

Milford 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

Milford Central School District

Audit Objective

Determine whether the Milford Central School District (District) Board of Education (Board) and District officials properly managed fund balance in accordance with statute.

Key Findings

The Board and District officials did not properly manage fund balance in accordance with statute.

- As of June 30, 2021, surplus fund balance exceeded the 4 percent statutory limit by approximately \$600,000, or 5.4 percentage points. When the projected unused appropriated fund balance of \$720,000 is added back, the recalculated surplus fund balance exceeded the statutory limit by \$1.3 million, or 11.9 percentage points.
- The Board and District officials did not develop and adopt a written multiyear financial plan or fund balance policy.

Key Recommendations

- Reduce surplus fund balance to comply with the statutory limit and use the excess funds in a manner beneficial to taxpayers.
- Develop and adopt a comprehensive written multiyear financial plan and fund balance policy.

District officials generally agreed with our recommendations and plan to initiate corrective action.

Background

The District serves the Towns of Hartwick, Laurens, Maryland, Middlefield, Milford and Westford in Otsego County.

The District is governed by a seven-member elected Board that is responsible for the general management and control of the District's financial and educational affairs.

The Superintendent of Schools (Superintendent) 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. There was an interim Superintendent from July 2021 through June 2022.

The School Business Manager runs the District's day-to-day financial operations and provides financial reports to the Board.

Quick Facts

2021-22 Appropriations \$11.1 million

2021-22 Real Property Tax Revenue \$4.26 million

2021-22 Student Enrollment 384

Audit Period

July 1, 2018 – May 18, 2022

We extended the audit period to review the District's operating results as of June 30, 2022.

Fund Balance Management

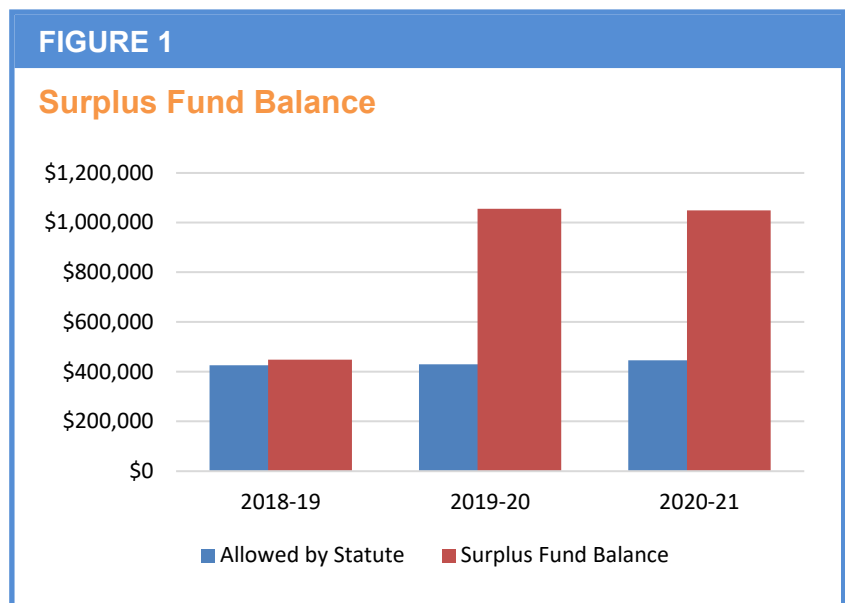
How Can the Board and School District Officials Properly Manage Fund Balance?

To properly manage fund balance, a board must estimate the amounts a school district will spend and receive, the amount of fund balance that will be available at fiscal year-end to use toward the next year's budget and the expected real property tax levy. Accurate estimates help ensure that the tax levy is not greater than necessary and that surplus fund balance amounts are not excessive and over the legal limit. Fund balance is the difference between revenues and expenditures accumulated over time. Surplus fund balance is fund balance minus appropriated fund balance, reserves, and encumbrances. A board is permitted to retain a specified amount of fund balance for cash flow needs or unexpected expenditures. New York State Real Property Tax Law Section 1318 limits the amount of surplus fund balance that a school district can retain to no more than 4 percent of the next year's budget. The board must use any surplus fund balance over this percentage to reduce the upcoming fiscal year's real property tax levy or fund needed reserves.

When fund balance is appropriated in the budget, there is an expectation of a planned operating deficit (expenditures exceed revenues) in the amount of the appropriated fund balance. If the school district instead experiences an operating surplus, the amount of appropriated fund balance will not actually be used to finance operations.

The Board and School District Officials Did Not Properly Manage Fund Balance

The District's surplus fund balance increased from approximately \$448,000 as of June 30, 2019 to over \$1 million as of June 30, 2021 (Figure 1), or 9.4 percent of the 2021-22 fiscal year budgeted appropriations. This exceeded the statutory limit by approximately \$600,000, or 5.4 percentage points. The District's external auditor also reported on the excess surplus fund balance in the audited financial statements for fiscal years ending 2019 through 2021.



According to the Business Manager, the District exceeded the statutory limit primarily because the District did not spend as much as anticipated in the past two years due to the COVID-19 pandemic, which resulted in appropriated fund balance not being used. Additionally, District officials plan to create a capital reserve, subject to voter approval, but are waiting for their building condition survey to be completed and a permanent Superintendent and Principal to be appointed to assist in the decision. Annually appropriating fund balance that is not needed to finance operations is, in effect, an improper reservation of fund balance that circumvents the statutory limit for surplus fund balance.

According to the District's unaudited year-end financial statements, the District used approximately \$20,000 of appropriated fund balance in the 2021-22 fiscal year out of the almost \$740,000 appropriated, meaning that although the District incurred a planned operating deficit, the recalculated surplus fund balance still exceeded the statutory limit by approximately \$1.3 million, or 11.9 percentage points, as of June 30, 2021. The District appropriated \$640,000 of fund balance in 2021-22 for the 2022-23 budget. If the District incurs another planned operating deficit and creates and funds reserves, surplus fund balance will continue to decline.

Why Are Multiyear Financial Planning and a Fund Balance Policy Important?

A comprehensive written multiyear financial plan projects revenues, expenditures and fund balance several years into the future using past trends and operating results, as well as any emerging changes. These projections help a board assess expenditure commitments, revenue trends, reserve fund levels, financial risks and the affordability of future capital projects. Maintaining a reasonable level of surplus fund balance and reserve funds in accordance with statute is a key element of effective multiyear financial planning. A fund balance policy is an important component of any multiyear plan, as it provides a framework to help guide budgetary decisions by addressing desired funding levels and how surplus balances will be applied so surplus fund balance is maintained in accordance with statute. It should also include the method that surplus fund balance and reserve fund balances will be replenished to desired funding levels and when they will be used.

A multiyear financial plan and fund balance policy should both be periodically reviewed and updated to provide a reliable framework for preparing reasonable annual budgetary estimates and ensuring that information guiding decisions is current, accurate and in accordance with statutory requirements.

The Board Did Not Adopt a Written Multiyear Financial Plan or Fund Balance Policy

Board members and the interim Superintendent told us that the School Business Manager provides the Board with financial information on a regular basis so it can make decisions. However, the Board has not developed or adopted a written multiyear financial plan or a fund balance policy to help guide long-term decision-making. Although the Board adopted a written reserve plan in January 2018, it did not address key aspects like optimal funding levels of each reserve or conditions under which each reserve will be used or replenished. The reserve plan only included original funding levels and current funding levels as of 2018. Additionally, the District's reserve plan has not been updated since 2018. The School Business Manager told us she plans to update the reserve plan and bring it to the Board for approval next school year.

Adopting a comprehensive written multiyear financial plan and fund balance policy would help the Board and District officials clearly communicate the Board's future plans and estimation and use of appropriated, surplus and reserve fund balances to voters and residents. Additionally, these policies would assist the Board and District officials to prioritize and plan for future capital needs and make timely, informed decisions about programs and operations while properly managing surplus fund balance in accordance with statute.

What Do We Recommend?

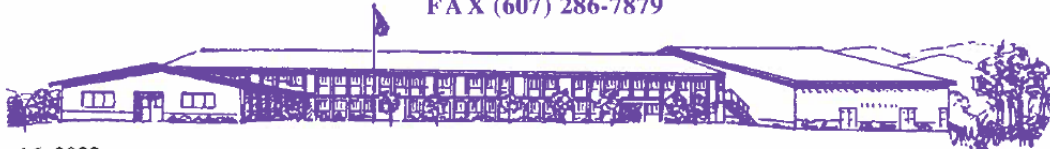
The Board and District officials should:

1. Develop and adopt a plan to reduce surplus fund balance to comply with the statutory limit. Surplus funds can be used for:
 - Reducing District property taxes,
 - Funding one-time expenditures,
 - Funding needed reserves, and
 - Paying off debt.
2. Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.
3. Develop, adopt, and periodically update a comprehensive written multiyear financial plan to be used in conjunction with the annual budget process.
4. Develop, adopt, and periodically update a fund balance policy, including reserves, to be used in conjunction with the annual budget process.

Appendix A: Response From District Officials

Milford Central School

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Milford, New York 13807-0237
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August 16, 2022

Binghamton Regional Office
Ann C. Singer, Chief Examiner
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417

Dear Ms. Singer,

Please accept this letter as the official response from Milford Central School District to the “Draft Audit Report of Examination” on the Fund Balance Management of the District covering the period of July 1, 2018 through May 18, 2022. Please note that this audit response will also serve as the Corrective Action Plan for the District. The Milford Central School Board of Education acknowledges the efforts of the New York State Comptroller and would like to express our gratitude for the feedback as to the status of the financial condition of our District.

We believe we have been managing the district’s finances in a conservative manner. We budget conservatively to ensure that the district can maintain the financial stability that a District needs for the long term. Budgeting is based on estimates, and is not an exact science, therefore, when we are budgeting for the upcoming year, we use the information that we have available at that time to develop expenditure and revenue estimates.

Audit Recommendation #1:

1. Develop and adopt a plan to reduce surplus fund balance to comply with the statutory limit. Surplus funds can be used for:
 - Reducing District property taxes,
 - Funding one-time expenditures,
 - Funding needed reserves, and
 - Paying off debt.

Implementation Plan of Action

Milford Central School has considered and is reviewing the steps needed to address the amount of surplus funds to comply with the statutory limits. At this point the following have been addressed:

- The Board of Education plans to go out to the voters during the 2022-2023 school year to establish a Capital Reserve and begin to fund the Capital Reserve from unrestricted fund balance. The district is awaiting the results of the Building Condition Survey to determine the capital needs of the district to develop the proposition for the establishment of the Capital Reserve. The Board of Education plans to have this proposition on the May 2023 ballot.
- The budget for the 2022-2023 school year is based on a tax levy increase of .46%. This increase is within the tax cap. During the budgeting process the district acknowledged this levy increase will bring in less revenue than the 2% that the Board has presented to the voters in the past few years, however, with the surplus fund balance the BOE felt there was no need to go out for the 2% requiring a super majority vote to exceed the tax cap.

The Superintendent with the assistance from the School Business Manager will continue to research other options going forward for the further use of fund balance to continue to reduce surplus funds to comply with the statutory limit.

Audit Recommendation #2:

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

Implementation Plan of Action

Milford Central School will continue to work to strengthen its budgeting practices. The district will continue to review prior year actuals and use those as a guide for future budgets. The district works to ensure that budget estimates are sufficient to cover expenses for special education, buildings and grounds, and transportation needs that may arise during the school year. It is important to our District that unexpected and/or unanticipated needs can be addressed without compromising the needs of our students.

Audit Recommendation #3:

3. Develop, adopt, and periodically update a comprehensive written multi year financial plan to be used in conjunction with the annual budget process.

Implementation Plan of Action

The district is researching methods and gathering information to be used as resources in the development of a multi-year financial plan as well as utilizing the tools provided by the Office of the State Comptroller. The district plans to review the budget as a starting point and work to prepare a multi-year financial plan that includes areas such as revenue and expenditure projections, operating deficit projections and/or surplus projections, and reserve balance projections.

The School Business Manager is also looking for professional development that can provide training in the development of such a plan.

By the end of the 2022-2023 school year, the Board of Education, Superintendent and School Business Manager plan to have a preliminary multi year financial plan in place and adopted for use in financial planning of the district. The district will periodically review and update the plan.

Audit Recommendation #4:

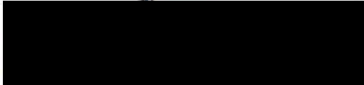
4. Develop, adopt, and periodically update a fund balance policy, including reserves, to be used in conjunction with the annual budget process.

Implementation Plan of Action

The district will ensure that there is a process in place for the Milford Central School Reserve Plan to be updated and presented to the Board of Education on an annual basis beginning with the 2022-2023 school year. The Superintendent and School Business Manager will regularly keep the Board of Education apprised of the specific reserve funds, their purpose, the creation, use, and source of funds as well as the amounts funded in each reserve in the presentation of the Reserve Plan. In addition, as part of the budget process the School Business Manager will present a fund balance projection to the Board of Education.

On behalf of the Board of Education and the administration of Milford Central School, I thank you for your time and efforts in this process.

Sincerely,



Kristen M. Shearer
Superintendent

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 external financial audit reports, Board meeting minutes and policies to gain an understanding of financial management practices and whether the District had any comprehensive written multiyear financial plans and fund balance policies.
- We calculated the general fund's surplus fund balance for 2018-19 through 2020-21 as a percentage of the next year's appropriations to assess whether the District complied with statute.
- We reviewed the fund balance appropriated for 2018-19 through 2020-21, determined whether the District had an operating surplus or deficit and calculated how much appropriated fund balance was actually used. We also reviewed the District's unaudited year-end financial statements for the 2021-22 fiscal year to estimate how much appropriated fund balance the District was expected to use in 2021-22.
- We recalculated surplus fund balance as a percentage of the next year's appropriations after adding back unused appropriated fund balance for 2018-19 through 2019-20 and projected unused appropriated fund balance for 2020-21, and we compared these amounts to the statutory limit.

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 C: 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

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

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

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

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

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/files/local-government/publications/pdf/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

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

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

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

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Contact

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