



Lyme Central School District

Financial Management

2024M-87 | October 2024

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Report Highlights

Lyme Central School District

Audit Objective

Determine whether the Lyme Central School District (District) Board of Education (Board) and District officials properly managed fund balance.

Key Findings

The Board and District officials did not properly manage the District’s fund balance. As a result, they levied more taxes than needed to fund operations and were not transparent with taxpayers. The Board and District officials:

- Overestimated budgetary appropriations by an annual average of \$918,000 (12 percent) from 2020-21 through 2022-23.
- Appropriated fund balance to close projected budget gaps totaling \$1.6 million for the 2020-21 through 2022-23 fiscal years; however, the District only needed to use approximately \$23,000 of appropriated fund balance to cover operating costs during the period.
- Reported fiscal year-end surplus fund balance during the same period ranging from 16 to 19 percent of the upcoming year’s budget, which was \$1.0 million to \$1.4 million over the 4 percent statutory limit.
- Did not have written multiyear financial and capital plans to provide a framework for developing the annual budgets and addressing future operating and capital needs.

Recommendations

The audit report includes three recommendations that, if implemented, will improve the District’s financial management.

District officials disagreed with certain aspects of our findings but indicated they will initiate corrective action. Appendix B includes our comments on the District’s response letter.

Audit Period

July 1, 2020 – March 5, 2024

Background

The District is located in the Towns of Brownville, Cape Vincent, Clayton and Lyme in Jefferson County. The District is governed by the elected seven-member Board, which is responsible for managing and controlling the District’s financial and educational affairs.

The Superintendent of Schools (Superintendent) is the District’s chief executive officer and is responsible, along with other administrative staff, for the District’s day-to-day management under the Board’s direction.

The District Treasurer (Treasurer) maintains financial records and prepares financial reports. The Board, Superintendent and Treasurer are responsible for developing and monitoring the annual budget.

Quick Facts	
Student Enrollment	326
2023-24 Appropriations	\$9.0 million
June 30, 2023 Reported Balances	
Surplus Fund Balance	\$1.7 million
Reserve Funds	\$2.8 million

Financial Management

How Should a Board and District Officials Properly Manage Fund Balance?

Fund balance is the difference between revenues and expenditures accumulated over time. School districts may retain a portion of surplus fund balance¹ for unexpected occurrences and fluctuations in cash flow. However, a school district board (board) and officials must comply with New York State Real Property Tax Law Section 1318, which limits the amount of surplus funds that a school district can retain to no more than 4 percent of the budget. A school board may also retain fund balance in reserves, restricted for other identified and planned needs, in accordance with various New York State statutes. Officials must apply any surplus fund balance in excess of the 4 percent limit to reduce the upcoming year's real property tax levy or appropriately fund needed reserves.

To properly manage fund balance, the board and school district officials should develop and adopt reasonably estimated and structurally balanced budgets based on historical data or known trends in which recurring revenues finance recurring expenditures. In preparing the budget, the board must estimate the amounts the school district will spend and receive, the amount of fund balance that will be available at fiscal year-end to use toward the upcoming year's budget, and the expected real property tax levy. Accurate and reasonable budget estimates help ensure that the tax levy is not greater than necessary, the budget is presented transparently to the public, and surplus fund balance does not exceed the legal limit. During the course of the fiscal year, as school district officials have a better understanding of the results of financial operations, they should consider using anticipated surplus fund balance to finance one-time expenditures, fund needed reserves or pay off debt.

The Board and District Officials Did Not Properly Manage the District's Fund Balance

The Board and District officials overestimated appropriations, appropriated fund balance that was not needed to fund operations and allowed surplus fund balance to exceed the statutory limit. As a result, District officials were not transparent with taxpayers and maintained real property taxes at a level higher than necessary to fund operations.

We compared budgeted revenues and appropriations in the general fund with actual operating results for the 2020-21 through 2022-23 fiscal years. Estimated revenues were generally reasonable. However, District officials overestimated appropriations by an average of \$918,000 (12 percent) per year, or a cumulative total of about \$2.8 million (Figure 1).

Figure 1: Comparison of Appropriations to Actual Expenditures, in Millions

Fiscal Year	2020-21	2021-22	2022-23	Total
Appropriations	\$8.66	\$8.83	\$8.97	\$26.46
Actual Expenditures	\$7.31	\$8.22	\$8.18	\$23.71
Overestimated Appropriations	\$1.35	\$0.61	\$0.79	\$2.75
Percentage Overestimated	18%	7%	10%	12%

¹ For guidance on fund balance classification and reporting see <https://www.osc.ny.gov/files/local-government/publications/pdf/gasb54.pdf>

The most significant overestimated appropriations for the three-year period included:

- Employee Salaries² – Variances totaled approximately \$1.2 million (13 percent) or about \$386,000 each year. Despite a \$200,000 decrease in actual expenditures from 2020-21 to 2021-22, officials increased appropriations from \$3.35 million to \$3.40 million in 2022-23 causing a variance of approximately \$300,000.
- Special Education Programs – Variances totaled approximately \$704,000 (49 percent) or about \$235,000 each year. In 2021-22, actual expenditures for special education programs totaled approximately \$557,000, which was about \$108,000 less than appropriations. Despite this overestimation, officials increased the 2022-23 appropriation for the program to approximately \$810,000, which exceeds prior year actual expenditures by approximately \$253,000 (45 percent). Actual special education program expenditures for 2022-23 were approximately \$598,000, or approximately \$212,000 less than budgeted.
- Health Insurance Benefits – While the 2020-21 appropriations were reasonable, the next two fiscal years were overestimated by a total of \$485,000 (18 percent), with annual variances ranging from \$182,000 to \$302,000.

Although historical trends showed some of these appropriations were previously overestimated, officials continued to increase the amount budgeted each year even though actual expenditures were consistently less than appropriations. The Board President told us that the Board prefers to use a conservative approach to budgeting by adding a cushion for unforeseen events.

Additionally, the Treasurer told us that they budget extra for special education programs in case special needs students move into the District during the school year, which could increase the District's costs. She also indicated that variances in health insurance benefits were due to fluctuations in employee participation in District-provided health insurance programs and they budget extra for health insurance benefits in case employees who are not enrolled decide to enroll. While budgeting to consider unexpected costs is understandable to a degree, officials consistently overestimated these appropriations and could have used historical information more effectively to develop more realistic budgets.

Because the Board and District officials overestimated appropriations, it appeared the District needed to use appropriated fund balance to close projected budget gaps totaling \$1.6 million for the 2020-21 through 2022-23 fiscal years. However, the District only needed to use approximately \$23,000 of appropriated fund balance to cover operating costs during the 2021-22 fiscal year and it realized approximately \$943,000 in cumulative operating surpluses over the three-year period (Figure 2).

2 We excluded salaries for special education programs from this total and included them in the special education programs total.

Based on our discussion with the Treasurer and review of the February 29, 2024 budget status report and historical revenues and expenditures, the District was likely to generate another operating surplus for the 2023-24 fiscal year and not need to use the \$533,947 in appropriated fund balance included in the budget. When we discussed the draft audit report with officials after the fiscal year end, the Treasurer confirmed that the District had an operating surplus.

From the 2020-21 through 2022-23 fiscal years the District's reported surplus fund balance ranged from 16 to 19 percent of the upcoming year's budget, which was \$1.0 million to \$1.4 million over the 4 percent statutory limit. Although the Board kept the real property tax levy flat from 2020-21 to 2021-22, it increased taxes by about \$46,600 (1.1 percent) in 2022-23 and another \$71,000 (1.7 percent) in 2023-24, despite having excess surplus fund balance available to appropriate in the budgets.

Consistently appropriating fund balance that is not needed to finance operations is, in effect, a reservation of fund balance that is not provided by statute. Also, it functions as a means to circumvent the statutory limit imposed on the level of surplus fund balance that the District may retain at the end of each fiscal year.

For perspective, when the unused appropriated fund balance is added back to the District's reported surplus fund balance, the recalculated amount ranged from 23 to 25 percent of the upcoming year's budget. This exceeded the statutory limit by 19 to 21 percentage points. At the end of the 2022-23 fiscal year, the recalculated surplus fund balance was \$2.3 million, which exceeded the statutory limit by \$1.9 million (Figure 3). By continually appropriating fund balance that is not needed and overestimating appropriations, the District is not presenting its surplus fund balance or budget in a transparent manner.

FIGURE 2

Planned Operating Deficits vs. Actual Operating Results

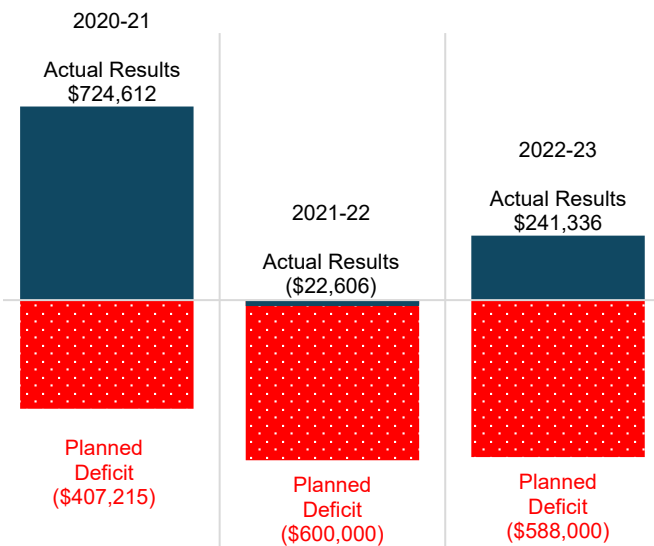
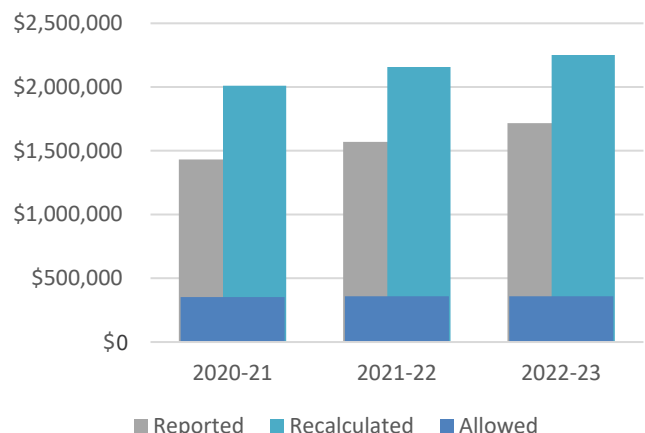


FIGURE 3

Surplus Fund Balance



As of June 30, 2023, the District accumulated about \$2.8 million in various reserves to set aside funds for future expenditures (e.g., capital, retirement contributions, repair, employee benefit accrued liabilities, workers' compensation, unemployment, property loss). The District has a written reserve plan that is updated annually and reviewed by the Board. Except for minor issues which we discussed with District officials, the balances in the reserve funds were generally reasonable or within the voter-approved maximum level for the capital reserve.

The District's reserve funds can provide officials with additional budgetary options during uncertain economic times to mitigate the need to cut services and/or raise additional taxes. The Board and District officials should consider these reserve funds when managing fund balance and complying with the statutory limit for surplus fund balance.

Why Is Multiyear Financial and Capital Planning Important?

Multiyear financial and capital planning enables school district officials to identify revenue and expenditure trends, establish long-term priorities and goals, consider the impact of near-term budgeting decisions on future fiscal years and assess the merits of alternative approaches (such as using surplus fund balance or establishing and using reserves) to finance operations. Any comprehensive written multiyear (long-term) financial and capital plan should be periodically reviewed and updated to provide a reliable framework for preparing budgets and ensure that information used to guide decisions is current and accurate.

The Board and District Officials Did Not Have Comprehensive Written Multiyear Financial and Capital Plans

District officials did not develop comprehensive written multiyear financial or capital plans. The Board President and Superintendent told us that officials have had discussions about renovating the aging school building, purchasing electric buses and improving the infrastructure at the bus garage to accommodate electric buses. The Treasurer told us that they recently started working with architects to assess the building condition and officials will develop an improvement plan to address concerns noted during the assessment. However, they do not have a written capital plan for any of these upgrades.

The lack of long-term financial and capital plans inhibits the Board and District officials' ability to effectively manage finances and address future operating and capital needs. As the District moves forward, well-designed written financial and capital plans can assist the Board in making timely and informed decisions about programs and operations and help them effectively manage and use fund balance and reserves in the best interest of taxpayers.

What Do We Recommend?

The Board and District officials should:

1. Develop and adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be appropriated and used to fund operations.
2. Develop and adopt a plan to reduce surplus fund balance to comply with the statutory limit. Surplus funds can be used for:
 - Funding one-time expenditures,
 - Funding needed reserves.
 - Paying off debt, and
 - Reducing District property taxes.
3. Develop and adopt written multiyear financial and capital plans to provide a framework for future budgets and help manage the District's fund balance. These plans should be periodically reviewed and updated as appropriate.

Appendix A: Response From District Officials



P.O. Box 219, 11868 ACADEMY STREET, CHAUMONT, NY 13622

Phone: 315-649-2417 ♦ Fax: 315-649-2663 ♦ Website: www.lymecsd.org

PATRICIA GIBBONS, SUPERINTENDENT

September 30th, 2024

██████████
██████████
Office of the State Comptroller
Local Government and School Accountability
State Office Building Room 409
333 East Washington Street
Syracuse, New York 13202-1428

Dear ██████████

The Lyme Central School District is in receipt of the draft Report of Examination on the District's financial condition for the period of July 1, 2020-March 5, 2024. On behalf of the Board of Education and the District Administration, we would like to thank the local field staff of the Comptroller's Office for the professional and courteous manner in which they conducted their duties while performing the audit. We also appreciate the opportunity to respond to the findings of this report. Please accept this letter as the Lyme Central School District's response.

The District is pleased that this extensive examination confirmed no findings of material weakness, operational improprieties, fraud, waste, or abuse. We attribute this success to the outstanding accounting practices conducted by our small but well-versed business department in concert with our knowledgeable and supportive Board of Education. The focus of the referenced audit findings focused on our Financial Condition, which resulted in recommendations regarding budgeting practices, fund balance, and long-range financial planning.

See
Note 1
Page 10

While the District does not dispute the findings of the report, we feel that the report shows an incomplete picture of the district's budget practices. The District has prepared budgets guided by two fundamental principles. The first is to provide quality educational programs for our students. The second is to be fiscally responsible to our community by providing budget and tax rate stability over time. We agree that sound budgeting, along with managing of fund balance and reserves, supports the District's goals to maintain high quality educational programs, manage emergencies, address unexpected expenses, and satisfy longterm financial obligations. The District faces many unknown factors when projecting expenditures at the time of budget development.

PREPARING TODAY'S STUDENTS TO BE TOMORROW'S CITIZENS

Board of Education

Mrs. Deanna Lothrop, President
Mr. Ray McIntosh
Mrs. Sherri Wilson, Clerk

Mrs. Kathy Gardner, Vice President
Ms. Lynn Reichert
Ms. Carrie Mitchell

Mrs. Shauna Dupee
Mr. Darrell DeMotta



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We acknowledge that during the review period, the appropriated fund balance was not fully utilized, however, we continue to stand by our budgeting practices and cannot commit to the use of appropriated fund balance in its entirety. Future budgets will continue to be planned to utilize a portion of the appropriated fund balance, however, the District must look forward when developing the budget and cannot always anticipate when key elements of the budget will increase or decrease. The District must be prepared to cover any and all expenses at any time.

In your report, the District's budget variances during the review period were due to over estimates related to special education; health insurance; and employee salaries.

- **Special Education:** Special education costs are difficult to project. The movement of students in and out of the District is unpredictable and out of our control. The District is required by law to provide the services to the student with a disability per their Individualized Education Plan. We budget for the possibility of additional students coming to the District, our current identified students who may need additional services, and the possibility of a student needing a residential placement. All of these scenarios occurred during the noted auditing period and required us to be mindful of and plan for these additional expenses.
- **Health Insurance:** The District is required to offer health insurance to its members. Staff have the option to choose a plan that suits their needs. As such, new and/or existing staff may choose to opt in or out of our health insurance plan. Variances in health insurance benefits were due to fluctuations in employee participation in District provided health insurance programs. The District must budget for those members who wish to join, but who are not currently enrolled and must be prepared to accommodate the fluxuating needs of our employees. These fluxuations occurred during the auditing period.
- **Employee Salaries:** The District experienced unexpected changes in employee salaries during the auditing period. Fluxuations with employees leaving or joining the District occurred during the auditing period. Of those members who left, the District was either unable to fill staff vacancies or if possible, was able to obtain breakage in the new hire salary. Furthermore, during the auditing period, we were successfully awarded grants as well as rescue monies. When appropriate, the District assigned salaries to the grants. However, the District must be prepared to fund projects and salaries in the event we are ever not awarded.
- **Fund Balance:** The District agrees with the recommendation of the audit to work diligently toward reducing the unappropriated fund balance to ensure compliance with statutory limits. The 4% level in statue is becoming

See
Note 2
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more difficult to attain and meet all cash flow requirements until property taxes and state aid is received in September.

The uncertainty of the District's annual allocation of state aid has created a difficult economic climate for the District. Therefore, the District has chosen to continue to raise taxes annually to provide a stable tax rate for our taxpayers and to maintain a consistent percentage of property tax revenue compared to total revenue. Our community has been very supportive of the District and the educational and athletic programs we offer. We will continue to be mindful of the increase so as to reduce any burden to our tax payers and to maintain the quality of our programs.

Our efforts to reduce our fund balance have already begun to be realized. In Fiscal year 2023: our fund balance was 19.11%. In Fiscal Year 2024, our fund balance is 8.99%. This is a 10.12% decrease in our fund balance. As such, the District is working hard to be in compliance with and more transparent regarding the state's statute affecting our fund balance.

See
Note 3
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The District will prepare our Corrective Action Plan (CAP) within the stated timeline upon receiving the final report. We will focus our responses based on the recommendations stated in the audit.

The Lyme Central School District appreciates the work of the Comptroller's Office and the opportunity to respond to the written report. We are constantly striving for ways to strengthen and improve our District.

Sincerely,

Patricia Gibbons
Superintendent

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Mrs. Sherri Wilson, Clerk

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Appendix B: OSC Comments on the District's Response

Note 1

The audit objective focused on whether officials properly managed fund balance. The audit team assessed the risk of fraud occurring that is significant within the context of this audit objective, as required by generally accepted government auditing standards. Therefore, these audit results cannot be used to conclude there is no material weakness, operational improprieties, fraud, waste, or abuse in the District's operations.

Note 2

Officials consistently overestimated appropriations. While certain expenditures may, on occasion, fluctuate or be susceptible to varying degrees of uncertainty, the District has consistently spent less than budgeted year after year. As shown in Figure 3, surplus fund balance has increased each year. If officials continue with the same budgeting practices, that trend is likely to continue, resulting in higher than necessary tax levies. In addition, the audit findings are similar to the findings included in the District's Financial Condition audit that we released in December 2016. The 2016 audit can be read using the following link: <https://www.osc.ny.gov/files/local-government/audits/2017-12/lgsa-audit-school-2016-lyme.pdf>.

Note 3

Our audit period covered July 1, 2020 through March 5, 2024. We did not review fund balance as of June 30, 2024. Therefore, we cannot confirm whether the surplus fund balance declined to 8.99 percent. However, the District may legally retain surplus fund balance that is no more than 4 percent of the ensuing year's budget.

Appendix C: 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. We obtained an understanding of internal controls that we deemed significant within the context of the audit objective and assessed those controls. Information related to the scope of our work on internal controls, as well as the work performed in our audit procedures to achieve the audit objective and obtain valid audit evidence, included the following:

- We interviewed District officials and reviewed Board meeting minutes, relevant laws, District policies, audited financial statements, budgets and various records to gain an understanding of the District's budgeting process and how officials managed fund balance.
- We reviewed adopted general fund budgets from the 2020-21 through 2022-23 fiscal years to determine whether they were reasonable and structurally balanced by comparing adopted budgets with actual results of operations and assessing whether appropriated fund balance was used to fund operations as planned. We analyzed significant budget-to-actual variances.
- We reviewed the adopted budgets and real property tax levies for the 2021-22 through 2023-24 fiscal years to identify trends in the tax levy.
- We reviewed the District's results of operations from 2020-21 through 2022-23 and calculated surplus fund balance as a percentage of the upcoming year's budgeted appropriations for compliance with the statutory limit.
- We interviewed the Treasurer and reviewed the year-to-date results of operations for the 2023-24 fiscal year as of February 29, 2024 to assess the likelihood that the District will need to use the fund balance that was appropriated in the budget.
- We recalculated surplus fund balance as a percentage of the upcoming year's budgeted appropriations after adding back appropriated fund balance not used or not likely to be used to fund the upcoming year's operations.
- We reviewed the District's reserve plan and evaluated the reasonableness of reserve fund balances as of June 30, 2023.
- We interviewed District officials to determine whether the District had any comprehensive written multiyear financial and capital plans.

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 D: Resources and Services

Regional Office Directory

www.osc.ny.gov/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.ny.gov/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.ny.gov/local-government/required-reporting

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

www.osc.ny.gov/local-government/publications

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

www.osc.ny.gov/local-government/academy

Contact

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