

Cobleskill-Richmondville Central School District

Fund Balance Management

AUGUST 2022



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

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Report Highlights

Cobleskill-Richmondville Central School District

Audit Objective

Determine whether the Cobleskill-Richmondville Central School District (District) Board of Education (Board) and officials effectively managed fund balance.

Key Findings

The Board and District officials did not effectively manage the District's fund balance. As a result, the District levied more taxes than needed to fund operations.

- The Board overestimated appropriations from 2018-19 through 2020-21 by an average of \$2.8 million, or 6.6 percent, and appropriated fund balance that was not used.
- The District's surplus fund balance exceeded the 4 percent statutory limit in each of the last three fiscal years by 4.8 to 10.1 percentage points.
- Three of the District's reserves were not reasonably funded or used in the last three years.
- Maintaining reserves that were not used and surplus fund balance that exceeded the statutory limit resulted in real property tax levies being higher than necessary.

Key Recommendations

- Adopt realistic budgets and appropriate fund balance only when needed to fund operations.
- Reduce surplus fund balance to comply with the statutory limit in a manner beneficial to taxpayers.
- Adopt a written reserve policy that establishes optimal or targeted funding levels.

District officials generally agreed with our findings and recommendations and indicated they will take corrective action. Appendix B includes our comments on issues raised in the District's response letter.

Background

The District serves the Town of Root in Montgomery County, the Towns of Decatur, Roseboom and Worcester in Otsego County, and the Towns of Blenheim, Carlisle, Cobleskill, Esperance, Fulton, Jefferson, Middleburgh, Richmondville, Schoharie, Seward and Summit in Schoharie County.

The District is governed by an elected seven-member Board responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with the Business Manager, for the day-to-day management of the District under the Board's direction. The Board, Superintendent and Business Manager are responsible for developing the annual budget.

Quick Facts

Enrollment	1,546
Employees	392
2021-22	
Appropriations	\$43.1 million
Real Property Tax Warrant	\$16.9 million
2020-21	
Expenditures	\$39.3 million
Real Property Tax Warrant	\$16.9 million

Audit Period

July 1, 2018 – December 31, 2021. We extended our audit period to June 30, 2009 to assess the reasonableness of reserves.

Fund Balance Management

How Should Officials Effectively Manage Fund Balance?

To effectively manage a school district's fund balance, a board should adopt realistic and structurally balanced budgets based on historical data or known trends in which recurring revenues finance recurring expenditures. Accurate budget estimates help ensure the tax levy is not greater than necessary.

Fund balance is the difference between revenues and expenditures accumulated over time. A school district may retain a portion of surplus fund balance for unexpected occurrences and fluctuations in cash flow.¹ New York State Real Property Tax Law Section 1318 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 budgeted appropriations. Any surplus fund balance over this percentage must be used to reduce the next year's real property tax levy or fund needed reserves. When fund balance is appropriated in the budget to finance operations, a school district is budgeting for a planned operating deficit (expenditures exceeding revenues) equal to the amount of fund balance appropriated.

School district officials are legally allowed to set aside, or reserve, portions of fund balance to finance future costs for specific purposes (e.g., capital projects or retirement expenditures). School district boards should develop a formal written policy for reserves that includes rationale for establishing a reserve, optimal or targeted funding levels and conditions under which the reserves will be used. School district boards should also periodically analyze the reasonableness of the balances in the reserves. 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 to help ensure that tax levies are not greater than necessary.

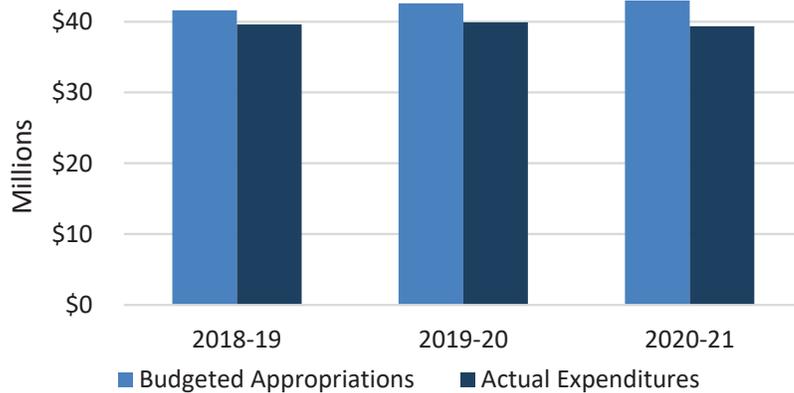
The Board Overestimated Appropriations

We compared the estimated revenues and budgeted appropriations with actual operating results between 2018-19 and 2020-21. We found that estimated revenues were generally reasonable, but budgeted appropriations were overestimated by an average of \$2.8 million, or 6.6 percent (Figure 1).

¹ 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://www.osc.state.ny.us/files/local-government/publications/pdf/gasb54.pdf>.

FIGURE 1

Comparison of Budgeted Appropriations to Actual Expenditures



In aggregate, these variances contributed to an increase in surplus fund balance between 2018-19 and 2020-21. The four expenditure accounts with the largest budget variances are discussed below.

- Health insurance premiums were overestimated by an average of \$360,000 (4 percent), with variances ranging from \$193,000 to \$483,000.
- Special education tuition for private schools was overestimated by an average of \$209,000 (38 percent). During our audit period, the budget variances were fairly consistent, with appropriations exceeding expenditures each year by between \$169,000 and \$233,000.
- Social security was overestimated by an average of \$147,000 (10 percent). The Business Manager said this variance resulted from unfilled vacancies because this appropriation is tied to budgeted salaries.
- Board of Cooperative Educational Services special education services was overestimated by an average of \$127,000 (19 percent). In 2018-19, expenditures exceeded appropriations by \$229,000, but appropriations exceeded expenditures in 2019-20 and 2020-21 by \$279,000 and \$330,000, respectively.

The Superintendent and Business Manager told us that health insurance premiums can be difficult to budget for because it is unknown at what level (i.e., individual plan, two-person plan or family plan) new employees will participate in the health insurance plan. They budget for all active and eligible retired teachers and employees to continue insurance coverage at their current plan and level of coverage. In addition, they budget for family plan coverage (the highest potential employer cost) for each retiring employee that will be replaced. As a result, when an employee is hired and chooses an individual plan, a two-person plan, or

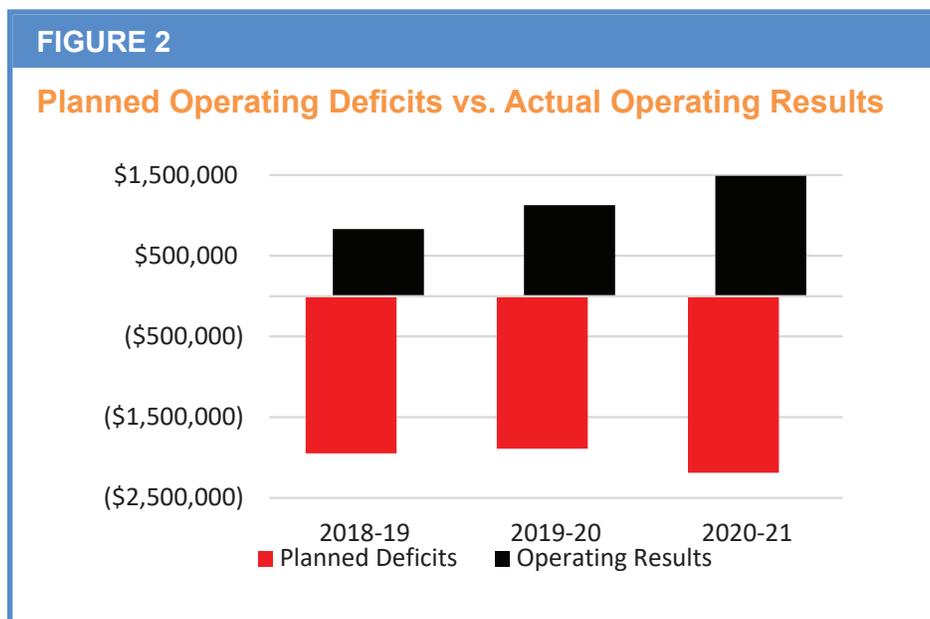
waives health insurance coverage – which happened in several instances during our audit period – the District’s health insurance expenditures are less than what was budgeted.

In addition, the Superintendent and Business Manager told us that special education tuition and services are difficult to budget for because high-cost students can enter or leave the District with little notice.

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. Had the Board and officials used historical trend analyses and previous years’ actual results of operations to develop their budget estimates, they would have likely estimated more accurately.

The Board Appropriated Unneeded Fund Balance and Exceeded the Statutory Limit for Surplus Fund Balance

The Board, over the last three fiscal years, adopted budgets that purported fund balance totaling more than \$6 million needed to be appropriated to account for planned operating deficits. However, appropriations were overstated so no operating deficits occurred; therefore, the appropriated fund balance was not used. The District incurred operating surpluses each fiscal year totaling more than \$3.4 million (Figure 2).



Furthermore, while District officials reported surplus fund balance exceeding the 4 percent statutory limit in each of the last three fiscal years, because officials overestimated appropriations and appropriated fund balance that was not needed to balance the budget, the District’s actual surplus fund balance was understated. As of June 30, 2021, the District’s recalculated surplus fund balance was 17.6 percent, exceeding the statutory limit by 13.6 percentage points (Figure 3).

Figure 3: Surplus Fund Balance

	2018-19	2019-20	2020-21
Surplus Fund Balance Reported at Fiscal Year-End	\$3,755,000	\$4,070,000	\$6,090,000
Add: Unused Appropriated Fund Balance	1,890,000	2,190,000	1,504,000 ^a
Recalculated Surplus Fund Balance	\$5,645,000	\$6,260,000	\$7,594,000^a
As a Percentage of Next Year’s Budgeted Appropriations			
Reported by Officials	8.8%	9.5%	14.1%
Recalculated by OSC	13.3%	14.5%	17.6% ^a
Legal Limit		4.0%	

a) Based on year-to-date revenues and expenditures as of December 31, 2021 and historical revenues and expenditures, we project an operating surplus for the 2021-22 fiscal year. Therefore, we project that none of the \$1.5 million of appropriated fund balance for that fiscal year will be used. The Business Manager agreed with our projection of an operating surplus.

While the Superintendent told us they intended to spend down surplus fund balance in 2020-21, no documentation was provided to show how the District officials planned to do so. 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. Additionally, maintaining surplus fund balance that exceeds the statutory limit results in real property tax levies being higher than necessary. Although the Board did not increase the 2021-22 real property tax levy, it increased the 2019-20 tax levy by \$311,000 (2 percent) and the 2020-21 tax levy by \$327,000 (2 percent).

Certain Reserves Were Not Reasonably Funded

We analyzed the six reserves reported in the general fund totaling \$6.5 million for reasonableness as of June 30, 2021. We compared the balance of each reserve to the three-year historical expenditures related to the purpose of the reserve. We determined that the teachers’ retirement contribution reserve and the unemployment insurance reserve were reasonably funded, and the capital reserve was funded within the voter-authorized limit. However, the other three reserves were not reasonably funded and/or have not been used.

Retirement Contribution Reserve – The \$1.2 million in this reserve is sufficient to cover at least two years of retirement expenditures, which averaged \$578,000 over the last three years. This reserve balance has remained flat or increased each year since its initial funding in 2009-10.

Employee Benefit Accrued Liability Reserve – The \$1 million balance in this reserve is enough to cover the average compensated absences liability of \$1 million over the three-year period. This reserve balance has remained flat or increased each year since 2010-11.

Repair Reserve – This reserve contains approximately \$358,000 and has remained flat since 2008-09. The Superintendent told us they have no plan to use it.

District officials did not use funds from these reserves because they were able to pay for these related expenditures from the operating budget while still generating operating surpluses during the last three fiscal years. The Board did not adopt a written reserve policy providing the rationale for the reserved money, optimal or targeted funding levels and conditions under which the reserves will be used. Additionally, the Board did not periodically analyze the reasonableness of the balances in the reserves. Consequently, the Board and District officials could not demonstrate that these reserves were reasonably funded and needed.

Although it is prudent to plan and save for unforeseen circumstances, overfunding and/or not using reserves for their intended purpose results in real property taxes being higher than necessary because the funds are not being used to fund related expenditures.

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. Discontinue the practice of appropriating fund balance that is not needed or used to finance operations.
3. Develop a plan to reduce surplus fund balance in a manner that benefits District taxpayers. Surplus funds can be used for funding one-time expenditures such as capital improvements, funding needed reserves, paying off debt or reducing District real property taxes.
4. Review reserve fund balances and develop a plan to reduce balances to reasonable levels or use them to fund operations in accordance with applicable statutes.

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5. Adopt a written reserve policy that establishes optimal or targeted funding levels and conditions under which each reserve will be used or replenished.

Appendix A: Response From District Officials



COBLESKILL-RICHMONDVILLE CENTRAL SCHOOL DISTRICT

Office of the
Board of Education

Bruce L. Tryon
President

July 20, 2022

Office of the New York State Comptroller
Division of Local Government & School Accountability
PSU-CAP Submission
110 State Street, 12th Floor
Albany, NY 12236

Office of the New York State Comptroller:

We acknowledge receipt of the draft report for the Office of State Comptroller detailing auditors' examination of the district's fund balance management.

We further acknowledge that the district's unassigned fund balance exceeded the state's 4% statutory cap in each of the last three years.

During those same three years, there were extenuating circumstances that adversely impacted our compliance with the 4% statutory cap. They included:

The District prepared to absorb \$4,423,799 of unaided debt service payments due in 2018-19, 2019-20, and 2020-21 in part by allocating unassigned fund balance to the general fund budget to cover principal and interest payments.

The District prepared for a cut in state aid (foundation aid) in 2020-21 of 20%, or \$2,934,460. This aid reduction was forecast during FY 2020-21 but fortunately, the aid reduction was not ultimately implemented by New York State. Nonetheless, the District was prepared to use excess fund balance in the event of a state aid reduction to maintain continuity of programming for our students.

The COVID-19 pandemic resulted in significant programming changes in the 2019-20, 2020-21, and 2021-22 school years that resulted in less-than-projected general fund budget expenditures. At the same time, the District received a large (and largely unexpected) infusion of economic stimulus funds linked to pandemic response and recovery.

These circumstances, taken as a whole, caused our unassigned fund balance to increase at a time that we were focused on moving toward the statutory cap of 4%.

Overall, the District agrees with the recommendations offered in this report. Below, we respond to each of the five recommendations offered by your team of auditors.

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Recommendation #1: The board and district officials should develop and adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations.

District Response: The District already employs, and will continue to employ, best practices related to forecasting annual revenues and expenses during the budget development process.

See
Note 1
Page 11

Recommendation #2: The Board and District Officials should discontinue the practice of appropriating fund balance that is not needed or used to finance operations.

District Response: When the District appropriates fund balance to the general fund budget, it is always with the expectation that the appropriation will be expended. As a result of the pandemic, overall budget expenditures during the 2019-20, 2020-21, and 2021-22 school years were lower than projected, which resulted in annual budget surpluses. As a result of such positive budget performance, we did not need to expend our fund balance appropriation—and in fact, we ended up increasing (rather than decreasing) our unassigned fund balance in each of those three years.

Recommendation #3: The Board and District Officials should develop a plan to reduce surplus fund balance in a manner that benefits District taxpayers. Surplus funds can be used for funding one-time expenditures such as capital improvements; funding needed reserves; paying off debt; or reducing District's real property taxes.

District Response: Already, the District has secured voter approval to transfer \$4 million in unassigned fund balance to the Capital Reserve Fund. In addition, the board has approved transfers from the unassigned fund balance to the Teachers' Retirement Reserve (\$274,465), an Insurance Reserve (\$500,000), and the Workers' Compensation Reserve (\$75,000).

Recommendation #4: The Board and District Officials should review reserve fund balances and develop a plan to reduce balances to reasonable levels or use them to fund operations in accordance with applicable statutes.

District Response: With the exception of the Repair Reserve, the District feels strongly that reserve fund balances are at reasonable levels. The Employee Benefit Accrued Liability Reserve is commensurate with our average compensated absences liability, which is the level that your office recommends. In addition, your statement that the \$75,000 Unemployment Reserve balance is enough to cover 16 years of unemployment expenditures is misleading given that the District made a very prudent decision to establish this reserve at the end of 2019-20, in anticipation of much higher than normal unemployment charges in 2020-21. Our 2020-21 unemployment expenditures were actually \$94,622, until the NYS DOL decided to reimburse employers for all unemployment charges due to the pandemic. This action by the state was certainly not something that anyone could have anticipated.

See
Note 2
Page 11

Moving forward, the District will continue to assess fund balance and reserve fund balances to ensure reasonableness (with regards to funding and appropriation levels) and compliance (to the state's 4% cap).

Recommendation #5: The Board and District Officials should adopt a written reserve policy that establishes optimal or targeted funding levels and conditions under which each reserve will be used or replenished.

District Response: The Board's policy committee will prepare a draft policy on reserve fund management for the Board's consideration later this fall.

Our board of education and our district's leadership are keenly aware of the responsibility we assume for prudent management of taxpayer funds. We are moving swiftly toward compliance with the state's 4% statutory cap and the recommendations your auditors have offered will assist us in reaching this goal.

In closing, we extend thanks to your auditing team for the professionalism they exhibited throughout the audit process.

Sincerely,

Bruce L. Tryon
Board of Education President

Appendix B: OSC Comments on the District's Response

Note 1

The District will continue to levy more taxes than needed to fund operations unless more realistic budgets are adopted.

Note 2

The audit report was updated to reflect information District officials provided after we issued the draft report. However, we maintain that certain District reserves were not reasonably funded. The retirement contribution, employee benefit accrued liability and repair reserves have not been used in over 10 years and the Board has not established a reserve policy that documents the rationale for reserving money, optimal or targeted funding levels and how these reserves will be used.

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 and reviewed the Board meeting minutes, resolutions and policies to gain an understanding of the District's financial planning and budgeting procedures.
- We compared estimated revenues to actual revenues and appropriations to actual expenditures for 2018-19 through 2020-21 to analyze budget reasonableness. For appropriations, we analyzed the four expenditure accounts with the largest budget variances.
- We calculated the results of operations for 2018-19 through 2020-21 to determine whether there was an operating surplus or operating deficit, and whether appropriated fund balance was used.
- We analyzed the District's fund balance for 2018-19 through 2020-21 to identify trends. We calculated surplus fund balance as a percentage of the next year's budgeted appropriations to determine whether it was within the statutory limit. We recalculated surplus fund balance as a percentage of the next year's budgeted appropriations after adding back unused appropriated fund balance.
- We analyzed revenues and expenditures for the first six months of 2021-22 to project revenues, expenditures and the results of operations for the end of the fiscal year. We used those results to project whether the District would have an operating surplus or an operating deficit, and whether appropriated fund balance would be used.
- We analyzed reserve balances as of June 30, 2021 and usage from 2018-19 through 2020-21 to determine whether they were reasonably funded according to historical expenditures and anticipated uses.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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 on the District's website for public review.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

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

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

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

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

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

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www.osc.state.ny.us/local-government/required-reporting

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