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Joe DioGuardi, Superintendent
Members of the School Board
Addison Central School District
7 Cleveland Drive
Addison, NY 14801

Report Number: 2016M-30-F

Dear Superintendent DioGuardi and Members of the School Board:

One of the Office of the State Comptroller's primary objectives is to identify areas where school district officials can improve their operations and provide guidance and services that will assist them in making those improvements. The Office also works to develop and promote short-term and long-term strategies to enable and encourage officials to reduce costs, improve service delivery and to account for and protect their assets. In accordance with these objectives, we conducted an audit of the Addison Central School District (District) to assess the District's financial condition. As a result of our audit, we issued a report, dated June 10, 2016, identifying certain conditions and opportunities for the Board's review and consideration.

To further our policy of providing assistance to local governments and school districts, we revisited the District beginning in October of 2022 to review progress in implementing our recommendations. Our follow-up review was limited to interviews with District personnel and inspection of certain documents related to the issues identified in our report. Based on our limited procedures, it appears that the District has made minimal progress implementing corrective action. Of the eight audit recommendations, six recommendations were not implemented and two recommendations were fully implemented.

Recommendation 1 – Budgeting

Adopt budgets that include the District's actual needs, based on available current information and historical data.

Status of Corrective Action: Not Implemented

Observations/Findings: The Board continued to adopt unrealistic budgets the last three fiscal years, 2019-20 through 2021-22. Specifically, appropriations were overestimated by at least \$2 million each year. For example, health insurance was overestimated by approximately \$1.5 million each

year, while teaching salaries were overestimated by \$1.2 million and retirement costs by \$634,000 in total over the last three fiscal years. In addition, State aid was underestimated by approximately \$670,000 in 2020-21 and \$1.3 million in 2021-22. The Superintendent told us he believes the District's conservative budgeting practices results in a responsible budget that is modeled in the community's best interests. However, overly conservative budgeting practices over an extended period of time puts an undue burden on District taxpayers.

Recommendation 2 – Appropriated Fund Balance and Reserves

Discontinue the practice of adopting budgets that result in the appropriation of fund balance and reserve funds that will not be used.

Status of Corrective Action: Not Implemented

Observations/Findings: Because the Board adopted budgets that overestimated appropriations and underestimated revenues, unplanned operating surpluses occurred totaling approximately \$7 million over the last three fiscal years and appropriated fund balance totaling \$1.5 million was not needed to fund operations. The operating surpluses allowed the Board to increase reserves by \$4.7 million, prior to making unplanned interfund transfers totaling \$5.8 million to prefund the District's upcoming capital project and make additional debt payments totaling \$1.5 million. The Superintendent told us he believes that developing a conservative budget generates a needed cushion of surplus funds, or a rainy-day fund, which is necessary to weather a volatile economy and helps avoid cuts in staffing. He also believes that these surplus funds have allowed the District to maintain its fiscal health. For example, the District has paid down its debt, which has saved interest costs and has improved its bond rating.

Recommendation 3 – Reserve Plan

Amend their reserve plan to clearly communicate to District residents the purpose and intent for establishing each reserve fund, the manner in which the Board will fund and maintain each reserve fund, and the optimal or targeted funding levels and applicable rationale and conditions under which each fund's assets will be used or replenished.

Status of Corrective Action: Not Implemented

Observations/Findings: Although the Board-adopted reserve plan is reviewed biannually, it is inadequate because it does not identify the manner of funding for three of the District's seven reserves or the optimum funding levels and rationale for six of the reserves. In addition, the Board did not identify how two of the reserves will be used. The Superintendent told us that, as the result of the previous audit, the District sought assistance from its independent accountants to help improve its reserve plan. He believed the improved reserve plan included all required components.

Recommendation 4 – Reserves

Review all reserves and determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements. To the extent that they are not, transfers should be made to unrestricted fund balance, where allowed by law, or to other reserves established and maintained in compliance with statutory directives.

Status of Corrective Action: Not Implemented

Observations/Findings: We analyzed the District’s reserves as of June 30, 2022 and identified two reserves with balances totaling approximately \$774,000 that were overfunded and potentially unnecessary. The District funded its reserves from excess surplus fund balance resulting from operating surpluses. To help ensure that these reserves are necessary, and to provide transparency, the Board should include provisions to fund the reserves in its annual budgets.

The unemployment insurance reserve had a balance of approximately \$337,000, which was more than 300 times the average annual expenditures over the last three years. The Board’s reserve plan did not specify an optimum funding level for this reserve. Although the Business Administrator explained that the Board approved the \$75,000 increase to this reserve at the end of the 2020-21 fiscal year, because of the COVID-19 pandemic uncertainties, these unemployment insurance claims did not materialize.

The repair reserve had a balance of \$437,000 and has not been used in the last three years, except to fund a transfer to the capital reserve totaling \$390,000 during the 2021-22 fiscal year, which was immediately replenished at the end of 2021-22 by surplus fund balance. The Business Administrator told us that the District prefers to maintain a sufficient amount in the repair reserve since the District has experienced significant floods in recent years. However, existing operating surpluses were adequate to meet the District’s needs during the recent flooding, and the District did not use this reserve.

Recommendation 5 – Compensated Absences

Use the guidance provided by the Office of the State Comptroller (OSC) to calculate the amount of the District’s compensated absences liability and classify and report short- and long-term portions accordingly.

Status of Corrective Action: Fully Implemented

Observations/Findings: We reviewed the District’s payroll records and calculation for the compensated absences liability and determined the District was properly classifying the short- and long-term portions.

Recommendation 6 – School Lunch Fund

Develop a plan to reduce excess school lunch fund balance to adhere to federal regulations.

Status of Corrective Action: Fully Implemented

Observations/Findings: District officials developed a plan that reduced the excessive school lunch fund surplus fund balance in 2019-20 and 2020-21 to acceptable levels by purchasing equipment. Even though surplus funds exceeded acceptable levels in 2021-22 by about \$223,900, this was due to the unanticipated receipt of federal funding during the second half of the fiscal year.

Recommendation 7 – Multiyear Financial Plan

Develop a multiyear financial plan that includes information related to anticipated funding and use of reserves and the appropriation of fund balance.

Status of Corrective Action: Not Implemented

Observations/Findings: The Board and District officials did not develop a multiyear financial plan. The Business Administrator told us they have not yet developed a multiyear plan because they recently obtained a school financial forecasting software program to assist in the development of a multiyear financial plan.

Recommendation 8 – Excess Fund Balance

Use the excess fund balance to benefit taxpayers. Such uses could include lowering the tax levy, paying down debt, or paying for one-time expenditures.

Status of Corrective Action: Not Implemented

Observations/Findings: The District's surplus fund balance was within 4 percent of the next year's budget as allowed by New York State Real Property Tax Law Section 1318 only because District officials continued their practice of overestimating appropriations and appropriating unneeded fund balance. Although officials used the unplanned operating surpluses to fund all of the District's portion of the upcoming capital project's expenditures and make additional debt payments, their methods were not transparent and continued to overtax the District's taxpayers in excess of their current needs. While financing one-time capital improvements and making additional debt payments meet the recommendation, they will not reduce excess surplus fund balance as long as the budget estimates are not brought in line with actual operating needs. The Superintendent told us that the District prefers to maintain adequate levels of fund balance to mitigate current and future risks such as revenue shortfalls and unanticipated expenditures. However, overly conservative budgeting practices put an undue burden on District taxpayers and have resulted in fund balances that are more than adequate to meet the Superintendent's concerns.

During our review, we discussed the basis for our recommendations and the operational considerations relating to these issues. We encourage District officials to continue their efforts to fully implement our recommended improvements.

Thank you for the courtesies and cooperation extended to our auditors during this review. If you have any further questions, please contact Edward V. Grant Jr., Chief of Municipal Audits of our Rochester Regional Office at 585-454-2160.

Sincerely,

Elliott Auerbach
Deputy Comptroller