year average of \$100,000.
- 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 fiscal-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 the total interest and other associated costs incurred during the audit period by the District for the issuance BANs for the purchase of school buses.

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

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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 filed with the District's Clerk Office and 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/files/local-government/pdf/regional-directory.pdf](http://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf)

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