

# Norwich City School District

## Fund Balance Management

NOVEMBER 2018



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

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# Report Highlights

## Norwich City School District

### Audit Objective

Determine whether District officials adequately managed fund balance in the general fund.

### Key Findings

District officials:

- Developed budgets that were not structurally balanced by appropriating fund balance each year, including \$1.5 million to finance the 2018-19 budget when only \$283,749 was available to fund operations. As a result, the District ended 2017-18 with a \$1.2 million unassigned fund balance deficit.
- Ineffectively budgeted each year for various known expenditures and revenues.
- Developed a long-term financial plan that was unrealistic when compared to the adopted budgets.

### Key Recommendations

- Adopt realistic, structurally balanced budgets based on historical or known amounts and reduce the reliance on fund balance as a financing source.
- Discontinue the practice of appropriating fund balance that is unavailable.
- Maintain reasonable fund balances and reserves in accordance with adopted policies.
- Ensure long-term plans are realistic, periodically updated and used when creating budgets.

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

### Background

The Norwich City School District (District) serves the City of Norwich and 10 towns in Chenango County. The District is a component district of the Delaware–Chenango–Madison–Otsego Board of Cooperative Educational Services (BOCES).

The District is governed by a Board of Education (Board), composed of seven elected members, is responsible for the general management and control of financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer and is responsible, along with other administrative staff, for day-to-day management under the Board's direction. The Deputy Superintendent develops the budget and, along with the Board and Superintendent, monitors the budget throughout the year.

#### Quick Facts

2017-18 Enrollment	2,080
2018-19 Appropriations	\$42.2 million
School Buildings	4

### Audit Period

July 1, 2016 through April 5, 2018.

We extended our audit period back to June 30, 2015 and forward through June 30, 2018 to analyze financial trends.

# Fund Balance Management

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## How Should District Officials Manage Fund Balance?

The board and superintendent, along with other district officials, are accountable to taxpayers for the use of district resources and the effective planning and management of financial operations. Fund balance represents resources remaining from prior fiscal years that can be used to finance the next year's budget or set aside in reserve funds for specific purposes. Boards may retain a portion of fund balance for unexpected events and cash flow but must do so within statutory limits.

Currently, New York State Real Property Tax Law<sup>1</sup> limits the amount of unrestricted fund balance that a school district can retain to no more than 4 percent of the subsequent year's budgeted appropriations. Additionally, districts are legally allowed to establish reserves and accumulate funds for certain future purposes (for example, capital projects or retirement expenditures). Effective planning and management of financial operations includes adopting realistic, structurally balanced budgets based on historical or known amounts while maintaining reasonable levels of fund balance and reserves.

In structurally balanced budgets, recurring expenditures are financed by recurring revenues. District officials may use nonrecurring revenues, such as appropriated fund balance, to help finance operations. However, because these financing sources are finite, they should not regularly be used to finance recurring expenditures. The board should ensure that fund balance appropriated for the ensuing year's budget does not exceed the amount projected to be available or needed to provide cash flow and a cushion against unforeseen events.

In addition, the board should adopt fund balance and reserve fund policies and long-term financial plans establishing the levels of fund balance to be maintained and specifying how reserves are to be funded and used.

## District Officials Did Not Effectively Manage Fund Balance

District officials did not adopt structurally balanced budgets and, instead, appropriated fund balance each year to finance recurring expenditures. For example, officials budgeted to appropriate more than \$1.5 million in fund balance to finance operations in the 2018-19 budget when there was only \$283,749 of available fund balance to appropriate. As a result, as of June 30, 2018, the fiscal year ended with an unassigned fund balance deficit of \$1.2 million – a decrease of \$3.3 million from June 30, 2015 (Figure 1).

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<sup>1</sup> New York State Real Property Tax Law, Section 1318

**Figure 1: General Fund Operating Results and Fund Balance**

	2014-15	2015-16	2016-17	2017-18
<b>Beginning Fund Balance<sup>a</sup></b>	\$6,749,857	\$7,912,672	\$7,014,624	\$5,550,138
<b>Add: Operating Surplus (Deficit)</b>	\$944,416	(\$789,115)	(\$1,464,486)	(\$2,339,865)
<b>Ending Fund Balance</b>	\$7,694,273	\$7,123,557	\$5,550,138	\$3,210,273
<b>Less: Nonspendable and Assigned Fund Balance</b>	\$3,871,094	\$3,752,705	\$3,782,395	\$2,926,524
<b>Fund Balance Available for Appropriation</b>	\$3,823,179	\$3,370,852	\$1,767,743	\$283,749
<b>Less: Appropriated Fund Balance for the Ensuing Year</b>	\$1,729,573	\$1,529,573	\$1,529,573	\$1,529,573
<b>Unassigned Fund Balance at Year End</b>	\$2,093,606	\$1,841,279	\$238,170	(\$1,245,824)
<b>Ensuing Year's Appropriations</b>	\$40,409,929	\$41,291,765	\$42,180,905	\$42,180,911
<b>Unassigned Fund Balance (Budgetary Deficit) as a Percentage of Ensuing Year's Appropriations</b>	5.2%	4.5%	0.6%	(3.0%)

a Includes prior period adjustments

The Board adopted a fund balance and reserve policy. However, while reserve balances were within reasonable limits, the Board did not ensure that the unassigned fund balance levels were maintained in accordance with the policy.<sup>2</sup>

District officials developed a long-term plan several years ago, but did not use this plan when developing the annual budgets. The plan calls for an operating surplus of over \$2 million in 2018-19. However, the 2018-19 budget calls for an operating deficit in excess of \$1.5 million.

Although total appropriations and total budgeted revenues were reasonable compared to actual results from 2015-16 through 2017-18 (within 3 percent), specific revenue and expenditure budget lines had significant variances. District officials should have been able to budget more accurately for these revenues and expenditures.

For example, officials budgeted for more State aid than was reported on the Governor's State aid projections, which were available during budget development. On average, the budgeted amounts exceeded the Governor's projections by more than \$850,000 over the last three years.

<sup>2</sup> This policy called for maintaining unassigned fund balance at 4 percent of the ensuing year's appropriations. In addition, it established reserve balance levels for the capital reserve (\$2 million), repair reserves (\$750,000), employee benefit accrued liability reserve (\$300,000) and the unemployment insurance reserve (\$250,000).

**Figure 2: Revenue Budget Line Variances<sup>a</sup>**

Description	2015-16		2016-17		2017-18	
	Variance	Percentage	Variance	Percentage	Variance	Percentage
<b>State Aid</b>	<b>(\$239,842)</b>	<b>(1%)</b>	<b>(\$1,815,593)</b>	<b>(6%)</b>	<b>(\$1,600,248)</b>	<b>(6%)</b>

<sup>a</sup> Negative revenue variances reflect revenues below budgeted amounts.

Further, from 2015-16 through 2017-18, building contractual expenditures averaged \$587,188 compared to an average budgeted amount of \$931,295. In 2018-19, District officials budgeted \$767,369 for this expenditure line, \$180,181 more than historical averages.

**Figure 3: Expenditure Budget Line Variances<sup>a</sup>**

Description	2015-16		2016-17		2017-18	
	Variance	Percentage	Variance	Percentage	Variance	Percentage
<b>Building Contractual</b>	<b>\$421,449</b>	<b>43%</b>	<b>\$383,763</b>	<b>39%</b>	<b>\$227,108</b>	<b>27%</b>
<b>BOCES Services</b>	<b>(\$807,192)</b>	<b>(149%)</b>	<b>(\$621,794)</b>	<b>(111%)</b>	<b>(\$691,433)</b>	<b>(120%)</b>
<b>Teaching BOCES</b>	<b>\$213,895</b>	<b>12%</b>	<b>\$369,527</b>	<b>20%</b>	<b>\$267,866</b>	<b>14%</b>
<b>Non-Instructional Salaries</b>	<b>(\$164,210)</b>	<b>(71%)</b>	<b>(\$492,376)</b>	<b>(100%)</b>	<b>(\$106,217)</b>	<b>(37%)</b>
<b>New York State Retirement</b>	<b>\$75,962</b>	<b>11%</b>	<b>\$257,829</b>	<b>32%</b>	<b>\$149,371</b>	<b>21%</b>
<b>Teachers' Retirement</b>	<b>(\$20,660)</b>	<b>(1%)</b>	<b>\$295,555</b>	<b>16%</b>	<b>\$218,607</b>	<b>12%</b>
<b>Hospital/Medical Employee Benefits</b>	<b>\$1,410,292</b>	<b>23%</b>	<b>\$957,471</b>	<b>15%</b>	<b>\$233,404</b>	<b>3%</b>

<sup>a</sup> Negative expenditure variances reflect expenditures that exceeded budgeted amounts. Positive expenditure variances reflect expenditures below budgeted amounts.

Although these line item variances were unnoticeable when District officials analyzed total budget-to-actual variances, this budgeting practice is not transparent to taxpayers who approve the budget. Appropriating fund balance each year to help finance operations instead of using recurring revenues to finance recurring expenditures combined with unfavorable revenue and expenditure variances could eventually deplete fund balance to levels that are not sufficient to fund contingencies and amounts necessary for operational cash flow.

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## What Do We Recommend?

The Board should:

1. Adopt realistic, structurally balanced budgets based on historical or known amounts and reduce the reliance on fund balance as a financing source.
2. Discontinue the practice of appropriating fund balance that is not available.
3. Maintain reasonable fund balances and reserves in accordance with adopted policies.
4. Ensure long-term plans are realistic, periodically updated and used when creating budgets.

## Appendix A: Response From District Officials

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### NORWICH CITY SCHOOL DISTRICT

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November 15, 2018

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Please let this letter serve as the official response of the Norwich City School District regarding the recent Fund Balance Management Audit 2018M-198. The District has reviewed the audit and information contained within the report. The District agrees with the audit findings.

Sincerely

Gerard O'Sullivan  
Superintendent

Email: [Muni-Binghamton@osc.state.ny.us](mailto:Muni-Binghamton@osc.state.ny.us)

## Appendix B: 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 budget development process. We also obtained and reviewed the long-term financial plan to determine whether the plan was realistic compared to budgets.
- We reviewed adopted budgets from 2015-16 through 2018-19 to determine whether budgets were structurally balanced.
- We reviewed fund balance trends from June 30, 2015 through June 30, 2018 to determine whether fund balance was available to appropriate.
- We calculated unassigned fund balance as a percentage of ensuing year's appropriations from June 30, 2015 through June 30, 2018 to determine whether it complied with New York State Real Property Tax Law and the Board-adopted fund balance policy.
- We compared reserve balances to Board-adopted policies to determine whether reserves were maintained at designated levels.
- We compared budgeted revenues and appropriations to actual revenues and expenditures from 2015-16 through 2017-18 to determine whether overall variances were reasonable.
- We compared budget-to-actual variances per budget line to identify any variances in excess of 10 percent in 2016-17. For any variances identified, we compared budgeted amounts to actual results from 2015-16 through 2017-18 to identify trends.

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 Clerk's office.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://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](http://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](http://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](http://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](http://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/lgli/pdf/cybersecurityguide.pdf](http://www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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](http://www.osc.state.ny.us/localgov/finreporting/index.htm)

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

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### **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](http://www.osc.state.ny.us/localgov/academy/index.htm)

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