

Sidney Central School District

Financial Management

MARCH 2020



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

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Report Highlights

Sidney Central School District

Audit Objective

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

Key Findings

- As of June 30, 2019, the unemployment insurance reserve and tax certiorari reserve balances of \$381,484 and \$563,862, respectively, were excessive.
- The District's reported fund balances exceeded its statutory limit in all three fiscal years. After adding back unused appropriated fund balances each year and the excessive tax certiorari reserve balance as of June 30, 2019, the District's recalculated surplus fund balance exceeded the statutory limit each of the last three fiscal years, ranging from 4.7 percentage points to 8.9 percentage points over the limit.
- The Board and District officials did not develop multiyear financial plans or establish targeted funding levels for reserves.

Key Recommendations

- Review reserve fund balances and reduce them to reasonable levels, as appropriate, in accordance with applicable statutes.
- Reduce surplus fund balance in a manner that benefits District taxpayers.
- Develop multiyear financial plans and establish optimal or targeted funding levels for reserves.

District officials generally agreed with our findings and recommendations and indicated they have taken, or planned to take, corrective action.

Background

The Sidney Central School District (District) serves the Towns of Franklin, Masonville, Sidney and Walton in Delaware County, the Town of Guilford in Chenango County and the Town of Unadilla in Otsego County.

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

Quick Facts

Employees	200
Total Fund Balance and Reserves	\$7.4 million
2019-20 Budgeted Appropriations	\$28 million
Students	1,100

Audit Period

July 1, 2016 – June 30, 2019

We extended our audit period back to July 1, 2015 to analyze the tax certiorari reserve and trends of unused appropriated fund balance.

Financial Management

What Is Effective Financial Management?

Districts are legally allowed to establish reserves and accumulate a reasonable amount of funds for certain future purposes (e.g., capital projects, retirement expenditures). The board should establish multiyear financial plans¹ that include plans for the maintenance and use of reserves, such as optimal or targeted funding levels and when the reserves will be used.

Additionally, a district may retain a portion of fund balance, referred to as surplus fund balance,² within the limits established by New York State Real Property Tax Law³ (RPTL), which currently limits the amount of fund balance that can legally be retained to 4 percent of the ensuing year's budgeted appropriations. When fund balance is appropriated to finance operations, there is an expectation of a planned operating deficit equal to the amount of fund balance that was appropriated. Combining a reasonable level of unrestricted fund balance with specific legally established reserves provides both for unanticipated events and for other identified or planned needs.

Certain Reserve Balances Were Excessive

The Board established a reserve fund policy which requires District officials to submit an annual report to the Board, including an analysis of each reserve's projected needs. However, the Board did not receive this report. In addition, although the Board received periodic information related to reserve fund levels, this information did not include an analysis of the projected needs for the reserve funds in the upcoming fiscal year because District officials were unaware of the specific requirements of the policy. Furthermore, the Board did not develop multiyear financial plans, including optimal or targeted funding levels for its reserves.

1 Refer to our multiyear financial planning resources available at <https://www.osc.state.ny.us/localgov/planbudget/index.htm>

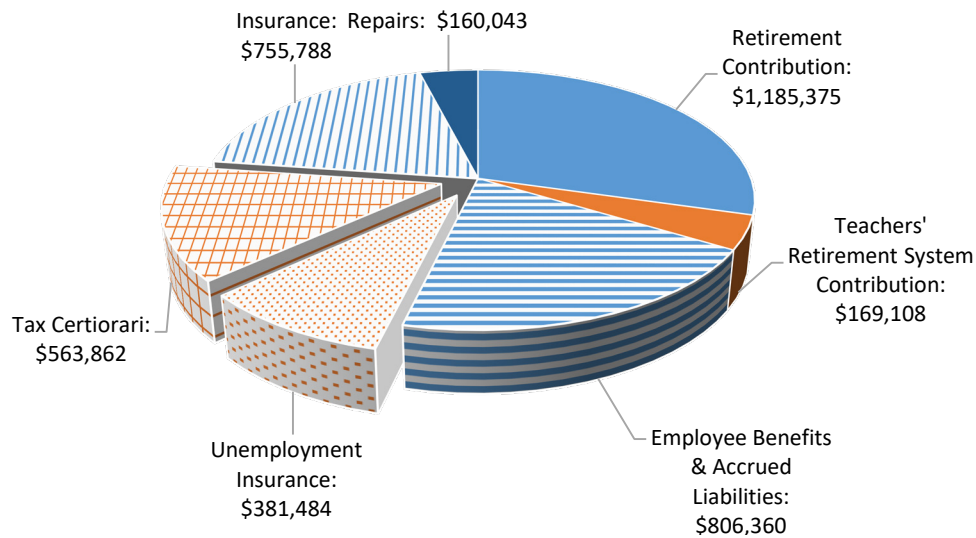
2 Surplus fund balance is defined as unrestricted fund balance minus appropriated fund balance and encumbrances included in committed and assigned fund balance. See our accounting bulletin at <https://www.osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>

3 New York State Real Property Tax Law, Section 1318

FIGURE 1

Reserve Fund Balances as of June 30, 2019

Total: \$4,022,020



We analyzed the balances of select reserve funds⁴ as of June 30, 2019 to determine whether the amounts retained were reasonable. Balances in the insurance, retirement contribution, teachers' retirement system contribution, and employee benefits and accrued liabilities reserves were reasonable based on our analysis. However, balances in the unemployment insurance and tax certiorari reserves were excessive.

Unemployment Insurance Reserve – New York State General Municipal Law⁵ authorizes this reserve to fund payments when the District reimburses the New York State Unemployment Insurance Fund for actual claims filed. The District's reserve balance could fund the maximum unemployment benefits (\$11,700) for 32 employees, which is approximately 16 percent of the District's workforce. We question whether this balance of \$381,484 is necessary, as District officials said they do not have plans to reduce their workforce.

Tax Certiorari Reserve – New York State Education Law⁶ authorizes the District to establish this reserve fund for costs related to tax certiorari proceedings⁷ not

⁴ Refer to Appendix B for information on our sampling methodology.

⁵ New York State General Municipal Law, Section 6-m

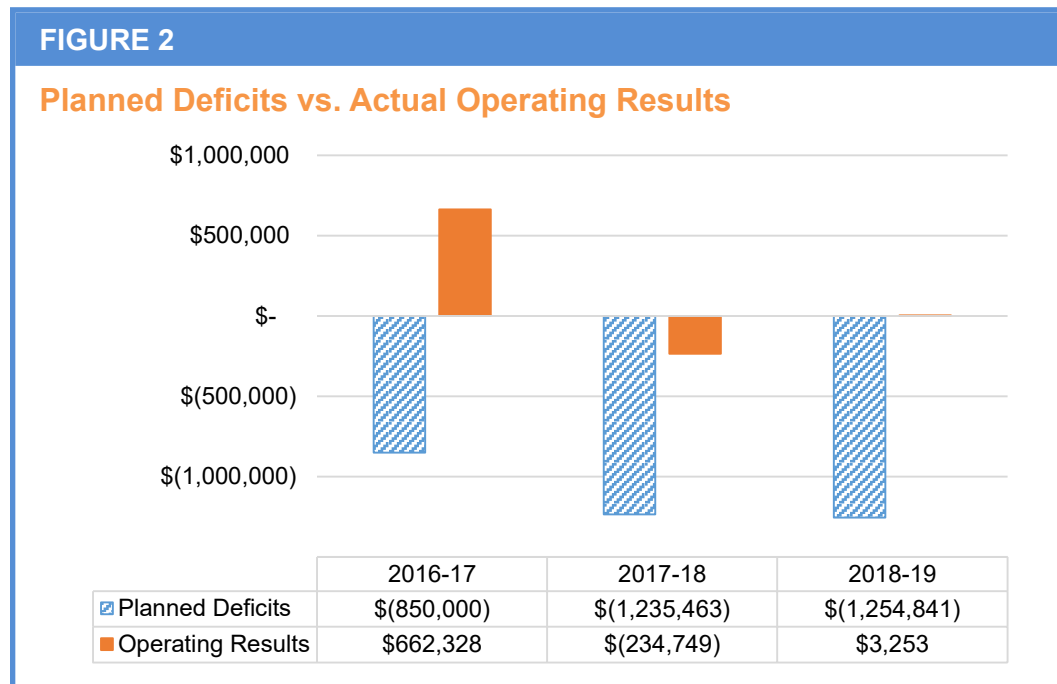
⁶ New York State Education Law, Section 3651[1-a]

⁷ A legal proceeding whereby a taxpayer who has been denied a reduction in property tax assessment challenges the assessment on the grounds of excessiveness, inequality, illegality or misclassification.

to exceed the amount that might reasonably be deemed necessary to meet anticipated judgments and claims arising out of such proceedings. Any amounts not used to pay judgments and claims must be returned to the general fund within four years of deposit. As of June 30, 2019, the District did not have any outstanding claims or judgments. Therefore, this reserve's balance of \$563,862 is unnecessary and should be returned to the general fund.

The Board Appropriated More Fund Balance Than Needed and Exceeded the Statutory Limit for Surplus Fund Balance

The Board adopted budgets that conservatively estimated revenues and appropriations over the last three fiscal years, which resulted in a total unplanned operating surplus of approximately \$431,000 instead of the planned deficits from appropriating fund balance.



Due to the unplanned operating surpluses, appropriated fund balance totaling \$3.1 million was not used during the 2016-17 through 2018-19 fiscal years.⁸ 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.

The District reported surplus fund balance that exceeded the 4 percent limit allowed by RPTL in each of the last three years. Additionally, unused appropriated

⁸ Calculated by totaling the planned deficits for the three fiscal years and subtracting the amount actually used, which occurred only in 2017-18: $[(\$850,000) + (\$1,235,463) + (1,254,841)] - (\$234,749) = \$3,105,555$.

fund balance and the excessive tax certiorari reserve are essentially surplus fund balance, causing surplus fund balance to further exceed the statutory limit.

Figure 3: Recalculated Surplus Fund Balance Including Unused Appropriated Fund Balance and Excessive Tax Certiorari Reserve Balance

	2016-17	2017-18	2018-19
Surplus Fund Balance at Year-End	\$1,375,087	\$1,212,725	\$1,785,963
Ensuing Year's Budget	\$26,778,081	\$28,362,879	\$28,030,515
Surplus Fund Balance as a Percentage of Ensuing Year's Budget	5.1%	4.3%	6.4%
Add: Appropriated Fund Balance Not Used to Finance Ensuing Year's Budget	\$1,000,714	\$1,254,841	\$1,262,799 ^a
Add: Excessive Tax Certiorari Reserve Balance	N/A ^b	N/A ^b	\$563,862
Recalculated Surplus Fund Balance	\$2,375,801 ^b	\$2,467,566 ^b	\$3,612,624 ^a
Recalculated Surplus Fund Balance as a Percentage of Ensuing Year's Budget	8.9% ^b	8.7% ^b	12.9% ^a

a We estimated the appropriated fund balance not used to finance the 2019-20 fiscal year based on the previous five-year total of unused appropriated fund balance as a percentage of total budgeted appropriated fund balance.

b Our review of the tax certiorari reserve balance focused on the existence of any outstanding claims or liabilities as of June 30, 2019. Therefore, excessive balances are not included for the 2016-17 and 2017-18 fiscal years.

Although the District's budgets were reasonably accurate and property tax levies remained relatively flat during these years, the positive budget variances were enough to offset the appropriated fund balance, which was approximately 4 percent of the budget each year.

What Do We Recommend?

The Board should:

1. Ensure District officials follow the Board's reserve fund policy by preparing annual analyses for the Board's review.

The Board and District officials should:

2. Develop multiyear financial plans and establish the optimal or targeted funding levels and conditions under which each reserve fund's asset will be used or replenished.

-
3. Review reserve fund balances and develop a plan to reduce balances to reasonable levels in accordance with applicable statutes.
 4. Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.
 5. Develop a plan to reduce surplus fund balance in a manner that benefits District residents. 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.

Appendix A: Response From District Officials



SIDNEY CENTRAL SCHOOL DISTRICT

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Eben M. Bullock, Superintendent of Schools

February 27, 2020

Office of the State Comptroller
Binghamton Regional Office
State Office Building, Suite 1072
44 Hawley Street
Binghamton, New York 13901

RE: 2019M-243 Audit Response

To Whom It May Concern:

The Sidney Central School District is in receipt and has reviewed the Report of Examination for 2019M-243, an audit that focused on the District's financial management. The correspondence herein, from the President of the Board of Education and the Superintendent of Schools, is the official response of the District. In addition, the District acknowledges that a written corrective action plan (CAP) must be submitted in accordance with the applicable sections of New York State's General Municipal Law, Education Law and the Regulations of the Commissioner of Education.

The Sidney Central School District agrees with the key recommendations and is submitting the following corrective actions. We would like to thank the auditors for their time and hard work and will utilize the feedback from the report.

- 1. Ensure District officials follow the Board's reserve fund policy by preparing annual analyses for the Board's review.**

District officials presented at the December 2019 Board of Education meeting the condition of reserve fund balances. The Board of Education and District administration, working with legal counsel and external auditors, will adopt annually a reserve plan with appropriate fund balances in accordance with applicable statutes. The Board of Education will adopt a reserve plan during the spring of 2020.

- 2. Develop multi-year financial plans and establish the optimal or targeted funding levels and conditions under which each reserve fund's asset will be used or replenished.**

The Sidney Central School District will implement annual reserve plans adopted by the Board of Education that recognize the long-range financial needs of the District. The reserve plan will define the use or replenishment of the reserve funds.

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3. **Review reserve fund balances and develop a plan to reduce balances to a reasonable level in accordance with applicable statutes.**

The Sidney Central School District will reduce the unemployment and tax certiorari reserves that were identified as being excessively funded. These reserve funding levels will be decreased in collaboration with legal counsel and external auditors. This will be completed during the spring of 2020.

4. **Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.**

The Sidney Central School District will adopt budgets that gradually reduce appropriated fund balance.

5. **Develop a plan to reduce surplus fund balance in a manner that benefits District residents.**

The Board of Education and District officials will continue to reduce surplus fund balance in a manner that benefits District taxpayers.

The local tax levy of \$6,754,000 in 2010-2011 has been reduced to a tax levy of \$6,021,920 for the 2019-2020 school year. This represents a \$732,080 reduction while maintaining academic programs with a decrease in local revenue.

The Sidney Central School District community approved a capital project resolution in May 2019 that authorized \$500,000 of surplus fund balance to be appropriated for the capital improvements to district facilities. This will further assist the District's compliance with the 4 percent unassigned fund balance as stipulated by Real Property Law §1318.

The Sidney Central School District is appreciative for the Comptroller's recommendations. The District will continue to adopt conservative financial plans that manage uncertain economic variables. The District is proud of the reduction in the local tax levy, while improving student academic achievement, reflected in rising graduation rates, while simultaneously completing several capital projects.

Sincerely,



Eben M. Bullock
Superintendent of Schools



Kerri G. Green
President, Board of Education

Appendix B: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and reviewed Board minutes and policies to gain an understanding of the financial management policies and procedures.
- We analyzed the District's reserve fund balances larger than 5 percent of the total fund balance as of June 30, 2019 to determine whether balances were excessive, by reviewing related expenditures, associated liabilities and supporting documentation.
- We reviewed the adopted general fund budgets from 2016-17 through 2019-20 to determine whether they were reasonable and structurally balanced by comparing adopted budgets with actual results of operations, where available.
- We analyzed the general fund's financial records from 2016-17 through 2018-19 and evaluated factors contributing to fluctuations in surplus fund balance.
- We calculated surplus fund balance as a percentage of the next year's appropriations for 2016-17 through 2018-19 to assess compliance with statute.
- We recalculated surplus fund balance as a percentage of the next year's appropriations after adding back unused appropriated fund balance for 2016-17 through 2017-18 and projected unused appropriated fund balance for 2018-19. We included the excessive tax certiorari reserve balance for the 2018-19 calculation.

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.

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 C: Resources and Services

Regional Office Directory

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

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

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

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

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

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

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

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

Contact

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