

Tri-Valley Central School District

Financial Management

MARCH 2020



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

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Report Highlights

Tri-Valley Central School District

Audit Objective

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

Key Findings

- The Board appropriated approximately \$3.9 million in fund balance and reserves from 2016-17 through 2018-19, but only used approximately \$218,000.
- The tax certiorari reserve was overfunded by nearly \$1.9 million as of June 30, 2019.
- When unused appropriated fund balance and the overfunded reserve were added back to the surplus fund balance, the District's recalculated surplus balance exceeded the statutory limit each of the last three fiscal years, ranging from 3.2 percentage points to 9.5 percentage points over the limit.

Key Recommendations

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

District officials agreed with our findings and recommendations and indicated that they have taken, or planned to take, corrective action.

Background

The Tri-Valley Central School District (District) serves the Towns of Fallsburg, Liberty and Neversink in Sullivan County and the Towns of Denning, Rochester and Wawarsing in Ulster County.

The District is governed by an elected nine-member Board of Education (Board) that is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the chief executive officer responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. The Assistant Superintendent for Finance and Human Resources is responsible for the development of the annual budget and the supervision of financial activities.

Quick Facts

2019-20 Budgeted Appropriations	\$34.9 million
Student Enrollment	965
Employees	176

Audit Period

July 1, 2016 – June 30, 2019

Financial Management

What Is Effective Financial Management?

To effectively manage a district's financial condition, a board must maintain reasonable fund balance levels. The board and district officials are responsible for estimating revenues, expenditures and available fund balance at fiscal year-end so they can determine the expected tax levy. Budget estimates should be based on prior years' operating results, past expenditure trends and anticipated future needs. Accurate budget estimates help ensure the tax levy is not greater than necessary.

Fund balance is the residual difference between revenues and expenditures accumulated over time. School districts are legally allowed to establish reserves and accumulate a reasonable amount of funds for certain future purposes (e.g., capital projects or retirement expenditures). The board should establish multiyear financial plans¹ that include how reserves will be funded, the optimal or targeted funding levels and when the reserves will be used to finance related costs.

Additionally, a district may retain a portion of fund balance, referred to as surplus fund balance,² within the limits established by New York State Real Property Tax Law³ (RPTL), which currently limits the amount of surplus fund balance that can legally be retained to 4 percent of the ensuing year's budgeted appropriations. When fund balance and reserves are appropriated in the budget, there is an expectation of a planned operating deficit (expenditures exceeding revenues) equal to the amount of fund balance and reserves that were appropriated. Combining a reasonable level of surplus fund balance with specific legally established reserves provides both for unanticipated events and for other identified or planned needs.

Officials Overfunded the Tax Certiorari Reserve

The Board has not adopted a comprehensive written fund balance and reserve policy establishing optimal funding levels and plans for reserves. We analyzed the balances of the District's reserve funds as of June 30, 2019 to determine whether the amounts retained were reasonable and determined that the balance in the tax certiorari reserve was excessive.

1 Refer to our multiyear financial planning resources available at <https://www.osc.state.ny.us/localgov/planbudget/index.htm>

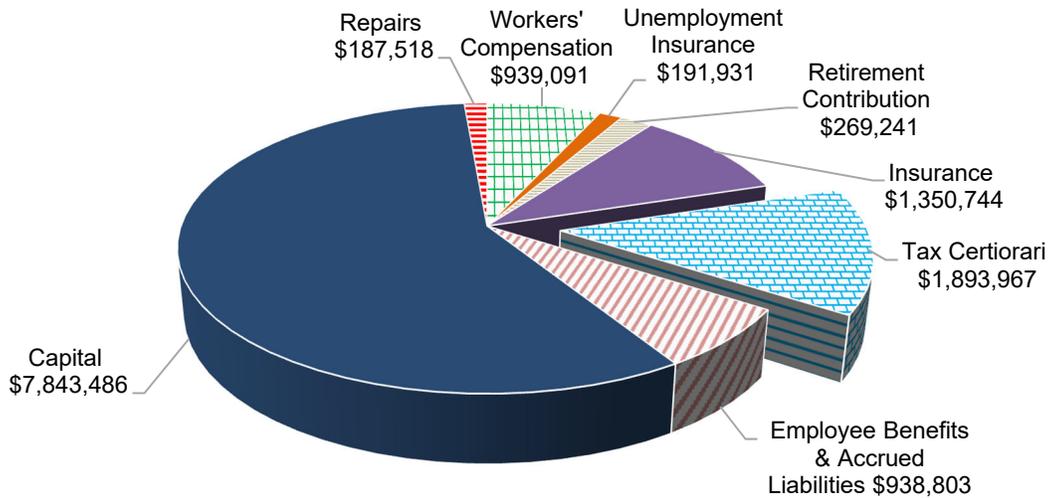
2 Surplus fund balance is defined as unrestricted fund balance minus appropriated fund balance and encumbrances included in committed and assigned fund balance. See our accounting bulletin at <https://www.osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>

3 New York State Real Property Tax Law, Section 1318

FIGURE 1

Reserve Fund Balances as of June 30, 2019

Total: \$13,614,781



New York State Education Law⁴ authorizes the board to establish a tax certiorari reserve⁵ to pay for judgments and claims resulting from tax certiorari proceedings.⁶ Funds in the reserve that will not be reasonably required to pay a tax certiorari judgment or claim must be returned to the general fund on or before the first day of the fourth fiscal year following the deposit of funds to the reserve.⁷ The District's tax certiorari reserve had a balance of nearly \$1.9 million as of June 30, 2019. We determined that the reserve was overfunded because there were no outstanding tax certiorari claims supporting the balance. Because the overfunded amount has resided in this reserve for over four years, District officials should return the excess to the general fund as unrestricted fund balance.

When excess funds are held in reserves, this money is not being used to benefit the taxpayers. As a result, real property taxes could be higher than necessary.

4 New York State Education Law, Section 3651

5 For more information, please refer to our publication Reserve Funds available at www.osc.ny.us/localgov/pubs/lmg/reservefunds.pdf

6 A legal proceeding whereby a taxpayer who has been denied a reduction in property tax assessment challenges the assessment on the grounds of excessiveness, inequality, illegality or misclassification.

7 Money in a tax certiorari reserve fund are deemed "reasonably required" to pay a tax certiorari judgment or claim if the proceeding or claim has not been finally determined or otherwise terminated or disposed of after the exhaustion of all appeals.

The Board Overestimated Appropriations

We compared the 2016-17 through 2018-19 estimated revenues and budgeted appropriations with actual operating results and found that estimated revenues were generally reasonable, but budgeted appropriations were overestimated by an average of 3.8 percent (Figure 2). While these variances may appear small, in aggregate they resulted in an increase in fund balance over the past several years.

Figure 2: Overestimated Appropriations

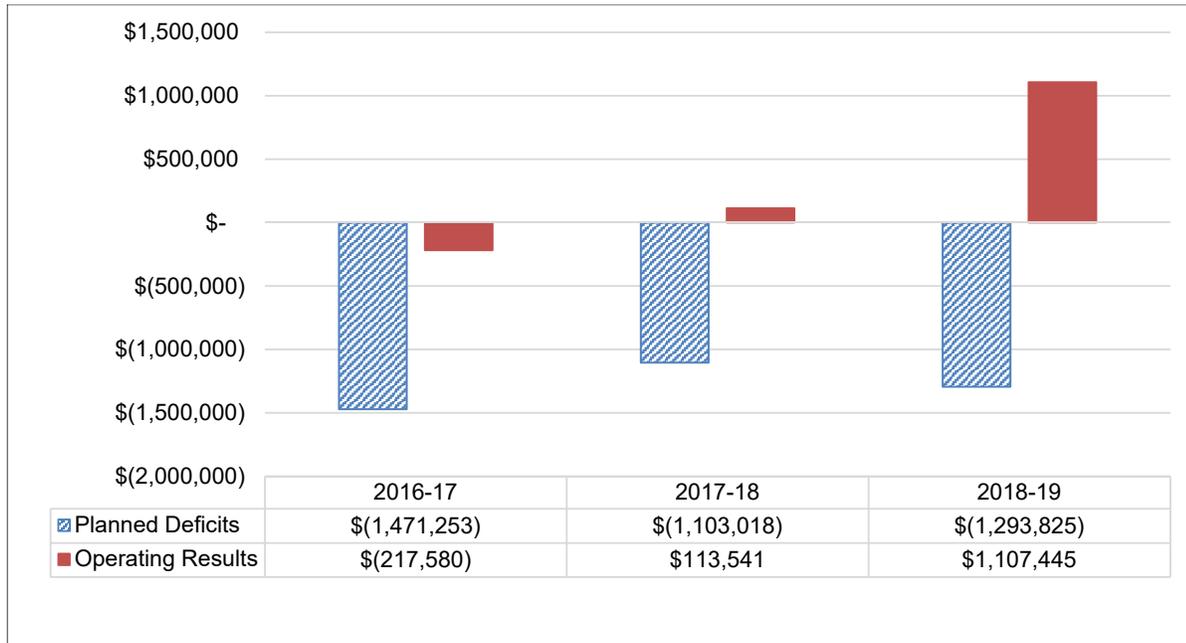
	2016-17	2017-18	2018-19	Average
Budgeted Appropriations	\$31,894,801	\$32,440,026	\$33,576,255	\$32,637,027
Actual Expenditures	\$31,130,114	\$32,028,602	\$31,020,964	\$31,393,227
Dollar Variance	\$764,687	\$411,424	\$2,555,291	\$1,243,801
Percentage Variance	2.4%	1.3%	7.6%	3.8%

Because the Board 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 (more expenditures than revenues), despite historical trends showing otherwise.

The Board Appropriated More Fund Balance Than Needed

The Board's conservative budgeting over the last three fiscal years resulted in increased tax levies and a total unplanned operating surplus of approximately \$1 million instead of the planned deficits totaling \$3.9 million from appropriating fund balance and reserves.⁸

⁸ The Board appropriated \$1,108,825 in unrestricted fund balance and \$185,000 in reserves for the 2018-19 fiscal year.

FIGURE 3**Planned Deficits vs. Actual Operating Results**

Due to the unplanned operating surpluses in two of the last three years, appropriated unrestricted fund balance totaling \$3.5 million was not used during the 2016-17 through 2018-19 fiscal years – only \$217,580 (of the almost \$1.5 million in fund balance appropriated for 2016-17) was used. Had officials maintained the same tax levy from 2016-17 through 2018-19, taxpayers could have realized approximately \$1 million in cumulative savings and the District still would not have used all of the fund balance that was appropriated.

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 circumvents the statutory limit imposed on the surplus fund balance level.

Recalculated Surplus Fund Balance Exceeded the Statutory Limit

Over the last three completed years, the District reported surplus fund balances of 3.9 to 4 percent of the next year’s appropriations, which was within the statutory limit allowed by RPTL. However, with the unused appropriated fund balance and the overfunded tax certiorari reserve added back, surplus fund balance exceeded the statutory limit by 9.5 percentage points, or about \$3.3 million, as of June 30, 2019 (Figure 4).

Figure 4: Recalculated Surplus Fund Balance Including Unused Appropriated Fund Balance and Excessive Tax Certiorari Reserve Balance

	2016-17	2017-18	2018-19
Total Surplus Fund Balance at Year-End	\$1,293,455	\$1,310,600	\$1,385,250
Ensuing Year's Budgeted Appropriations	\$32,440,026	\$33,576,255	\$34,870,077
Surplus Fund Balance as a Percentage of Ensuing Year's Budgeted Appropriations	4.0%	3.9%	4.0%
Add: Appropriated Fund Balance Not Used to Finance Ensuing Year's Budget	\$1,103,018	\$1,108,825	\$1,414,096 ^a
Add: Overfunded Tax Certiorari Reserve	N/A ^b	N/A ^b	\$1,893,967
Recalculated Surplus Fund Balance	\$2,396,473 ^b	\$2,419,425 ^b	\$4,693,313 ^a
Recalculated Surplus Fund Balance as a Percentage of the Ensuing Year's Budgeted Appropriations	7.4% ^b	7.2% ^b	13.5% ^a
Percentage Points Exceeding the Legal Limit	3.4% ^b	3.2% ^b	9.5% ^a
Amount Exceeding the Legal Limit	\$1,098,872 ^b	\$1,076,376 ^b	\$3,298,510 ^a

a We estimated the appropriated fund balance not used to finance the 2019-20 fiscal year based on the previous five-year total of unused appropriated fund balance as a percentage of total budgeted appropriated fund balance.

b Our review of the tax certiorari reserve balance focused on the existence of any outstanding claims or liabilities as of June 30, 2019. Therefore, excessive balances are not included for the 2016-17 and 2017-18 fiscal years.

The budgeting practices made it appear that the District needed to both increase taxes and use appropriated fund balance to close projected budget gaps. However, the District realized operating surpluses and, consequently, appropriated fund balance that was not needed to finance operations. Given the District's budgeting practices and fund balance levels, the Board may have levied more taxes than necessary to sustain operations and missed opportunities to more effectively manage fund balance and potentially reduce taxes.

What Do We Recommend?

The Board and District officials should:

1. Develop multiyear financial plans that establish the optimal or targeted funding levels and conditions under which each reserve fund's assets will be used or replenished.
2. Return excess funds in the tax certiorari reserve to the unrestricted fund balance in the general fund.

-
3. Develop and adopt budgets that include reasonable estimates for appropriations, and discontinue the practice of appropriating fund balance that is not needed or used to fund operations.
 4. 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; and
 - Paying off debt.

Appendix A: Response From District Officials

Tri-Valley Central School

34 Moore Hill Road
Grahamsville, NY 12740

Michael Williams
Superintendent
(845) 985-2298, ext. 5102
Fax (845) 985-0310

February 26, 2020

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

RE: Tri-Valley Central School District
Financial Management
Report of Examination 2020M-17
Draft Audit Report – Response Letter

Dear Ms. Singer,

The Tri-Valley Central School District (TVCSDD) acknowledges receipt of the above referenced audit report. Regarding the three “Key Findings” in the audit report, the TVCSDD response to each is as follows:

1. The Board agrees with the finding relative to appropriations versus expenditures of the fund balance from 2016-17 through 2018-19.
2. The District acknowledges the excess in the Tax Certiorari fund. These excesses were accumulated to support a possible devastating Tax Certiorari claim made by the City of New York. The District did discuss with the auditor on site that a three-part plan exists to eliminate this excess, including finishing a Capital Project (which had no funds bonded) and retiring long-term debt in both 2018 and 2021.
3. The District acknowledges the exceedance of the statutory limit to fund balance when recalculated with the addition of the appropriated fund balance and the reserve. These funds were accumulated to allow the District to use 6.5 million dollars in funds to partially support an 11 million dollar Capital Project (2019), while bonding only 4.5 million dollars.

In closing, this audit has provided the District with the opportunity to more closely examine our financial management practices and best serve our community. We thank you for the time you spent with us and for your recommendations for improvement.

Sincerely,

Keri Poley
BOE President

Michael Williams
Superintendent

Appendix B: 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 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 analyzed 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 and calculated how much was actually used.
- We calculated surplus fund balance as a percentage of the ensuing year's appropriations for 2016-17 through 2018-19 to assess compliance with RPTL.
- We recalculated surplus fund balance as a percentage of the ensuing 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 included the overfunded tax certiorari reserve balance for the 2018-19 calculation.
- 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 reviewed the reserve balances as of June 30, 2019 to determine whether they were reasonably funded.

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 C: 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

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

Local Government and School Accountability Help Line: (866) 321-8503

BINGHAMTON REGIONAL OFFICE – Ann C. Singer, Chief Examiner

State Office Building, Suite 1702 • 44 Hawley Street • Binghamton, New York 13901-4417

Tel (607) 721-8306 • Fax (607) 721-8313 • Email: Muni-Binghamton@osc.ny.gov

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