



# Stamford Central School District

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## Fund Balance Management

2022M-199 | April 2023

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# Report Highlights

## Stamford Central School District

### Audit Objective

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

- The Board overestimated appropriations from the 2019-20 through 2021-22 fiscal years by an average of \$1.4 million (14 percent) and planned to use fund balance to cover operating deficits when the District realized operating surpluses.
- Surplus fund balance exceeded the 4 percent statutory limit in two of the last three fiscal years by approximately \$700,000 (6.8 percentage points) and \$1.9 million (18.7 percentage points).
- Four of the District's 11 reserves were not reasonably funded, or used to pay related expenditures, during the last three fiscal years. For example, the retirement contributions for employees reserve balance of \$602,749 was sufficient to cover expenditures for five years.

### 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, and use it in a manner that benefits taxpayers.
- Adopt a written reserve policy that establishes optimal or targeted funding levels.

District officials generally agreed with our recommendations and have initiated or indicated they planned to initiate corrective action. Appendix B includes our comment on an issue that was raised in the District's response letter.

### Background

The District serves the Towns of Harpersfield, Kortright, Roxbury and Stamford in Delaware County, and the Towns of Gilboa and Jefferson in Schoharie County.

The District is governed by an 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 Business Manager are responsible for developing the annual budget.

#### Quick Facts

2022-23 Appropriations	\$10.4 million
2022-23 Real Property Tax Levy	\$4 million
Number of Reserve Funds (June 30, 2022)	11
Total Reserve Fund Balance (June 30, 2022)	\$7.3 million

### Audit Period

July 1, 2019 – September 30, 2022

# Fund Balance Management

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## How Should Officials Effectively and Transparently Manage Fund Balance?

Fund balance is the difference between revenues and expenditures accumulated over time. To effectively manage a school district's (district's) fund balance, a district board (board) should adopt realistic and structurally balanced budgets. Budgets should be based on historical data or known trends, in which recurring revenues finance recurring expenditures.

A board should use reasonable budget estimates to present the budget transparently to the public and ensure that the tax levy is not greater than necessary. When a board appropriates fund balance in the budget to finance operations, this means that the board is budgeting for a planned operating deficit (expenditures exceeding revenues), which is equal to the amount of fund balance that is appropriated.

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 district can retain to no more than 4 percent of the following year's budgeted appropriations. Officials must use any funds that exceed the 4 percent surplus fund balance limit to reduce the following year's real property tax levy or to fund needed reserves.

District officials can legally set aside, or reserve, portions of fund balance to finance future costs for specific purposes (e.g., capital projects or retirement contribution expenditures). Boards should develop a formal written policy for reserves that includes the rationale for establishing each reserve, optimal or targeted funding levels and conditions under which the reserves will be used.

Also, boards should periodically analyze the reasonableness of the reserves' balances. Combining a reasonable level of surplus fund balance with specific legally established reserves provides for unanticipated events and other identified or planned needs to help ensure that tax levies are not greater than necessary.

## The Board Overestimated Appropriations

We compared estimated revenues and budgeted appropriations with actual operating results for the 2019-20 through 2021-22 fiscal years and determined that estimated revenues generally were reasonable. However, budgeted

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<sup>1</sup> Surplus fund balance generally is defined as unrestricted fund balance minus appropriated fund balance and encumbrances included in committed and assigned fund balance. For more information, refer to our accounting bulletin at <https://www.osc.state.ny.us/files/local-government/publications/pdf/gasb54.pdf>

appropriations were overestimated by an average of \$1.4 million per year (14 percent) (Figure 1), which increased the amount of surplus fund balance.

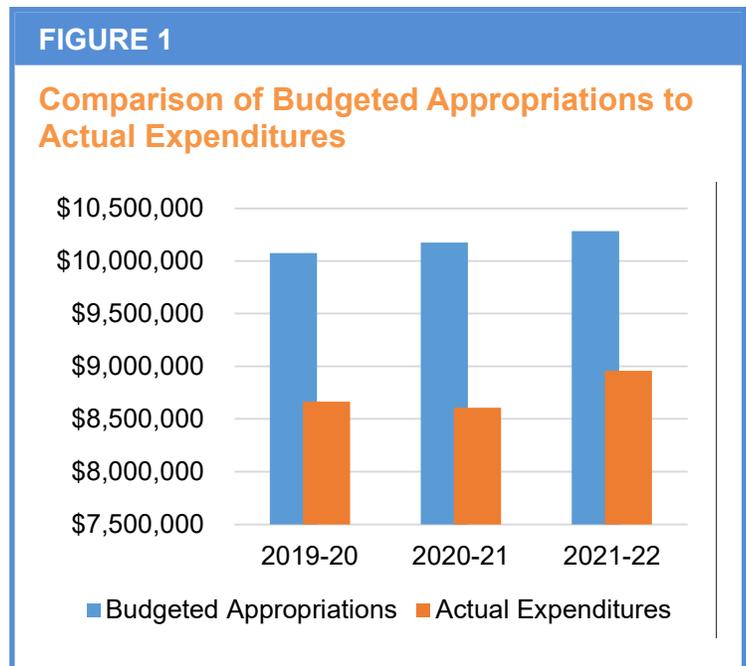
Two expenditure accounts had overestimated appropriations totaling more than \$100,000 in two of the last three fiscal years, as follows:

- Board of Cooperative Educational Services (BOCES) services were overestimated by an average of \$373,047 (54 percent), with variances ranging from \$339,687 to \$406,406.
- Health insurance premiums were overestimated by an average of \$281,916 (14 percent), with variances ranging from \$114,600 to \$401,667.

The Superintendent, Business Manager and Board President told us that the budget variances for BOCES services were due to the uncertainty of knowing how many students might require these services each year. While the costs for BOCES services can fluctuate depending on the needs and number of students enrolled in the program, officials must monitor this expenditure to help ensure future appropriations are more realistic.

In addition, the Superintendent, Business Manager and Board President acknowledged that they budgeted for health insurance premiums by anticipating that all new employees would choose family insurance plans, which are more expensive than individual plans. However, they chose to budget for this expenditure in this manner even though new employees did not always sign up for family plans. Officials should use historical health insurance coverage information (i.e., percentage of employees opting for individual and family plans) when including health insurance cost estimates in the annual budget.

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 and address budgeted operating deficits, despite historical trends showing otherwise. Had the Board and officials used historical trend analyses and previous years' actual results of operations to develop their budget estimates, they likely would have estimated more accurately and been more transparent with the public.

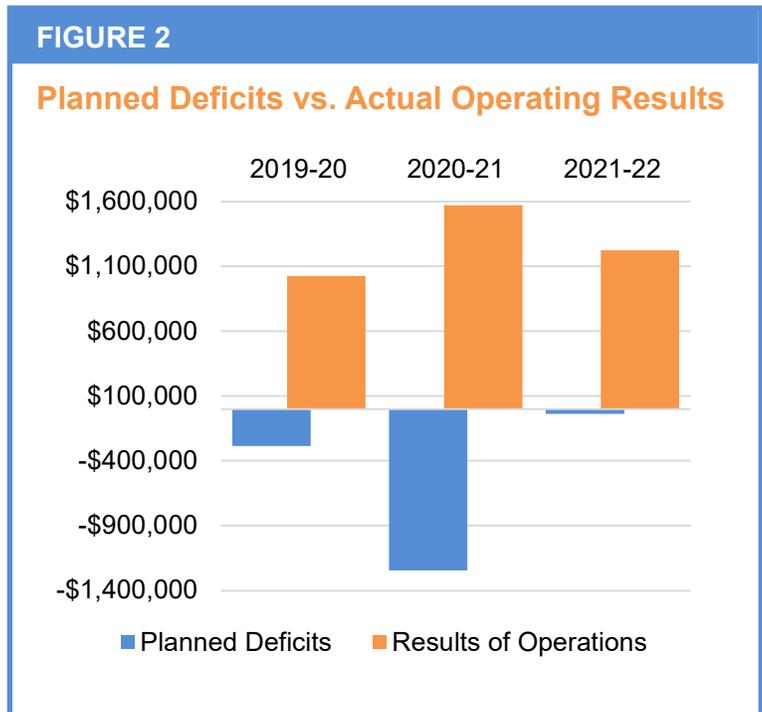


## The Board Appropriated Unnecessary Fund Balance and Exceeded the Statutory Limit for Surplus Fund Balance

During the last three fiscal years, the Board adopted budgets that planned for the use of \$1.6 million of fund balance to fund projected operating deficits in the budgets. However, the District realized operating surpluses totaling \$3.8 million during this time period (Figure 2) and, therefore, it did not use the fund balance that it had planned to.

Surplus fund balance exceeded the 4 percent statutory limit in two of the last three fiscal years by approximately \$700,000 (6.8 percentage points) and \$1.9 million (18.7 percentage points).

Based on year-to-date revenues and expenditures as of September 30, 2022, and historical revenues and expenditures, we project that the District will have an operating surplus for the 2022-23 fiscal year. As a result, we also project that the District will not use any of appropriated fund balance (\$38,175) that was budgeted to be used for this fiscal year. If these projections are correct and the \$38,175 is not needed to fund operational costs, this means that, as of June 30, 2022, the District’s recalculated surplus fund balance would have been \$2.4 million (23.1 percent), which exceeds the 4 percent limit by 19.1 percentage points (Figure 3).



**Figure 3: Recalculated Surplus Fund Balance**

Fiscal Year	2019-20	2020-21	2021-22
Surplus Fund Balance			
Reported at Fiscal Year-End	\$391,078	\$1,115,465	\$2,354,340
Add: Unused Appropriated Fund Balance	\$1,244,775	\$38,175	\$38,175
Recalculated Surplus Fund Balance	\$1,635,853	\$1,153,640	\$2,392,515
<b>As a Percentage of Next Year’s Budgeted Appropriations</b>			
Legal Limit		4.0%	
Recalculated by OSC	16.1%	11.2%	23.1%
Reported by Officials	3.8%	10.8%	22.7%

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Annually appropriating fund balance that is not needed 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 to be larger than necessary.

### **Certain Reserves Were Not Reasonably Funded**

As of June 30, 2022, the District reported 11 reserves totaling \$7.3 million in the general fund. We analyzed all reserve balances for reasonableness and compared the balances to the three-year historical expenditures related to the purpose of each reserve. We determined that the capital, liability claims, property loss, repair, tax certiorari, retirement contributions for teachers and insurance reserves were reasonably funded. However, the other four reserves were not reasonably funded or used during our audit period.

Retirement Contributions for Employees Reserve – The \$602,749 in this reserve was sufficient to cover at least five years of New York State and Local Retirement System expenditures, which averaged \$105,766 during the last three years.

Unemployment Reserve – The \$261,439 in this reserve was sufficient to cover at least 78 years of unemployment expenditures, which averaged \$3,328 during the last three years.

Employee Benefit Accrued Liability Reserve – The \$200,462 balance in this reserve exceeded the amount needed to cover the compensated absences balance (\$117,691) by \$82,771.

Workers' Compensation Reserve – The \$123,313 in this reserve was sufficient to cover at least four years of workers' compensation expenditures, which averaged \$25,716 during the last three years.

District officials could have used this reserve money to pay for related expenditures but chose to pay for the expenditures with current years' funds. Therefore, we question the need for the significant balances in these reserves.

Also, the Board did not adopt a written reserve policy that provided the rationale for reserved money, optimal or targeting funding levels and conditions under which the reserves would be used. In addition, the Board did not periodically analyze the reasonableness of the balances in the reserves.

Although it is prudent to plan and save for unforeseen circumstances, overfunding and/or not using reserves for their intended purpose causes real property taxes to be larger than necessary.

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...[A]ppropriating fund balance that is not needed 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. Review reserve fund balances and develop a plan to reduce balances to reasonable levels or use them to fund operations in accordance with applicable statutes.
5. Adopt a written reserve policy that establishes optimal or targeting funding levels and conditions under which each reserve will be used or replenished.

# Appendix A: Response From District Officials

## STAMFORD CENTRAL SCHOOL DISTRICT

1 River Street, Stamford, NY 12167 (607) 652-7301



Dr. Glen Huot  
Superintendent

Mr. Darby Hartwell  
President, Board of Education

March 20, 2023

Ann C. Singer, Chief Examiner  
Office of the State Comptroller  
State Office Building, Suite 1702  
44 Hawley Street  
Binghamton, NY 13901-4417

Dear Ms. Singer:

The Stamford Central School District is in receipt of the draft audit report of Fund Balance (Report of Examination 2022M-199) for the period July 1, 2019-September 30, 2022. The Board of Education and the District Administration of the school district appreciate this opportunity to respond to the findings. We are pleased to note that no fraud, waste, abuse, or mismanagement was identified through this audit examination. We appreciate the courteous and professional manner in which the auditors worked with us during the audit.

See  
Note 1  
Page 9

The District generally agrees with the findings and recommendations within the report, however the District would like to offer a few observations to add context.

The Office of the State Comptroller (OSC) highlights in the report (2022M-199) that district officials, “*may retain a portion of surplus fund balance for unexpected occurrences and fluctuations in cash flow...[and] officials must use any funds exceeding the 4 percent surplus fund balance limit to reduce the following year’s real estate property taxes or to fund needed reserves.*” The OSC report goes on to state, “*district officials can legally set aside, or reserve, portions of fund balance to finance future costs for specific purposes (e.g., capital projects or retirement contribution expenditures).*”

First, it is important to note that the audit period of review from, July 1, 2019 through September 30, 2022 occurred during the unprecedented global pandemic – a once in a generation global health emergency that impacted all sectors of the New York State economy including school districts. The dates for the period of review for the audit, make it particularly challenging to respond to the Comptroller’s audit due to the uncertain nature of school funding during the global pandemic, the resulting financial impact, and simultaneous emergency relief measures at the state and federal levels that were being debated (and later executed). During this time the uncertain financial environment and public health crisis created unique contexts for school districts to navigate.

Second, The District consistently takes a conservative approach to budgeting and school finance that includes taking into account the short-term and long-term needs of the District, including the use of fund balance and the strategic use of reserves. These practices, which are transparent for taxpayers, have served our school community well – especially now as our District continues to face unprecedented and uncertain times (March 2023) with federal and state COVID emergency relief soon coming to an end. While no one could have predicted the public health crisis, our District has planned and budgeted in a manner that allows us to continue to provide the educational program our students and community deserve and expect.

Third, any initial budget planning or projections during the time frame of the audit did not factor in the impact of the COVID-19 pandemic, which caused substantial changes to the District’s programs and operations starting in March 2020 when the Governor’s office shut down school districts across the state. During the remainder of that year, and the subsequent year, the financial impact of the pandemic continued to impact schools, particularly with the Governor’s office warning school districts to plan for 20-30% reductions in state aid from cost cutting measures. The significant planned reduction in state aid by the Governor required the District to plan for a substantial deficit the coming year. The District has an obligation to taxpayers to plan for uncertain financial times, particularly for a high-needs district which is heavily reliant on state aid. The dismal financial projections from the state during this time would result in the District having a structurally unbalanced budget which would result in operating deficits. As the

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Comptroller noted on December 19, 2019, “the time to prepare for serious fiscal problems it before they arrive.” While the District was planning for the Governor’s cuts in revenue, an unanticipated influx of federal and state emergency funds became available for all schools resulting in surpluses.

At the time that the pandemic was occurring, the District was in the process of planning and implementing multiple capital projects to repair critical failing infrastructure. As the OSC notes, excess funds can be used for one-time expenditures, such as capital projects which the district was planning and was approved by the community. The Board of Education and the District are very conscientious regarding the tax burden on the District’s community and strives to keep taxes as low as reasonably possible. The District has had to identify and conduct extensive building repairs and capital upgrades and has used reserves for this purpose – legally appropriated from excess fund balance. The use of fund balance and the use of reserves is a transparent process involving numerous public presentations and has been overwhelmingly supported by the community through public votes. This has been a benefit to taxpayers. In addition, due to sound financial planning while preparing for critical infrastructure needs, S&P Global has commended our budget and financial planning practices in granting the District an A+ rating multiple times while planning projects. An A+ rating is in the top tiers of the rating system for a District this size and financial capital and budget. Due to conservative financial planning, and the pragmatic use of fund balance and established reserves to assist in meeting capital repairs (and other needs), the District has not had to go out to taxpayers to levy additional taxes to cover the cost of these repairs. The Board of Education and the District remain steadfast in always being transparent with the community, maintaining effective communication, and being good stewards of taxpayers’ money.

We appreciate the audit response relative to the District’s reserves, and agree with the report determination that the capital, liability claims, property loss, repair, tax certiorari, retirement contributions for teachers and insurance reserves were reasonably funded. The District feels to prepare for unanticipated events, such as a global pandemic which resulted in thousands of job losses in NYS, that the unemployment reserve was (is) adequately funded (as well as the retirement contributions, accrued liability, workers’ compensation reserves, etc.). The District will evaluate these reserves and consider the recommendations in accordance with the audit report.

The Board of Education and the District conduct annual budget development workshops, which include community members. The purpose is to provide transparency and to communicate throughout the budget development process. The Board of Education and the District strive to adopt budgets with realistic estimates based on historical data and trends. The district budget process begins in the late fall with a review of actual revenue, as specified on state output reports, along with line-by-line analysis of expenses. Budget findings and adjustments are also shared during public presentations at board meetings. The goal is to have a transparent process to communicate budget needs and challenges, while ensuring financial preparedness to meet student needs while also considering taxpayer impact. The Stamford community values these processes and continue to be very supportive of the school district.

We appreciate the recommendations in this audit and have already spoken with our External Auditor and the District’s Independent Financial Advisor about them. The Board of Education and the District will review our budget process, comply with the statutory limit on fund balance, and create a reserve policy which has targeted funding levels. We are pleased that we share the same philosophy with the Comptroller’s office regarding fund balance to finance future costs. Key objectives of the Board of Education and the administration at Stamford Central School District are to maintain the long-term financial health of the District, maintain transparency with taxpayers, and build responsible budgets that support student programs for the long-term. Over the next few months, the District will develop the required corrective action plan based upon the recommendations made by your office.

Respectfully,

Dr. Glen Huot  
Superintendent of Schools

## Appendix B: OSC Comment on the District's Response

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### Note 1

We did not perform an extensive review of all District financial operations. As part of our risk assessment process, we performed a high-level review of key processes and internal controls. However, our audit was limited to an assessment of the District's fund balance management, as described in Appendix C. Therefore, the audit cannot be used to draw any conclusions on the District's other business operations.

## Appendix C: 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 compared estimated revenues to actual revenues, and budgeted appropriations to actual expenditures, for the 2019-20 through 2021-22 fiscal years to analyze the reasonableness of the budgets. For appropriations, we analyzed expenditure accounts with budget variances that were equal to, or exceeded, \$100,000.
- We calculated the results of operations for the 2019-20 through 2021-22 fiscal years to determine whether there was an operating surplus or deficit and whether appropriated fund balance was used.
- We analyzed the District's fund balance for the 2019-20 through 2021-22 fiscal years 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.
- Using the past three years' averages (as of September 30, 2022), we projected revenues, expenditures and results of operations for the end of the 2022-23 fiscal year. We used those results to project whether the District would have an operating surplus or deficit and whether appropriated fund balance would be used.
- We analyzed reserve balances as of June 30, 2022, and expenditures paid from the reserves during the 2019-20 through 2021-22 fiscal years, to determine whether the reserves were reasonably funded, according to historical expenditures and anticipated uses.

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

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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 on the District's website for public review.

## Appendix D: Resources and Services

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### **Regional Office Directory**

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