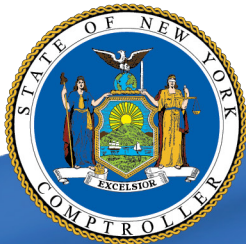


Alfred-Almond Central School District

Financial Management

SEPTEMBER 2019



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

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Report Highlights

Alfred-Almond Central School District

Audit Objective

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

Key Findings

- The Board overestimated appropriations by a total of \$2.3 million from 2015-16 through 2017-18 and annually appropriated an average of \$495,000 of fund balance that was not used to finance operations.
- As of June 30, 2018, surplus fund balance totaled \$1.7 million and was 12 percent of 2018-19 appropriations, exceeding the statutory limit by approximately \$1.2 million or 8 percentage points.
- The Board has not adopted a comprehensive written fund balance policy.

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 the excess funds in a manner more beneficial to taxpayers.
- Adopt a comprehensive written fund balance policy.

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

Background

The Alfred-Almond Central School District (District) serves the Towns of Alfred, Almond, Ward and West Almond in Allegany County and the Towns of Hartsville and Hornellsville in Steuben County.

The District is governed by an elected five-member Board of Education (Board). The Superintendent of Schools (Superintendent) is the chief executive officer and the chief business officer and is responsible for day-to-day management under the Board's direction, the development of the annual budget and the supervision of financial activities.

Quick Facts

Enrollment	612
Employees	120
2018-19 General Fund Budget	\$13.7 million

Audit Period

July 1, 2015 – June 6, 2019

Financial Management

What Is Effective Financial Management?

To properly manage financial condition, a board should adopt accurate and structurally balanced budgets based on historical or known trends 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 board is permitted to retain a specified amount of fund balance for cash flow needs or unexpected expenditures. Fund balance is the difference between revenues and expenditures accumulated over time. New York State Real Property Tax Law¹ currently limits the amount of surplus fund balance² that a school district can retain to no more than 4 percent of the next year's budget. Any surplus fund balance over this percentage must be used to reduce the upcoming fiscal year's tax levy or to fund needed reserves. Therefore, it is important that a board adopt a comprehensive written fund balance policy and plan that states its rationale for the use of reserve funds.

The Board Overestimated Appropriations

We compared the 2015-16 through 2017-18 budgeted appropriations and estimated revenues with actual operating results and found that, while revenue variances were generally reasonable (underestimated by an average of 1.3 percent), appropriations were overestimated by a combined total of \$2.3 million over these years, or an annual average of approximately \$777,000 (6 percent).

Figure 1: Overestimated Appropriations

	2015-16	2016-17	2017-18	Totals
Appropriations^a	\$12,920,000	\$13,134,000	\$13,322,000	\$39,376,000
Actual Expenditures	\$11,683,000	\$12,469,000	\$12,893,000	\$37,045,000
Overestimated Appropriations	\$1,237,000	\$665,000	\$429,000	\$2,331,000
Percentage Overestimated^b	11%	5%	3%	6%

a Includes prior year encumbrances.

b Overestimated appropriations divided by actual expenditures.

1 New York State Real Property Law, Section 1318

2 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>

The most significant overestimated appropriations (annual average) were for employee benefits (\$507,000 or 17 percent) and debt service payments (\$190,000 or 11 percent). The Superintendent told us that they annually overestimate certain appropriations to provide flexibility in the budget in the event certain expenditures are higher than anticipated or if revenues are below expectations. Although budgeting practices have been improving, the District will likely experience an operating surplus in 2018-19 though probably smaller than the surpluses experienced in the previous three years.

Because the Board overestimated appropriations, it appeared that more revenue and financing resources (fund balance) were needed to maintain a structurally balanced budget and address budgeted operating deficits (more expenditures than revenues), despite historical trend data showing otherwise.

The Board Appropriated More Fund Balance Than Needed

The Board annually increased the tax levy from approximately \$4.9 million in 2015-16 to \$5.1 million in 2018-19 and annually planned to appropriate fund balance averaging \$495,000 as a financing source.

However, because the District experienced operating surpluses, no appropriated fund balance was used to fund operations. Annual operating surpluses cumulatively totaled approximately \$1.3 million and surplus fund balance increased to more than \$1.7 million by the end of 2017-18. Had officials maintained the same tax levy as in 2015-16 through 2018-19, taxpayers may potentially have realized approximately \$288,000 in cumulative savings and the District would still have experienced annual operating surpluses.

Figure 2: Surplus Fund Balance at Year-End

	2015-16	2016-17	2017-18
Beginning Fund Balance	\$4,449,000	\$4,941,000	\$5,204,000
Add: Operating Results	\$547,000	\$334,000	\$377,000
Less: Transfers Out	\$101,000	\$110,000	\$112,000
Add: Transfers In	\$46,000	\$39,000	\$8,000
Ending Fund Balance	\$4,941,000	\$5,204,000	\$5,477,000
Less: Restricted Fund Balance (Reserves)	\$3,043,000	\$3,149,000	\$3,280,000
Less: Appropriated Fund Balance	\$535,000	\$535,000	\$417,000
Less: Encumbrances	\$63,000	\$48,000	\$77,000
Surplus Fund Balance	\$1,300,000	\$1,472,000	\$1,703,000
Next Year's Budget	\$13,071,000	\$13,274,000	\$13,742,000
Surplus Fund Balance as a Percentage of Next Year's Budget	10%	11%	12%
Amount Exceeding the Legal Limit	\$777,000	\$941,000	\$1,154,000

The Board has not adopted a comprehensive written fund balance policy. The Board President told us that the Board was aware surplus fund balance substantially exceeded the legal limit and would be taking action before the end of the 2018-19 fiscal year to reduce surplus fund balance by restricting an additional \$150,000 in two newly established reserves. However, surplus funds would still exceed the legal limit by approximately \$1 million even with these reserves.

In addition, annually appropriating fund balance that is not needed to finance operations is, in effect, a reservation of fund balance not provided for 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 10 to 11 percentage points (Figure 3).

Figure 3: Recalculated Surplus Fund Balance at Year-End

	2015-16	2016-17	2017-18
Surplus Fund Balance	\$1,300,000	\$1,472,000	\$1,703,000
Add: Unused Appropriated Fund Balance	\$535,000	\$535,000	\$417,000
Recalculated Surplus Fund Balance	\$1,835,000	\$2,007,000	\$2,120,000
Next Year's Budget	\$13,071,000	\$13,274,000	\$13,742,000
Surplus Fund Balance as a Percentage of Next Year's Budget	14%	15%	15%

Routinely adopting budgets that appropriate fund balance that will not be used to reduce taxes is misleading to taxpayers. 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 taxes.

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. Develop a plan to reduce surplus fund balance to comply with the statutory limit. Surplus funds can be used for:
 - Reducing District property taxes;
 - Funding one-time expenditures;
 - Funding needed reserves; or
 - Paying off debt.

The Board should:

3. Adopt a comprehensive written fund balance policy.

Appendix A: Response From District Officials

Alfred-Almond Central School

6795 State Route 21

Almond, New York 14804

Phone: 607-276-6500 • Fax: 607-276-6556

SUSAN BAIN-LUCEY
Secondary Principal

RICHARD N. CALKINS
Superintendent

BRETT A. DUSINBERRE
Elementary Principal

August 21, 2019

Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street – Room 1032
Buffalo, New York 14203-2510

RE: Alfred-Almond Central School District
Financial Management
Report of Examination
2019M-131
Draft Audit Report

Audit Response Letter

Dear Mr. Mazula,

Alfred-Almond Central School District (AACSD) acknowledges receipt of the above referenced draft Audit report.

Regarding the three “Key Findings” in the draft report, AACSD agrees with the financial accounting supporting the findings and acknowledges the Board has not adopted a formal written fund balance policy.

AACSD also finds the draft audit report recommendations reasonable and notes in FY 2018-19 it had initiated measures addressing budgeting and unappropriated fund balances prior to the audit. These initiatives will be further elaborated as part of the corrective action plan.

Last, the AACSD notes that maintaining the budgeted debt service payments at a constant annual level is actually beneficial to the taxpayer as it allows the District to schedule smaller more frequent capital projects, as debt service funds become available. This practice keeps the physical plant of AACSD better maintained and allows more frequent updates to the academic and classroom facilities. “Straight lining debt service” is a responsible, sound, fiscal practice and avoids spikes in taxes due to accumulating capital needs.

In closing, this audit has provided the district with an opportunity to enhance the financial management practices that it utilizes to ensure the appropriate use of appropriations and fund balance. We look forward to your response.

Sincerely,

Tracie L. Preston
Superintendent

See
Note 1
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Appendix B: OSC Comment on the District's Response

Note 1

Debt service schedules provide officials with sufficient information to properly estimate debt service payments each year. Intentionally over-estimating debt service appropriations to fund capital or facilities management costs undermines the transparency of the District's budget process. These costs should be included in the proper budget appropriation.

Appendix C: Audit Methodology and Standards

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, reviewed Board minutes and policies to gain an understanding of financial management policies and procedures and budgeting practices.
- We analyzed the general fund financial records from 2015-16 through 2017-18 and evaluated any factors contributing to fluctuations in fund balance.
- We reviewed the adopted general fund budgets from 2015-16 through 2017-18 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 2018-19 general fund budget to determine if similar budgeting patterns existed in comparison with the 2015-16 through 2017-18 adopted budgets.
- We obtained an estimate prepared by officials showing the potential operating results for 2018-19 and analyzed the estimate for reasonableness.
- We calculated surplus fund balance as a percentage of the next year's appropriations for 2015-16, 2016-17 and 2017-18 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 2015-16, 2016-17 and 2017-18.
- We analyzed the tax levy between 2015-16 and 2018-19 to determine whether there were any changes.

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.

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 2116-1(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 District Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

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

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

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

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

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

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

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

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

www.osc.state.ny.us/localgov/academy/index.htm

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

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BUFFALO REGIONAL OFFICE – Jeffrey D. Mazula, Chief Examiner

295 Main Street, Suite 1032 • Buffalo, New York 14203-2510

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