

# Putnam Central School District

## Fund Balance Management

JULY 2020



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

# Contents

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- Report Highlights . . . . . 1**
  
- Fund Balance Management . . . . . 2**
  - What Is Effective Fund Balance Management? . . . . . 2
  - Surplus Fund Balance Exceeded the Statutory Limit . . . . . 3
  - The Board Has Not Adopted an Adequate Multiyear Financial Plan . . . . . 5
  - What Do We Recommend? . . . . . 5
  
- Appendix A – Response From District Officials . . . . . 7**
  
- Appendix B – OSC Comment on the District’s Response. . . . . 9**
  
- Appendix C – Audit Methodology and Standards . . . . . 10**
  
- Appendix D – Resources and Services. . . . . 12**

# Report Highlights

## Putnam Central School District

### Audit Objective

Determine whether District officials effectively managed the general fund balance.

### Key Findings

- District officials need to improve budgeting practices to more effectively manage fund balance. Specifically, the District's surplus fund balance exceeded the statutory limit by 32.7 to 42.8 percentage points at the end of the last three fiscal years.
- Appropriations were consistently overestimated resulting in increasing fund balance levels and the District did not use all of the fund balance appropriated to finance operations for fiscal years 2016-17 through 2018-19.
- The Board has not adopted an adequate multiyear financial plan.

### Key Recommendations

- Use surplus funds as a financing source to fund one-time expenditures and reserves, pay off debt or to reduce District property taxes.
- Adopt annual budgets with realistic estimates of appropriations.
- Periodically review and update the District's multiyear financial plan for actual operating results.

Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on issues raised in the District's response letter.

### Background

The Putnam Central School District (District) serves the Towns of Putnam and Dresden in Washington County. The District operates one school for students from pre-K through sixth grade. After sixth grade, the District's students attend the Ticonderoga Central School District (Ticonderoga). Ticonderoga annually invoices the District for students enrolled.

The District is governed by a Board of Education (Board) composed of five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs.

The Superintendent of Schools (Superintendent) is responsible for the District's day-to-day management. The District contracts with Franklin-Essex-Hamilton BOCES (FEH BOCES) to provide shared Business Office services.

#### Quick Facts

Pre-K - 6th Grade Students	37
7th - 12th Grade Students at Ticonderoga CSD	40
Employees	8
2019-20 Adopted Appropriations	\$2.6 million*

\*Includes approximately \$632,700 appropriated for Ticonderoga CSD tuition.

### Audit Period

July 1, 2016 – September 30, 2019

# Fund Balance Management

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## What Is Effective Fund Balance Management?

To effectively manage fund balance, a board must adopt realistic and structurally balanced budgets, based on historical data, supporting data or known trends, in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. In addition, budget transparency is important for public participation and accountability and allows taxpayers to assess and provide feedback on the quality and adequacy of services as well as decisions that impact a district's long-term financial stability. Districts can assist with budget transparency by including a comparison of budget-to-actual information for prior years when presenting budgets to the public, providing taxpayers with a better understanding of trends and giving them the opportunity to make more informed decisions when voting on the budget.

In order to provide for cash flow and unanticipated events, a district may retain a portion of fund balance, referred to as surplus fund balance. District officials should ensure that surplus fund balance does not exceed the amount allowed by New York State Real Property Tax Law,<sup>1</sup> which is limited to no more than 4 percent of the following year's appropriations. Any surplus fund balance over this percentage must be used to reduce the real property tax levy by appropriating fund balance to lower the tax levy. When fund balance is appropriated to finance operations, a district is budgeting for a planned operating deficit equal to the amount of the appropriated fund balance.

District officials should prepare a multiyear financial plan based on reasonable estimates that project future revenues, expenditures, reserve balance amounts and fund balance amounts. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Such plans allow officials to identify developing revenue and expenditure trends, establish long-term priorities and goals and consider the impact of near-term budgeting decisions on future fiscal years.

Multiyear plans also help officials assess the merits of alternative approaches (such as appropriating fund balance or establishing and using reserves) to finance operations and capital needs. Any multiyear plan must be monitored and updated on a continuing basis to provide a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate.

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<sup>1</sup> For purposes of computing fund balance subject to New York State Real Property Tax Law Section 1318, the 4 percent limitation is applied to unrestricted fund balance which includes committed, assigned and unassigned fund balance minus appropriated fund balance, amounts reserved for insurance recovery and encumbrances included in committed and assigned fund balance. Appropriated fund balance is classified as assigned, but must be excluded from the 4 percent calculation because it is not being retained and is already being used to reduce the tax levy for the subsequent fiscal year. Encumbrances and other reserved amounts are excluded for consistency, because they are not considered surplus funds.

## Surplus Fund Balance Exceeded the Statutory Limit

District officials need to improve budgeting practices to more effectively manage fund balance. The District's surplus fund balance exceeded the statutory limit by 32.7 to 42.8 percentage points at the end of the fiscal years 2016-17 through 2018-19. Surplus fund balance amounts have increased significantly from 2016-17 through 2018-19. The surplus fund balance increased from approximately \$927,000 at June 30, 2017 to over \$1.2 million as of June 30, 2019, an increase of about \$285,520 or 31 percent. The District's surplus fund balance as of June 30, 2019 was 46.8 percent of the ensuing years' appropriations, exceeding the statutory limit by more than \$1.1 million.

While District officials appropriated fund balance annually, the District realized operating deficits significantly less than was included in the budget in 2016-17 and 2017-18 and realized an operating surplus in 2018-19. As a result, the District did not use approximately \$295,000 of the \$600,000 appropriated fund balance in 2016-17 and \$531,000 of the \$610,000 appropriated fund balance in 2017-18. In 2018-19, the District appropriated \$491,000 of fund balance to finance operations but realized an operating surplus of approximately \$66,000.

Furthermore, the District's reported restricted and total fund balances were understated by approximately \$100,200 for 2016-17 through 2018-19. The understatement was the result of the District incorrectly categorizing these amounts as a capital reserve in the capital project fund for all three years despite the reserve being an established general fund reserve. While this did not impact the amount of the District's surplus fund balance, we recalculated the District's restricted and total fund balances for 2016-17 through 2018-19.

**Figure 1: Recalculated Surplus Fund Balance at Year-End**

	2016-17	2017-18	2018-19
<b>Total Beginning Fund Balance</b>	\$1,908,278	\$1,602,767	\$1,498,941
<b>Less: Prior Period Adjustment<sup>a</sup></b>		\$24,982	\$3,449
<b>Add: Capital Reserve Reported in the Capital Project Fund<sup>b</sup></b>	\$100,145	\$100,195	\$100,246
<b>Restated Fund Balance</b>	\$2,008,423	\$1,677,980	\$1,595,738
<b>Add: Operating Surplus (Deficit)</b>	(\$305,511)	(\$78,844)	\$66,306
<b>Total Restated Ending Fund Balance</b>	\$1,702,912	\$1,599,136	\$1,662,044
<b>Less: Assigned Appropriated Fund Balance</b>	\$610,000	\$491,000	\$271,887
<b>Less: Restricted Fund Balance</b>	\$166,237	\$181,350	\$178,052
<b>Surplus Fund Balance at Year End</b>	\$926,675	\$926,786	\$1,212,105
<b>Ensuing Year's Budgeted Appropriations</b>	\$2,525,457	\$2,501,578	\$2,588,521
<b>Surplus Fund Balance as Percentage of the Ensuing Year's Budget</b>	36.7%	37.1%	46.8%

<sup>a</sup> Prior period adjustments reflect the amounts paid for tax certiorari settlements.

<sup>b</sup> The District has incorrectly recorded the capital reserve in the capital projects fund.

We compared budgeted revenues and appropriations with actual results of operations for 2016-17 through 2018-19. Although we found revenue estimates were reasonable, the Board adopted budgets that overestimated appropriations by an average of \$398,000 annually, or a cumulative total of approximately \$1.2 million or 19 percent over the three-year period. The consistent practice of overestimating appropriations has resulted in the increasing level of excess fund balance.

**Figure 2: Overestimated Appropriations**

	2016-17	2017-18	2018-19	Total
<b>Appropriations</b>	\$2,499,697	\$2,525,457	\$2,501,578	\$7,526,732
<b>Actual Expenditures</b>	\$2,243,998	\$2,052,105	\$2,036,775	\$6,332,878
<b>Overestimated Appropriations</b>	\$255,699	\$473,352	\$464,803	\$1,193,854
<b>Percentage Overestimated</b>	11.4%	23.1%	22.8%	18.9%

For 2016-17 through 2018-19, we analyzed all appropriations to determine whether the budget estimates were reasonable based on prior years' actual expenditures and current needs. Overestimated appropriations were spread among numerous accounts throughout each year's budget. The most significant overestimation in 2018-19 was for tuition paid to Ticonderoga, which was overestimated by \$254,807 (58 percent). While reasonably budgeted in 2017-18, this account had also been overestimated in 2016-17 by \$124,528 (20 percent). In addition, the District overestimated amounts for students with disabilities by \$126,372 (393 percent) in 2017-18 and \$114,148 (302 percent) in 2016-17. Likewise, the District overestimated health insurance and dental costs by \$36,649 (15 percent) in 2018-19, \$72,195 (31 percent) in 2017-18 and by \$75,897 (36 percent) in 2016-17. Because District officials and the contracted Business Manager were unable to provide us with supporting documentation for how budget estimates were calculated, we used historical actual expenditures to determine if the budget estimates were reasonable.

Furthermore, the budget information provided to the public included only the current year's appropriations compared to the appropriations being voted on for the next year. Therefore, it showed the change in the appropriations and not the actual expenditures as compared to the appropriations. Although the District's independent audited financial statements are available in the District Clerk's office, these comparative trends were not included with the budget information made available to the public, limiting the transparency of the budgeting process.

Because District officials consistently overestimated appropriations, it appeared the District needed to increase its tax levy and use appropriated fund balance to close projected budget gaps. From 2016-17 through 2018-19, the Board increased the real property tax levy by a total of approximately \$61,000 or 4 percent. The District's voter-approved 2019-20 budget included a \$297,400 (18

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percent) tax levy increase, which exceeded the real property tax cap limitation by \$261,160.

Based on our review of the District's adopted 2019-20 budget totaling approximately \$2.6 million, estimated revenues appear reasonable. However, the Board appropriated approximately \$272,000 in fund balance to help finance operations even though it will likely not use any of the amount appropriated because officials continued the pattern of overestimating appropriations. As a result, we expect fund balance will further increase rather than decrease as budgeted.

### **The Board Has Not Adopted an Adequate Multiyear Financial Plan**

The Board has not adopted an adequate multiyear financial plan that projects revenues, expenditures and fund balance levels. Specifically, while the contracted Business Manager prepared a multiyear financial plan that was included with the District's 2019-20 budget information available to District residents, this plan was not realistic because it was based on prior year budget amounts and failed to consider results of actual operations. Furthermore, although the District projected an operating deficit of \$491,000 for 2018-19, the District realized an operating surplus of approximately \$66,000, increasing the District's fund balance to over \$1.6 million, while the plan projected the fund balance of \$435,698. As a result, without updating the plan, projected amounts are unrealistic. Additionally, because the Board used this plan to propose and obtain voter approval to exceed the tax cap limitation for the 2019-20 year, taxpayers lacked the transparency necessary to make an informed decision when voting on the budget. Further, the lack of an adequate multiyear financial plan limits the Board and District officials' ability to effectively manage District finances and address future operating and capital needs.

### **What Do We Recommend?**

The Board and District officials should:

1. Ensure that the amount of surplus fund balance is in compliance with the statutory limit and use excess funds as a financing source for:
  - Funding one-time expenditures,
  - Funding needed reserves,
  - Paying off debt, and
  - Reducing District property taxes.

- 
2. Develop and adopt realistic estimates for appropriations based on the District's historical trends, supporting documentation and current needs; use appropriated fund balance to actually finance operations and include comparative trend information for taxpayers as part of the budgeting process.
  3. Periodically review and update, as appropriate, the District's multiyear financial plan to provide a framework for future budgets and guide the District's management of financial condition with realistic projections.

# Appendix A: Response From District Officials

## Putnam Central School District

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June 17, 2020

Unit Name: Putnam Central School District  
Audit Report Title: Fund Balance Management  
Audit Report Number: 2020M-27

### District Response to Audit Recommendations and CAP Template

The 6-week audit conducted by the Comptroller's Office was thorough and provided an opportunity for dialog regarding District financial positions and practices which affect those positions. While the District is in agreement with some of the findings and recommendations submitted by the auditing group, there are some areas where the District is not in agreement. Although multiple documents were provided to auditor regarding appropriations and the rationale for those estimates and/or budget appropriations, the District does not agree with the auditor's position on the overestimation of expenditures. There was no representation of the painstakingly detailed conversations and rationale for the expenditures highlighted in the audit findings that are unique to Putnam Central School District. Also, there was no recognition of the District's cost saving strategies implemented throughout these years. Finally, there is a stark difference in preparing a budget to include hypotheticals that are very real and reviewing expenditures and providing opinions in hindsight without describing and including context or uniqueness of different organizations.

Although not a function of the Comptroller's Office, we also want to highlight our position of advocating for a badly needed Special Education Reserve. This reserve would change the entire complexion of fund balance for the District.

### Audit Recommendations:

The Board and District Officials should:

1. Ensure that the amount of fund balance is in compliance with the statutory limit and use excess funds as a financing source for:
  - Funding one-time expenditures
  - Funding needed reserves
  - Paying off debt and Reducing property taxes

The District will update building and grounds equipment which have been repaired instead of purchasing replacements in the current budgeting year and continuously moving forward.

See  
Note 1  
Page 9

The District passed a proposition to fund the Capital Reserve in the amount of \$300,000 which had previously been defeated.

The District has zero(0) debt. Amazingly, this is considered a negative in auditing practice.

The District will consider the best way to use fund balance to best serve the District taxpayers in future years.

2. Develop and adopt realistic estimates for appropriations based on the District's historical trends, supporting documentation and current needs: use appropriated fund balance to actually finance operations and include comparative trend information for taxpayers as part of the budgeting process.

While the District will continue to monitor and consider best practices for appropriations, the District rejects the position taken by the auditor for the reasons stated above and discussions during the audit process.

See  
Note 1  
Page 9

3. Periodically review and update as appropriate, the District's multiyear financial plan to provide a framework for future budgets and guide the District's management of financial condition with realistic projections. The District accepts the finding of error in previous long range projection which increased fund balance. The District will review and correct any deficiency in this area of multiyear planning and provide an effective framework for budgeting in future years.

Signed:

Matthew Boucher

Date:

6/17/2020

Superintendent of Schools

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

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## Note 1

District officials and the contracted Business Manager were unable to provide documentation that supports how they calculated the District's budget estimates. As noted in the report, the District consistently overestimated appropriations, resulting in the increasing level of excess fund balance.

## 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 to gain an understanding of the District's financial management policies and procedures and budgeting practices.
- We analyzed the District's general fund financial records to determine whether fund balance increased or decreased. We also evaluated any factors contributing to the increase or decrease identified.
- We reviewed the District's property tax levies from 2016-17 through 2018-19 to determine if the tax levy increased.
- We reviewed the Board-adopted general fund budgets to determine whether they were realistic and structurally balanced by comparing the adopted budgets from 2016-17 through 2018-19 to actual results of operations.
- We reviewed the adopted general fund budget for 2019-20 to determine whether budgeted revenues and appropriations were reasonable based on historical data and supporting source documentation.
- We analyzed the general fund's financial condition to determine whether surplus fund balance was in compliance with the statutory limit and whether operating deficits were incurred.
- We reviewed the multiyear financial plan to determine the reasonableness of future fund balance projections.

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

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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**

[www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional\\_directory.pdf](http://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](http://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](http://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

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

[www.osc.state.ny.us/local-government/resources/planning-resources](http://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](http://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](http://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](http://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](http://www.osc.state.ny.us/local-government/academy)

## Contact

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