

# Altmar-Parish-Williamstown Central School District

## Financial Condition Management

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**MARCH 2019**

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

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# Report Highlights

## Altmar-Parish-Williamstown Central School District

### Audit Objective

Determine whether the Board and District officials effectively managed the District's financial condition.

### Key Findings

- District officials reduced excessive unrestricted fund balance by \$14 million from 2015-16 through 2017-18 by funding reserves and one-time expenditures and reducing property taxes. At the end of 2017-18, the District exceeded the 4 percent statutory limit on unrestricted fund balance by about 2 percentage points, or \$609,000.
- Adopted budgets in 2015-16 and 2016-17 overestimated appropriations by more than 6 percent due to conservative budget practices. Also, the District experienced unplanned operating surpluses totaling \$3 million in two of the last three fiscal years.
- The debt service fund and most reserve funds are not being used, and the repair, retirement, insurance and tax certiorari reserves are overfunded. The debt service fund and overfunded reserves had balances totaling more than \$15.5 million as of June 30, 2018.

### Key Recommendations

- Develop a plan to reduce the amount of unrestricted fund balance to comply with the statutory limit.
- Adopt annual budgets that contain realistic estimates for appropriations.
- Analyze reserve fund balances and ensure they are maintained at reasonable levels.
- Use the funds in the debt service fund to pay the related debt service expenditures.

District officials agreed with our findings and indicated they plan to initiate corrective action.

### Background

The Altmar-Parish-Williamstown Central School District (District) serves the Towns of Albion, Amboy, Hastings, Mexico, Orwell, Parish, Richland, West Monroe and Williamstown in Oswego County.

The District is governed by the Board of Education (Board) comprised of seven elected members, which is responsible for the general management and control of the District's financial affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer, responsible for its day-to-day management and for budget development and administration. The Business Administrator is responsible for the District's business operations.

#### Quick Facts

Employees	472
Enrollment	1,173
2018-19 Budget	\$32.8 million

### Audit Period

July 1, 2016 – June 30, 2018. We extended our scope period back to July 1, 2015 to analyze financial trends.

# Financial Condition Management

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## How Does a Board Effectively Manage Financial Condition?

To effectively manage financial condition, a board should adopt realistic 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 what the district will spend and the amounts it will receive in revenue, estimate how much fund balance will be available at fiscal year-end and determine the expected tax levy needed to balance the budget. Accurate budget estimates help ensure the tax levy is not greater than necessary.

A board must maintain a reasonable level of fund balance, which is the difference between revenues and expenditures accumulated over time. Currently, the New York State Real Property Tax Law<sup>1</sup> (RPTL) limits the amount of unrestricted fund balance that a school district can retain to no more than 4 percent of the next year's budgeted appropriations.

Additionally, school districts are legally allowed to establish reserves and accumulate reasonable funds for certain future purposes (for example, capital projects or retirement expenditures). Districts may also set aside funds in a debt service fund that are required to pay principal and interest on long-term debt.<sup>2</sup> This money should be used for debt service payments on the originating debt or, in certain cases, other outstanding debt.

Combining a reasonable level of unrestricted fund balance with specific legally established reserves provides for both unanticipated events and other identified or planned needs. A board is responsible for developing a formal plan for its reserves, including optimal or targeted funding levels, and when the reserves will be used. A board should periodically review reserves to ensure that reserve amounts are reasonable.<sup>3</sup>

## District Officials Reduced Excessive Unrestricted Fund Balance

Our previous audit<sup>4</sup> found that the District accumulated excessive unrestricted fund balance in the general fund. The audit recommended that the Board develop a plan to reduce fund balance by financing one-time expenditures, funding reserves, reducing District property taxes or paying off debt. From 2015-16 through 2017-18, the District reduced its unrestricted fund balance from \$15.9

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1 New York State Real Property Tax Law (RPTL) Section 1318

2 For example, a debt service fund is used to account for the proceeds of a capital asset's sale that has outstanding debt or if State or federal aid is received for a capital improvement for which there is outstanding debt. Districts are also required to account for and restrict unexpended bond proceeds and related interest earnings in accordance with statutory provisions.

3 For more information, please refer to our *Local Government Management Guide - Reserve Funds*: <http://www.osc.state.ny.us/localgov/pubs/lmgm/reservefunds.pdf>

4 *Altmar-Parish-Williamstown Central School District – Financial Condition (2015M-232)*

million (51 percent of the next year's budget) to \$1.9 million (5.9 percent of the next year's budget). The District exceeded the 4 percent statutory limit by about \$609,000 (2 percentage points) at the end of 2017-18 (Figure 1).

**Figure 1: Unrestricted Fund Balance at Year-End**

	2015-16	2016-17	2017-18
<b>Total Beginning Fund Balance</b>	\$17,561,107	\$19,499,736	\$17,439,066
<b>Add: Operating Surplus/(Deficit)</b>	\$1,938,629	(\$2,060,670)	\$1,097,914
<b>Total Year-End Fund Balance</b>	\$19,499,736	\$17,439,066	\$18,536,980
<b>Less: Restricted Fund Balance</b>	\$2,841,287	\$12,309,822	\$16,458,719
<b>Less: Appropriated Fund Balance for the Next Year</b>	\$648,089	\$0	\$0
<b>Less: Encumbrances</b>	\$78,133	\$31,042	\$157,168
<b>Total Unrestricted Funds at Year-End</b>	\$15,932,227	\$5,098,202	\$1,921,093
<b>Next Year's Budgeted Appropriations</b>	\$31,413,117	\$31,413,117	\$32,809,723
<b>Unrestricted Funds as Percentage of the Next Year's Budget</b>	50.7%	16.2%	5.9%

The Board and District officials used most of the excess unrestricted fund balance to fund the District's reserves, which increased by \$13.6 million (479 percent) from 2015-16 through 2017-18. They also used excess fund balance to finance one-time expenditures. For example, in 2016-17, District officials transferred \$4 million from unrestricted fund balance to the capital projects fund to finance a voter-approved roofing project. The District also created a capital reserve for security and safety improvements and funded it in 2017-18 with \$2 million. Furthermore, the District created a repair reserve in 2016-17 and initially funded it with \$5.1 million of the excess fund balance. The Board increased the reserve to approximately \$11 million at the end of 2017-18.<sup>5</sup> From 2015-16 through 2017-18, the Board also decreased the tax levy by about \$535,000 (8 percent).<sup>6</sup>

While the Board and District officials have reduced the unrestricted portion of fund balance, the District's total fund balance has continued to increase because the District generated operating surpluses<sup>7</sup> of about \$1.9 million in 2015-16 and \$1.1 million in 2017-18. The District generated a \$2.1 million unplanned operating deficit in 2016-17 because it transferred \$4 million to the capital projects fund,

<sup>5</sup> The Board obtained voter approval prior to creating and funding the repair reserve and the capital reserve for security and safety improvements.

<sup>6</sup> The tax levy decreased about \$438,000 from 2015-16 to 2016-17 and an additional \$97,000 in 2017-18.

<sup>7</sup> An operating surplus occurs when total revenues exceed total expenditures for the year.

which was not in the original budget. Had officials not made this transfer, the District would have generated an operating surplus of about \$1.9 million in 2016-17, consistent with the prior year.

We compared the District’s budgeted revenues and appropriations with actual results of operations for the 2015-16 through 2017-18 fiscal years and found that revenue estimates were generally realistic. In addition, total appropriations were realistic for the 2017-18 fiscal year. However, District officials overestimated appropriations by over \$2 million (more than 6 percent) in both 2015-16 and 2016-17, and by approximately \$4.8 million for the three-year period combined, which has contributed to the increase in fund balance (Figure 2).

**Figure 2: Budget-to-Actual Comparison – Appropriations**

	2015-16	2016-17	2017-18	Total
<b>Budgeted Appropriations</b>	\$30,537,690	\$31,413,117	\$31,413,117	\$93,363,924
<b>Actual Expenditures</b>	\$28,513,339	\$29,299,763 <sup>a</sup>	\$30,774,988	\$88,588,090
<b>Amount Under Budget</b>	\$2,024,351	\$2,113,354	\$638,129	\$4,775,834
<b>Percentage Under Budget</b>	6.6%	6.7%	2.0%	5.1%

<sup>a</sup> Does not include a one-time unbudgeted transfer of \$4 million in 2016-17 from the general fund to the capital projects fund for a roofing capital project

The Board has consistently overestimated certain appropriations such as employee benefits<sup>8</sup> and personnel services.<sup>9</sup> For example, employee benefits were overestimated by \$998,104 (28 percent) and \$951,220 (29 percent) in 2015-16 and 2016-17, respectively. The Business Administrator told us that, in 2017-18, the District settled the faculty contract with higher salary increases than budgeted and incurred higher BOCES special education expenditures than budgeted. This resulted in the lower budget variance in 2017-18 (1.7 percent) than the prior two years.

We reviewed the District’s 2018-19 budget and evaluated it in comparison to historical trends. Appropriations in 2018-19 increased by approximately \$1.4 million (4.5 percent) from the prior year. Based on our review of the appropriation accounts that were overestimated in prior years, the District is continuing its historical pattern of overestimating appropriations. This may result in another operating surplus at the end of the current year and the additional accumulation of fund balance in excess of the District’s needs. While the Board decreased the tax levy by about \$97,000 (1.6 percent) from the prior year, it did not appropriate any fund balance to finance the budget, which could have provided additional relief to taxpayers.<sup>10</sup>

8 For example, teachers and State retirement, unemployment insurance, disability insurance, social security and Medicare (FICA) and workers’ compensation

9 Employee buyouts, special education salaries, transportation and bus garage salaries

10 The increase in budgeted appropriations in 2018-19 was financed by a \$1.5 million increase in estimated State aid revenue.

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## The Debt Service Fund and Certain Reserves Were Overfunded

The Board adopted a reserve funds policy which requires District officials to prepare and submit an annual report of all reserves to the Board that includes an analysis of the projected needs for the reserve fund in the next fiscal year and a recommendation regarding funding those projected needs. The Business Administrator submits the reserve plan to the Board, which includes the actual and recommended balances at fiscal year-end. However, the plan did not include an analysis of the projected needs for the upcoming fiscal year and did not always address optimal funding levels.

As of June 30, 2018, the District reported approximately \$16.5 million in eight general fund reserves and had restricted approximately \$2.5 million in the debt service fund. We analyzed the general fund reserves for reasonableness and adherence to statutory requirements and found that four reserves and the debt service fund, with balances totaling more than \$15.5 million, appear to be overfunded. The remaining four reserves<sup>11</sup> were reasonably funded. In addition, the debt service funds are not being used to pay the associated debt.

Repair Reserve – The Board established a repair reserve fund, pursuant to General Municipal Law, to pay for repairs to capital improvements or equipment. The type of repairs must not recur annually or at shorter intervals. The repair reserve had a balance of approximately \$11 million as of June 30, 2018. District officials told us this funding level is needed to address the District’s 2015 building condition survey that recommends certain repairs and improvements to District facilities, estimated to cost \$12.3 million. However, the report predominately included items that constituted capital improvements, replacements or additions rather than repairs. This has resulted in the overfunding of the repair reserve by over \$9.4 million, or 86 percent.

For example, the report included almost \$1.5 million for three roof replacement projects, \$500,000 to provide for a new air handling system and \$400,000 for the installation of lighting at the football field. However, because this reserve was set up as a repair reserve, expending funds from this reserve for other than its intended purpose, such as for the capital improvements or replacements, would be an inappropriate use of the reserve. The District can establish capital reserves for future equipment purchases and capital improvements. Because the legal requirements for establishing and expending money from a capital reserve and repair reserve are different (for example, voter approval is required prior to expending money from a capital reserve), it is important that District officials fund the correct type of reserve to meet the District’s needs.

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<sup>11</sup> Capital, workers compensation, unemployment and employee benefit accrued liability reserves

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Retirement Contribution Reserve – The Board established a retirement contribution reserve to fund payments to the New York State and Local Retirement System. The balance as of June 30, 2018 was approximately \$1.36 million, sufficient to cover about three years of contributions. District officials have not used any reserve funds to pay for these expenditures and instead paid them from general fund appropriations. Additionally, the reserve policy states that the funding level of this reserve is to maintain a balance of two years of retirement contributions. Based on the District’s Employees’ Retirement System expenditures for 2016-17 and 2017-18 of \$852,000, we determined that the reserve fund balance exceeded its approved maximum funding level by \$508,839, or 60 percent.

Insurance Reserve – The Board created an insurance reserve for the payment of certain losses, claims, actions or judgments for which the District is authorized or required to purchase or maintain insurance. District officials used this reserve fund to pay one claim totaling \$74,732 in 2012 resulting from an oil spill and told us they do not anticipate any other related claims from the spill. As of June 30, 2018, the reserve balance was \$472,528. The District’s reserve plan did not have any specific guidelines or support for the targeted balance, and District officials have not analyzed the District’s uninsured risks to determine the appropriate funding for the insurance reserve. Therefore, we question whether the reserve is appropriately funded and necessary.

Tax Certiorari Reserve – The Board created the tax certiorari reserve to pay prior year judgments and claims in tax certiorari proceedings. The Board reduced the tax certiorari balance to \$149,500 in 2015-16 as a result of the last OSC audit. This balance remained the same (earning interest) for the last two years. The Business Administrator did not provide us with documentation to show the amount of tax certiorari claims currently pending. Without this documentation, we question the District’s need to maintain this reserve at its current funding level.

Debt Service Fund – The District’s debt service fund had a balance of \$2.5 million as of June 30, 2018, and the fund has maintained this balance over the past four fiscal years (2014-15 through 2017-18). Although the reserve plan states money from the debt service fund may only be applied to repayment of long-term debt that remains on buildings that have been sold, District officials have not used any money from the debt service fund to reduce the outstanding debt on the buildings. Instead, the District budgeted for and paid the debt-related principal and interest from the general fund each year. The District has paid approximately \$4 million in debt payments annually between 2014-15 and 2017-18.<sup>12</sup> District officials told us they were saving the money until it was needed as a financing source in the general fund budget. Using debt service money for its intended purpose could

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<sup>12</sup> As of June 30, 2018 the District had \$16.6 million in outstanding bonds payable.



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allow general fund resources to be used for other purposes, which could result in the reduction of real property taxes.

While it is a prudent practice for officials to save for future expenditures, retaining more funds than necessary in unrestricted fund balance, reserves and the debt service fund may result in missed opportunities to use these funds in a manner that best benefits taxpayers.

## **What Do We Recommend?**

The Board should:

1. Adopt annual budgets that contain realistic estimates for appropriations based on historical trends or other known factors.

The Board and District officials should:

2. Develop a plan to reduce the amount of unrestricted fund balance to comply with the statutory limit. 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.
3. Analyze reserve fund balances and transfer overfunded amounts to unrestricted fund balance, where allowed by law, or other reserves established and maintained in compliance with statutory directives.
4. Use money in the debt service fund to pay related debt service expenditures in compliance with statutory requirements.

# Appendix A: Response From District Officials

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## Altmar Parish Williamstown Central Schools

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639 County Route 22, P.O. Box 97, Parish, NY 13131

Victor Holl, School Business Administrator

Phone: (315) 625-5254

Fax: (315) 625-7061

e-mail: [vholl@apw.cnyric.org](mailto:vholl@apw.cnyric.org)

March 1, 2019

Rebecca Wilcox, Chief Examiner  
Office of the State Comptroller  
State Office Building, Room 409  
333 E. Washington, Street  
Syracuse, NY 13202-1428

Dear Ms. Wilcox:

This letter will comprise the Written Audit Response of the Altmar, Parish, Williamstown Central School District to the recently completed audit of our district's financial management practices and procedures.

The District appreciates the opportunity that this audit provided to examine and better understand its fiscal activities, as well as, the opportunity to improve its financial stewardship of public resources.

The District agrees with the substance of the Audit findings and we are pleased to report that the District has already taken steps to implement your recommendations. At its regular meeting on January 21, 2019 the Board of Education passed a resolution to reallocate fund balance and bring our Unappropriated Fund Balance into compliance with the Comptroller's regulations. We will now begin the process of reviewing the method by which our Restricted Reserve balances are calculated.

The Board of Education and Administration appreciate the learning experience that this audit has provided. As a result of working with your auditors, members of the Business Office Staff have contacted your office for guidance on complex and / or unusual transactions. As a small district, we are grateful for the resource that your office provides and we look forward to working with you in the future.

Sincerely,



Victor Holl, School Business Administrator

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## 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 and reviewed Board meeting minutes, resolutions, financial records and budget policies to gain an understanding of the District's financial management processes.
- We reviewed and analyzed the financial records and reports for the general fund, including annual budgets, audited financial statements, annual reports, bank statements, budget status reports and general ledgers.
- We analyzed the trend in total fund balance (restricted and unrestricted) in the general fund for the 2015-16 through 2017-18 fiscal years. We compared unrestricted fund balance with next years' budgeted appropriations to determine whether the District was within the statutory limit.
- We reviewed reserve fund balances for reasonableness and determined whether the repair reserve was properly established.
- We compared the general fund's estimated revenues and budget appropriations with the actual revenues and expenditures for the 2015-16 through 2017-18 fiscal years to determine whether District budgets were reasonable. We determined which budget items contributed the most to the budget-to-actual variances and followed up with District officials on significant budget variances.
- We interviewed District officials about the debt service fund and whether the District has a plan to use the funds to pay related expenditures.

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 District 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/pubs/cyber-security-guide.pdf](http://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](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

[www.osc.state.ny.us/localgov/researchpubs/index.htm](http://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](http://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](mailto:localgov@osc.ny.gov)

[www.osc.state.ny.us/localgov/index.htm](http://www.osc.state.ny.us/localgov/index.htm)

Local Government and School Accountability Help Line: (866) 321-8503

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**SYRACUSE REGIONAL OFFICE** – Rebecca Wilcox, Chief Examiner

State Office Building, Room 409 • 333 E. Washington Street • Syracuse, New York 13202-1428

Tel (315) 428-4192 • Fax (315) 426-2119 • Email: [Muni-Syracuse@osc.ny.gov](mailto:Muni-Syracuse@osc.ny.gov)

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