

Margaretville Central School District

Financial Management

JUNE 2020



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

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Report Highlights

Margaretville Central School District

Audit Objective

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

Key Findings

- The Board overestimated appropriations and appropriated approximately \$1.4 million in fund balance from 2016-17 through 2018-19 that it did not use to fund operations because of generated operating surpluses.
- As of June 30, 2019, surplus fund balance totaled approximately \$3.9 million or 32 percent of the next year's budget, exceeding the statutory limit.
- When unused appropriated fund balance was added back to and overstated receivables were deducted from surplus fund balance, it totaled almost \$3.2 million, exceeding the statutory limit by approximately \$2.7 million or 22 percent as of June 30, 2019.

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 excess funds in a manner beneficial to taxpayers.

Background

The Margaretville Central School District (District) serves the Towns of Andes, Bovina, Middletown and Roxbury in Delaware County, the Towns of Halcott and Lexington in Greene County, and the Towns of Hardenburgh and Shandaken in Ulster County.

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

Quick Facts

2019-20 Appropriations	\$12.2 million
Enrollment	349
Employees	189

Audit Period

July 1, 2016 – December 31, 2019

Financial Management

What is Effective Financial Management?

To effectively manage a district's financial condition, the board should adopt realistic and structurally balanced budgets based on historical data or known trends, in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. This also includes ensuring amounts recorded as receivables and liabilities are accurate and supported because these amounts directly impact year-end available fund balance. Accurate budget estimates and properly recorded balances in accounts help ensure the tax levy is not greater than necessary.

Fund balance is the difference between revenues and expenditures accumulated over time. A district may retain a portion of surplus fund balance to provide a cushion against unforeseen events and to provide for fluctuations in cash flow.¹ 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 appropriations.²

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 legally established reserves provides both for unanticipated events and for other identified or planned needs.

The Board Overestimated Appropriations

We compared the 2016-17 through 2018-19 estimated revenues and appropriations with actual operating results. While total revenue estimates were generally reasonable, total appropriations were overestimated by an average of over 8 percent, which resulted in cumulative increased surplus fund balance from \$2.6 million to \$3.9 million, or 52 percent over these years.

Figure 1: Overestimated Appropriations

	2016-17	2017-18	2018-19	Average
Appropriations	\$11,438,515	\$11,812,547	\$12,026,275	\$11,759,112
Actual Expenditures	\$10,190,271	\$10,838,821	\$11,504,087	\$10,844,393
Overestimated Appropriations	\$1,248,244	\$973,726	\$522,188	\$914,720
Percentage Overestimated	12%	9%	5%	8%

1 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>

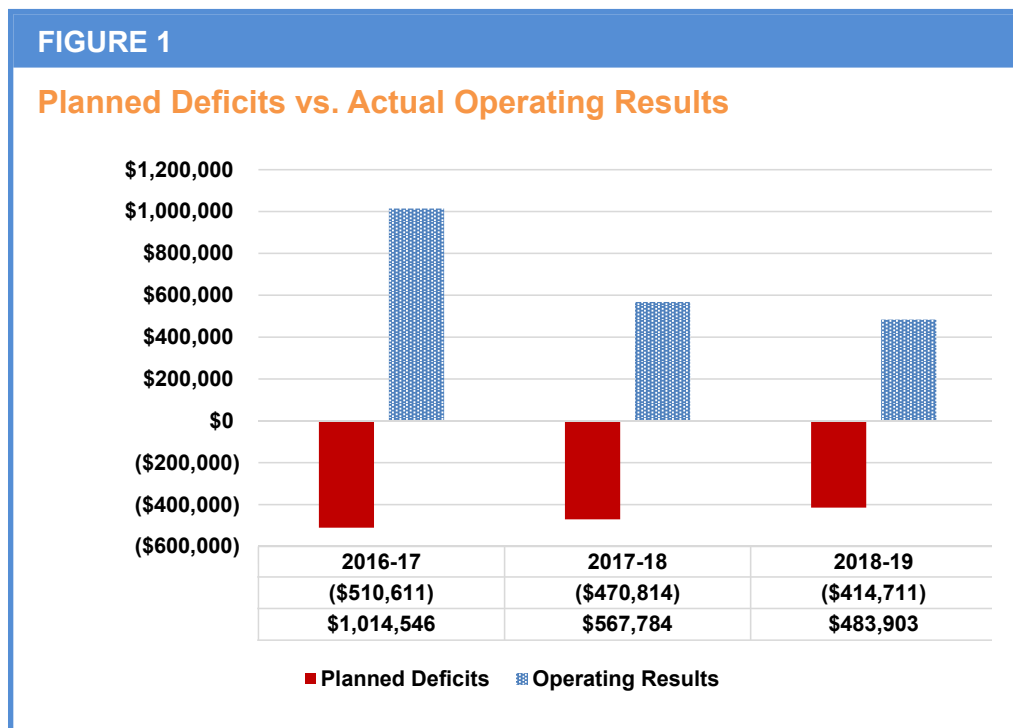
2 New York State Real Property Tax Law, Section 1318

The current Treasurer was not involved in developing the current or past budgets. Officials told us that they overestimate employee benefits to provide a cushion in case of an emergency or to cover unexpected expenditures. Although 2019-20 was only partially completed at the end of our fieldwork, a comparison to the budgets for the past three years showed that these trends are likely to continue for this year as well.

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, despite historical trends showing otherwise.

The Board Appropriated More Fund Balance Than Needed

Instead of generating planned operating deficits totaling almost \$1.4 million³, the Board’s conservative budgeting over the last three fiscal years resulted in increased tax levies and operating surpluses of close to \$2.1 million.



Budgeting practices that produce operating surpluses and maintain fund balance in excess of the amount allowed by law result in inaccurate budget estimates and real property tax levies that may be greater than necessary to fund operations.

³ The planned deficits come from a combination of appropriated fund balance totaling \$646,000 and appropriated reserves totaling \$750,000. However, none of the appropriated funds were used for operations or as planned.

Had officials maintained the same tax levy from 2016-17 through 2018-19, taxpayers could have realized nearly \$445,000 in cumulative savings and the District still would not have used any of the appropriated fund balance.

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.

Surplus Fund Balance Exceeded the Statutory Limit

The District reported surplus fund balances from 2016-17 through 2018-19 significantly exceeding the statutory limit from 18 to 28 percentage points. Additionally, our analysis of balance sheet accounts disclosed that officials improperly carried forward several balances with no supporting documentation to justify the amounts recorded.

We found that certain balance sheet items (i.e., accounts receivables, interfund loans and accrued liabilities) were overstated with total combined balances of \$867,099 that should not have been recorded and inappropriately increased surplus fund balance. When adding back unused appropriated fund balance and deducting the balance sheet accounts, surplus fund balance exceeded the statutory limit by almost 22 percent, or \$2.7 million as of June 30, 2019.

Figure 3: Recalculated Surplus Fund Balance at Fiscal Year-End

	2016-17	2017-18	2018-19
Surplus Fund Balance	\$2,594,120	\$3,233,283	\$3,942,948
Next Year's Budget	\$11,812,547	\$12,026,275	\$12,231,278
Surplus Fund Balance as a Percentage of Next Year's Budget	22%	27%	32%
Add: Unused Appropriated Fund Balance^a	\$220,814	\$164,711	\$90,533
Less: Net Overstated Balance Sheet Accounts^b	\$0	\$0	(\$867,099)
Recalculated Surplus Fund Balance	\$2,814,934	\$3,397,994	\$3,166,382
Recalculated Surplus Fund Balance as a Percentage of Next Year's Budget	24%	28%	26%
Amount Exceeding the Legal Limit	\$2,342,432	\$2,916,943	\$2,677,131
Percentage Exceeding the Legal Limit	20%	24%	22%

a The District appropriated \$260,611 of fund balance in 2015-16 for 2016-17. Also, based on the results of the last three completed years' operations, a surplus is expected for 2019-20.

b Our analysis of the balance sheet accounts focused on the existence of receivables and liabilities as of June 30, 2019. Therefore, excessive balances are not included for 2016-17 and 2017-18.

These budgeting practices made it appear that the District needed to both increase taxes and use appropriated and reserve funds to close projected budget gaps. However, the District experienced operating surpluses and, consequently, fund balance was not needed to finance operations during the past three years. We believe that District officials may not need to use surplus funds to finance operations in 2019-20.

Given the District's budgeting practices and fund balance levels, the Board 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. 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.
2. Correct the misclassifications and properly record accounts receivable, interfund loans and accrued liabilities to accurately report the District's year-end surplus fund balance.
3. 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
 - Paying off debt

Appendix A: Response From District Officials

MARGARETVILLE CENTRAL SCHOOL

415 MAIN STREET, P.O. BOX 319
MARGARETVILLE, NEW YORK 12455

Building Principal
Laura H. Norris

DR. ROBERT L. CHAKAR, SUPERINTENDENT
Telephone 845-586-2647
FAX 845-586-2949

Treasurer
Gregory Beall

Margaretville Central School District
Margaretville, NY

Below are the responses for Comptroller's Margaretville Central School District Financial Management Report of Examination 2020M-46.

1. Audit Recommendation: Adopt budgets that include reasonable estimates for appropriations, and discontinue the practice of appropriation fund balance that is not needed or used to fund operations.

Implementation Plan of Action: The District will adopt budgets that include reasonable estimates for appropriations, and discontinue the practice of appropriation fund balance that is not needed or used to fund operations.

Implementations Date: The Margaretville Central School District has implemented the corrective action with budget for 2020-21

Person Responsible for Implementation: Superintendent of School and Board of Education

2. Audit Recommendation: Correct the misclassifications and properly record accounts receivable, interfund loans and accrued liabilities to accurately report the District's year-end surplus fund balance.

Implementation Plan of Action: The District will insure we classify and properly record accounts receivable, interfund loans and accrued liabilities to accurately report the District's year-end surplus fund balance.

Implementations Date: The District has implemented.

Person Responsible for Implementation: The District Treasurer.

3. Audit Recommendation: 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

Paying off debt

Implementation Plan of Action: The District is reducing surplus fund balance to comply with the statutory limit. The District is

District reduced District property taxes in the 2020-21 Budget

District is considering funding one-time expenditures

District will continue to fund the TRS Retirement Contribution reserve

The District will consider paying off debt that is legally allowed

Implementations Date: The District has started to implement the above and will continue to implement the above.

Person Responsible for Implementation: Board of Education, Superintendent, and District Treasurer

Signed:

Name Doris E Warner

Date 5/7/2020

President, Board of Education

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. We also analyzed significant budget-to-actual variances to determine why they occurred.
- We reviewed the fund balance appropriated for 2016-17 through 2018-19 and calculated how much was actually used.
- 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 reserve balances as of June 30, 2019 to determine whether they were reasonably funded.
- We reviewed the balance sheet accounts as of June 30, 2019 to determine whether the receivables and liabilities were supported and accurate.
- 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 budget after adding back unused appropriated fund balance for 2016-17 through 2017-18 and projected unused appropriated fund balance for 2018-19. We included overstated balance sheet accounts for the 2018-19 calculation.
- We analyzed the tax levy for 2016-17 through 2019-20 to determine whether District officials increased the levy and evaluated whether increases were necessary.

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.

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 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 to the District's website for public review.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All

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

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263206&issued=All

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

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/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/local-government/required-reporting

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

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

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