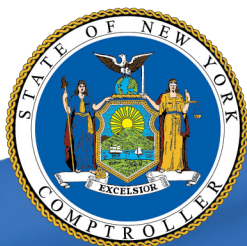


Fallsburg Central School District

Fund Balance Management

MAY 2020



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

Contents

- Report Highlights 1**

- Fund Balance Management 2**
 - What Is Effective General Fund Balance Management? 2
 - The Board Overestimated Appropriations 2
 - The Board Appropriated More Fund Balance Than Needed and Surplus Fund Balance Exceeded the Statutory Limit 3
 - What Do We Recommend? 4

- Appendix A – Response From District Officials 5**

- Appendix B – Audit Methodology and Standards 7**

- Appendix C – Resources and Services. 9**

Report Highlights

Fallsburg Central School District

Audit Objective

Determine whether the Board and District officials effectively managed general fund balance.

Key Findings

- The Board overestimated appropriations from 2016-17 through 2018-19, resulting in over \$5 million in appropriated fund balance not being used to finance operations.
- After adding back unused appropriated fund balances each year, the District's recalculated surplus fund balance exceeded the statutory 4 percent limit each of the last three fiscal years ranging from 12.1 percent to 16.7 percent.

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 in a manner that benefits District taxpayers.

District officials agreed with our recommendations and have initiated or indicated they planned to initiate corrective action.

Background

The Fallsburg Central School District (District) serves the Towns of Fallsburg, Mamakating, and Thompson in Sullivan County and the Town of Wawarsing in Ulster County.

The District is governed by an elected nine-member Board of Education (Board). The Board 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 and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

Quick Facts

Total Fund Balance and Reserves	\$10.5 million
2019-20 Budgeted Appropriations	\$46.5 million
Students	1,358

Audit Period

July 1, 2016 – June 30, 2019

Fund Balance Management

What Is Effective General Fund Balance Management?

To properly manage fund balance, 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 budget estimates help ensure 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 Law currently limits the amount of surplus fund balance that a school district can retain to no more than 4 percent of the next year's budget.¹ Any surplus fund balance over this percentage must be used to reduce the upcoming fiscal year's tax levy or to fund needed reserves. When fund balance is appropriated to finance operations, there is an expectation of a planned operating deficit equal to the amount of fund balance that was appropriated.

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 6.9 percent (Figure 1). While these variances may appear small, in aggregate they helped result in an increase in fund balance over the past several years.

Figure 1: Overestimated Appropriations

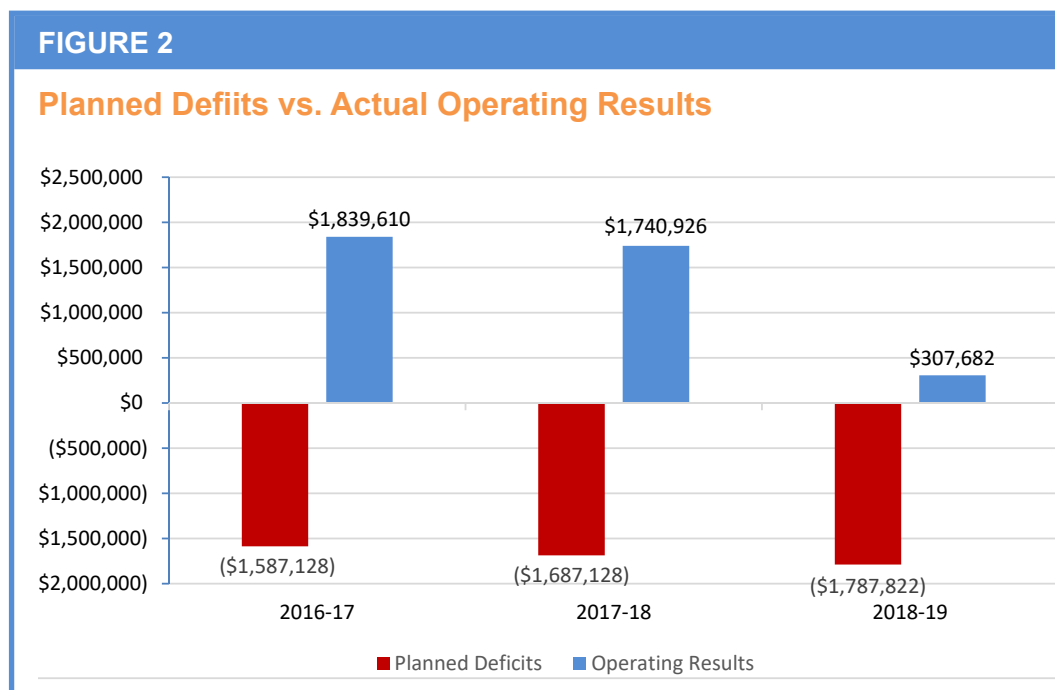
	2016-17	2017-18	2018-19	Average
Budgeted Appropriations	\$42,097,369	\$43,606,807	\$43,123,664	\$42,942,613
Actual Expenditures	\$39,070,202	\$39,489,844	\$41,431,008	\$39,997,018
Dollar Variance	\$3,027,167	\$4,116,963	\$1,692,656	\$2,945,595
Percentage Variance	7.2%	9.4%	3.9%	6.9%

¹ New York State Real Property Tax Law, Section 1318. 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://osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>.

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 and Surplus Fund Balance Exceeded the Statutory Limit

The Board adopted budgets that conservatively estimated revenues and appropriations over the last three fiscal years, which resulted in a total unplanned operating surplus of approximately \$3.9 million instead of the planned deficits.



Due to the unplanned operating surpluses, appropriated fund balance totaling over \$5 million was not used. Annually appropriating fund balance that is not needed to finance operations is, in effect, a reservation of fund balance that is not provided for by statute and circumvents the statutory limit imposed on the level of surplus fund balance.

The District reported surplus fund balance that exceeded the 4 percent limit allowed by RPTL in each of the last three years. Additionally, unused appropriated fund balance is essentially surplus fund balance, causing surplus fund balance to further exceed the statutory limit by another 3.4 to 4 percentage points.

Figure 3: Recalculated Surplus Fund Balance Including Unused Appropriated Fund Balance

	2016-17	2017-18	2018-19
Surplus Fund Balance at Year-End	\$5,503,670	\$5,121,622	\$4,037,067
Ensuing Year's Budget	\$43,123,664	\$43,606,807	\$46,471,065
Surplus Fund Balance as a Percentage of Ensuing Year's Budget	12.8%	11.8%	8.7%
Add: Appropriated Fund Balance Not Used to Finance Ensuing Year's Budget	\$1,687,128	\$1,787,822	\$1,602,377 ^a
Recalculated Surplus Fund Balance	\$7,190,798	\$6,909,444	\$5,639,444
Recalculated Surplus Fund Balance as a Percentage of Ensuing Year's Budget	16.7%	15.8%	12.1%

^a We estimated the appropriated fund balance that will not be 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. This amount is also exclusive of \$1.4 million appropriated for a capital project.

Although property tax levies remained relatively flat during these years, the Board's conservative budgeting practices resulted in positive variances that were enough to offset the appropriated fund balance, which was approximately 4 percent of the budget each year. District officials plan to use surplus funds of \$1.4 million to finance a capital project in 2019-20.

What Do We Recommend?

The Board and District officials should:

1. Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.
2. Develop and adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations.
3. Develop a plan to reduce surplus fund balance in a manner that benefits District taxpayers. Surplus funds can be used as a financing source for:
 - Funding one-time expenditures,
 - Funding needed reserves,
 - Paying off debt, and
 - Reducing District property taxes.

Appendix A: Response From District Officials

FALLSBURG CENTRAL SCHOOL DISTRICT

Ivan Katz, Ed. D., Superintendent of Schools

PO Box 124, 115 Brickman Road

Fallsburg, NY 12733

Voice: 845-434-5884 Fax: 845-434-8346

Web: www.fallsburgcsd.net

PARTNERSHIPS



KEY TO EXCELLENCE

April 30, 2020

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

Dear Ms. Singer:

The Fallsburg Central School District Board of Education and Administration submit this letter as its official response and corrective action plan for the recent examination of the District's Financial Condition. The Board of Education and the Administration agree with the findings in the report.

The report recommends the Board and District officials adopt budgets that include reasonable estimates for appropriation and the amount of fund balance that will be used to fund appropriations. The District is committed to, through budgetary practices and strategic planning, sustaining its educational program for its students while balancing the fiscal resources of the District. Those resources include accumulated fund balance, reserve funds, and the capacity of the district's taxpayers. The district agrees that it is important to develop realistic budget plans that accurately project the amount of surplus needed to be appropriated.

The report further recommends the Board develop a plan to reduce the true amount of fund balance in a manner that benefits the District's taxpayers. The Board and District officials have developed a strategic multi-year plan which will reduce the amount of fund balance by appropriating a portion of the available fund balance to reduce the amount property taxes need to be levied. The district also regularly reviews the amounts in the district's reserves accounts for appropriateness. Also, the district has transferred \$2,000,000 into a capital fund which will be used to offset the costs of parking lot repairs and upgrades.

District officials will continue to refine the processes used in projecting revenues and expenditures so that the necessary amount to taxes will be levied. Any excess funds will be used to reduce subsequent years' tax levies, increasing approved and established reserves, and financing one-time expenses.

Fallsburg Jr./Sr. High School
PO Box 124
115 Brickman Road
Fallsburg, NY 12733
Voice: 845-434-6800
Fax: 845-434-0168

Benjamin Cosor Elementary School
PO Box 123
15 Old Falls Road
Fallsburg, NY 12733
Voice: 845-434-4110
Fax: 845-434-0871

Guidance Office
PO Box 124
115 Brickman Road
Fallsburg, NY 12733
Voice: 845-434-6124
Fax: 845-436-0207

Pupil Personnel Services
PO Box 123
115 Brickman Road
Fallsburg, NY 12733
Voice: 845-434-0467
Fax: 845-434-6819

Together, we will make a difference

FALLSBURG CENTRAL SCHOOL DISTRICT

Ivan Katz, Ed. D., Superintendent of Schools

PO Box 124, 115 Brickman Road

Fallsburg, NY 12733

Voice: 845-434-5884 Fax: 845-434-8346

Web: www.fallsburgcsd.net

PARTNERSHIPS



KEY TO EXCELLENCE

The Fallsburg Central School District would like to thank the audit team from your office for their diligent work in examining the District's financial condition and the helpful suggestions they provided to us to improve our operations.

Sincerely,

Dr. Ivan J. Katz,
Superintendent of Schools

Fallsburg Jr./Sr. High School
PO Box 124
115 Brickman Road
Fallsburg, NY 12733
Voice: 845-434-6800
Fax: 845-434-0168

Benjamin Cosor Elementary School
PO Box 123
15 Old Falls Road
Fallsburg, NY 12733
Voice: 845-434-4110
Fax: 845-434-0871

Guidance Office
PO Box 124
115 Brickman Road
Fallsburg, NY 12733
Voice: 845-434-6124
Fax: 845-436-0207

Pupil Personnel Services
PO Box 123
115 Brickman Road
Fallsburg, NY 12733
Voice: 845-434-0467
Fax: 845-434-6819

Together, we will make a difference

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 the financial management policies and procedures.
- We analyzed the District's reserve fund balances as of June 30, 2019 to determine whether balances were excessive by reviewing related expenditures, associated liabilities and supporting documentation.
- 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. We reviewed the 2019-20 budget to determine amounts appropriated from surplus.
- We calculated surplus fund balance as a percentage of the next year's appropriations for 2016-17 through 2018-19 to assess compliance with statute.
- We recalculated surplus fund balance as a percentage of the next year's appropriations after adding back the unused appropriated fund balance for 2016-17 and 2017-18, and the estimated expected unused appropriated fund balance for 2018-19. We estimated the amount of appropriated fund balance that will not be 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.

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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

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 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. The CAP should be posted on the District's website for public review.

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#lgmg

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

Serving: Broome, Chenango, Cortland, Delaware, Otsego, Schoharie, Sullivan, Tioga, Tompkins counties



Like us on Facebook at facebook.com/nyscomptroller

Follow us on Twitter [@nyscomptroller](https://twitter.com/nyscomptroller)