

Mount Markham Central School District

Financial Management

JUNE 2020



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

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Report Highlights

Mount Markham Central School District

Audit Objective

Did District officials properly manage fund balance and ensure budget estimates and reserves were reasonable?

Key Findings

District officials could improve their management of the District's fund balance and reserves.

- Officials overestimated appropriations by an average of \$1.4 million (5.6 percent) from 2016-17 through 2018-19.
- In the last three completed fiscal years, the District generated operating surpluses totaling \$2.3 million instead of the \$2.6 million in deficits planned in the budgets.
- District officials have not updated the multiyear financial plan since it was first developed in 2016.

Key Recommendations

- Develop and adopt budgets that include realistic estimates for expenditures.
- Discontinue the practice of adopting budgets that appropriate fund balance that is not needed or used to fund District operations.
- Periodically review and update the multiyear financial plan.

District officials generally agreed with our recommendations and indicated they would take corrective action.

Background

The Mount Markham Central School District (District) serves the Towns of Columbia, Frankfort, Litchfield and Winfield in Herkimer County; Towns of Bridgewater and Paris in Oneida County; Town of Brookfield in Madison County; and Towns of Edmeston, Exeter, Plainfield, and Richfield in Otsego County.

The District is governed by an elected seven-member Board of Education (Board). The Superintendent of Schools is responsible, along with other administrative staff, for managing day-to-day operations under the Board's direction. The Business Administrator is responsible for the administration and supervision of financial activities, including working with the Superintendent to develop and administer the budget. The Board adopts the annual budget.

Quick Facts

Employees	200
Student Enrollment	1,100
2019-20 Appropriations	\$27.1 million
Reserve Funds as of September 30, 2019	\$6.5 million

Audit Period

July 1, 2018 – September 30, 2019

We reviewed fund balance and budgeting trends back to July 1, 2016.

Financial Management

What Is Proper Financial Management?

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 how much the district will spend and the amount it will receive in revenues, how much fund balance will be available at year-end and the expected tax levy needed to balance the budget. Accurate budget estimates help ensure the tax levy is not greater than necessary.

The 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 Law¹ limits the amount of surplus fund balance² that a school district can retain to no more than 4 percent of the subsequent year's budgeted appropriations.

When fund balance or reserves are appropriated in the budget to finance operations, there is an expectation of a planned operating deficit (expenditures exceeding revenues) in the amount of fund balance or reserves appropriated. This allows a district to use excess fund balance and reserves accumulated in prior years to fund current operations. Sound budgeting practices provide that annual budgets should not routinely appropriate fund balance or reserve funds that will not actually be needed.

Multiyear financial planning enables 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 funds or establishing and using reserves) to finance operations. Any multiyear financial plan should be periodically reviewed and updated at least annually to provide a reliable framework for preparing budgets and ensure that information used to guide fund balance, reserve fund and other decisions is current and accurate.³

1 New York State Real Property Tax Law Section 1318

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 www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2019-01/gasb54.pdf.

3 Refer to our multiyear financial planning resources available at www.osc.state.ny.us/local-government/resources/planning-resources.

The Board Overestimated Appropriations and Appropriated More Fund Balance Than Needed

We compared budgeted revenues and appropriations with actual results of operations from 2016-17 through 2018-19. While revenue estimates were generally reasonable, District officials overestimated appropriations by an average of \$1.4 million each year, spending about \$4.3 million less than budgeted over the three-year period (a 5.6 percent average budget variance).

Figure 1: General Fund Budget-to-Actual Appropriations

	2016-17	2017-18	2018-19	Total
Budgeted Appropriations	\$25,284,379	\$25,735,423	\$26,275,933	\$77,295,735
Actual Expenditures	\$23,476,190	\$24,396,741	\$25,127,464	\$73,000,395
Amount Under Budget	\$1,808,189	\$1,338,682	\$1,148,469	\$4,295,340
Percentage Under Budget	7.2%	5.2%	4.4%	5.6%

These overestimations were spread throughout the budget. Some of the more significant over estimations from 2016-17 through 2018-19 were for:

- Retirement,⁴ Social Security and health insurance - \$1.5 million or 8 percent (an average of \$383,000 each year).
- Teachers' salaries (including in-service training as well as special education) - \$1.4 million or 8 percent (an average of \$359,000 each year).
- Utility and fuel costs for transportation, heating oil and supplies for the garage - \$128,000 or 14 percent (an average of \$43,000 each year).

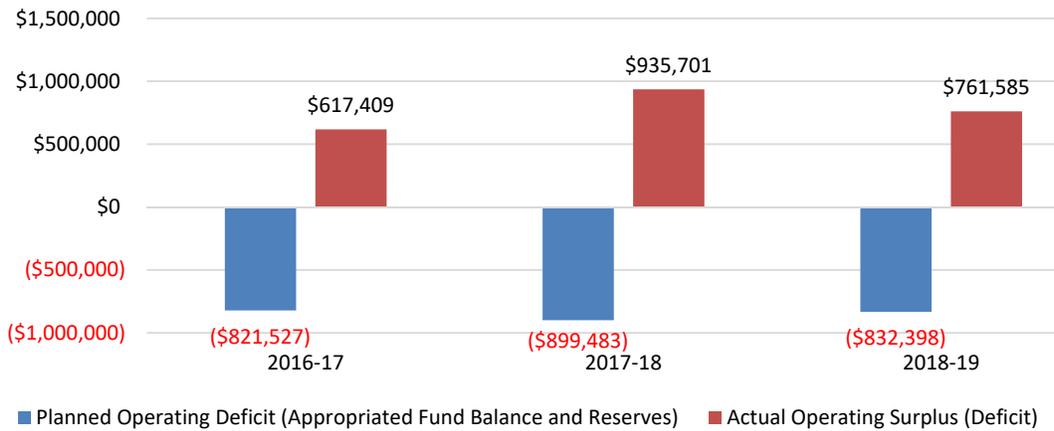
Because of the District's conservative budgeting practices, the District has regularly appropriated fund balance that was not needed or used to fund operations. As a result, the District generated operating surpluses totaling about \$2.3 million over the last three years combined instead of the operating deficits planned in the budgets. As illustrated in Figure 2, the Board has appropriated an average of about \$851,000⁵ or \$2.6 million the past three completed fiscal years ending June 30, 2019 and actually generated average annual operating surpluses of approximately \$772,000.

4 New York State Local Employee Retirement System and New York State Teachers Retirement System

5 The District appropriated fund balance and reserves in the following amounts the last three years: 2016-17 - \$556,447 in fund balance and \$265,080 in reserves, 2017-18 - \$899,483 in fund balance and 2018-19 - \$832,398 in fund balance.

FIGURE 2

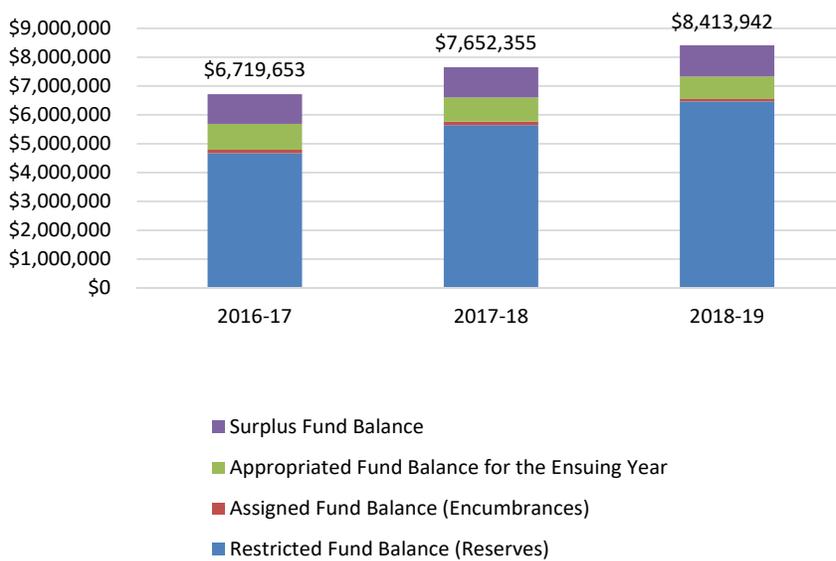
Planned Operating Deficit vs. Actual Operating Results



From 2015-16 through 2018-19, District officials increased the tax levy by about \$190,000, despite having sufficient resources to fund ongoing operations. The annual operating surpluses have led to a \$2.3 million (38 percent) increase in total fund balance from the beginning of 2016-17 to the end of 2018-19. Figure 3 shows the increase in the District’s year-end fund balance and the components of fund balance.

FIGURE 3

Total General Fund Balance



The last three years ending June 30, 2019, the District reported surplus fund balance in the general fund at the 4 percent statutory limit. Officials were primarily able to maintain surplus funds at the statutory limit by making unbudgeted year-end transfers to reserves, as discussed later in this report.

Officials Have Not Updated the Multiyear Financial Plan

With the assistance of an outside consultant, District officials adopted a five-year comprehensive multiyear financial plan in 2016 that projected revenues, expenditures and fund balance through 2020-21. However, they have not updated the plan since it was first developed. For example, the plan shows a projected fund balance of about \$7.2 million at the end of 2018-19, when the actual fund balance was \$8.4 million – a difference of \$1.2 million. District officials did not update the plan based on actual historical results, so the projections for 2019-20 and 2020-21 are not current and they have not extended the plan to address years beyond 2020-21.

Updating the plan at least annually would help the Board and District officials in effectively managing the District's finances, evaluating the effects of using fund balance in the budgets and planning for the reasonable funding and use of reserve funds. The Business Administrator told us that she plans to present an updated multiyear financial plan to the Board before they start working on the 2020-21 budget.

How Does a Board Effectively Manage Reserves?

The board may establish reserves to restrict a portion of fund balance for specific purposes (for example, capital projects or retirement expenditures) in compliance with statutory requirements and a district should retain documentation to support that its reserves were formally established.

It is important that the board adopt a written policy or plan that communicates the board's financial objectives for the reserves, optimal funding levels and conditions under which the reserves will be used. Such a plan should guide the board and officials in accumulating and using reserve funds and helps inform district residents about how their tax dollars will be used.

If it is the Board's intention to use reserves during the year, ideally, the Board should include planned transfers to reserves in the annual budget and appropriate reserves as a funding source in the budget. This would inform voters of its plan for funding and using reserves. The board should not routinely fund reserves with excess fund balance at year-end. If the board decides to make unbudgeted transfers to reserves, it should authorize them with a resolution that specifies the amounts and the reserves to be increased. By doing this, the board helps ensure that its actions are transparent. Finally, the board should review the district's reserves at least annually to help ensure the amounts reserved are necessary and reasonable.

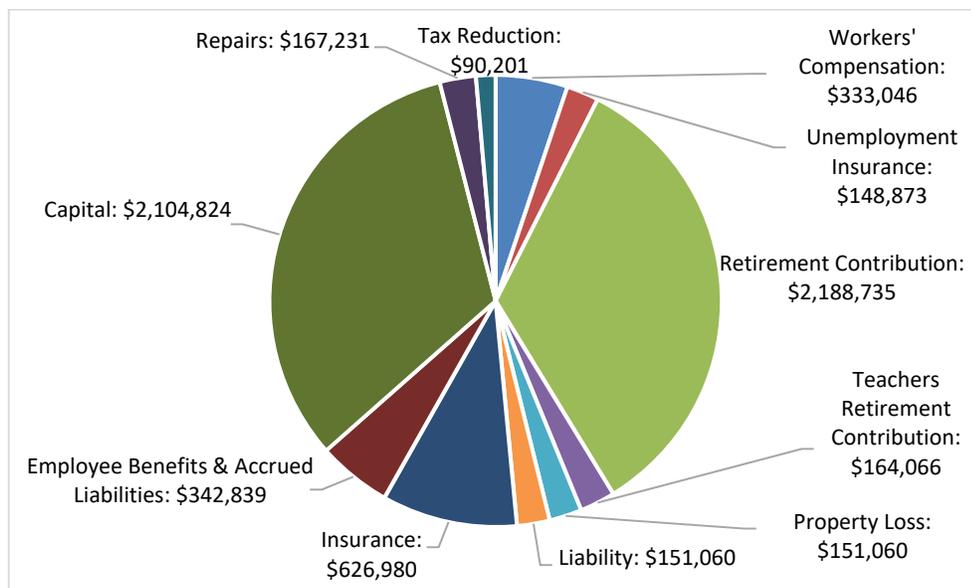
The Board Could Improve Its Management of Reserves

Our previous audit⁶ of the District in 2016 found that District did not have documentation to support that its reserves were formally established and that the District inappropriately transferred funds from its reserves to unrestricted fund balance. In addition, the District did not have a written reserve policy and some reserves were overfunded.

As of June 30, 2019, the District reported eleven general fund reserves with balances totaling nearly \$6.5 million. The balance of the reserve funds was equal to about 24 percent of the District's 2019-20 budgeted appropriations of \$27.1 million.

FIGURE 4

Reserve Fund Balances as of June 30, 2019



6 Mount Markham Central School District – Reserve Funds (2016M-73)

Since our last audit, the Board has passed resolutions to establish each reserve fund and adopted a policy for its reserve funds. The Business Administrator developed a reserve plan that is updated annually and provided to the Board at budget time. The reserve plan includes language from the State Comptroller's Office *Local Government Management Guide (LGMG) – Reserve Funds* as well as a list of each reserve outlining that reserve's purpose, balance and ideal balance. The plan also enumerates the amounts the District plans to spend from certain reserves during the remainder of the fiscal year to cover expenditures related to the reserves.

Based on our review of the District's reserve plan, financial reports and discussions with the Business Administrator, four reserves were overfunded by about \$1,135,300 as of June 30, 2019. The Business Administrator told us that the District does not plan to add to these four reserves, as they will continue to use money from these reserves to pay related claims over the next few years. This approach will help the Board in reducing these reserve balances to their ideal level as outlined in the Districts reserve plan.

- Retirement Contribution Reserve (\$2,188,735) – According to the reserve plan that was last updated in March 2019, the District's ideal balance for this reserve is equal to five years of planned Employee Retirement System (ERS) expenditures, which amounts to approximately \$1,522,065. The District paid \$268,455 out of this reserve during 2018-19 to pay its ERS bill. Based on this expenditure level, the reserve fund had \$666,670 in excess funds at the end of 2018-19 or about seven years of planned expenditures.
- Employee Benefits and Accrued Liability Reserve⁷ (\$342,839) – The District's ideal balance in this reserve is based on the calculated total of compensated absences. Total compensated absences reported by the District as of June 30, 2019 were \$60,497. The District paid \$9,831 out of this reserve in 2018-19, leaving it overfunded by about \$282,300 at year-end.
- Workers' Compensation Reserve (\$333,046) – The District's ideal balance is the equivalent of three years of annual expenditures, which equates to approximately \$188,300. The District paid \$68,508 out of this reserve in 2018-19, leaving it overfunded by about \$144,700 at year-end or approximately five years of expenditures instead of the targeted three years stated in the District's reserve plan.

⁷ GML authorizes this reserve for the cash payment of accrued and unused sick, vacation and certain other leave time due employees when they leave District employment.

-
- Unemployment Reserve (\$148,873) – The District’s ideal balance in this reserve is 1 percent of payroll expenditures, or \$107,250. The District paid \$2,824 out of the reserve during 2018-19 for authorized purposes. The balance in this reserve exceeded the District’s ideal funding level by about \$41,600.

Although the District paid \$349,618 out of these four reserves for authorized expenditures in 2018-19, consistent with the reserve plan, the balances in the reserves at year-end remained in excess of the District’s ideal funding levels. In addition, District officials did not appropriate reserves as a funding source in either the 2018-19 or 2019-20 adopted budgets to pay the associated expenditures. Had the District appropriated the reserves as a financing source in the budgets, it would have allowed the public to see the planned use of the reserves and the Board could have used the reserve funds to reduce the tax levy.

We also found that the Board could improve its transparency to the public in regard to how it funds its reserves. The District typically funds reserves with year-end surpluses, not through the budget. In June 2019, the Board authorized the Superintendent and Treasurer to transfer appropriate funds into and out of reserve accounts at the close of 2018-19. The resolution indicated the transfers should be made for the purposes specified in the reserve plan but it did not specify the reserves to be funded or the transfer amounts. The District transferred \$972,460 to the District’s capital reserve fund and \$164,066 to the teachers’ retirement contribution reserve at the end of 2018-19;⁸ however, the teachers’ retirement contribution reserve was not included in the reserve plan. The Business Administrator told us that she will include this reserve in the reserve plan before reviewing it with the Board when preparing the 2020-21 budget in early 2020.

What Do We Recommend?

The Board should:

1. Develop and adopt budgets that include realistic estimates for expenditures.
2. Discontinue the practice of adopting budgets that appropriate fund balance that is not needed or used to fund operations.

⁸ The District’s reserve plan was last updated in March 2019. This plan does not address the Teachers Retirement Contribution Reserve, which the Board established on May 28, 2019. Legislation authorizing this reserve was signed into law April 12, 2019, effective April 1, 2019.

3. Periodically review and update the multiyear financial plan to provide a framework for future budgets and guide the District's management of fund balance and reserve funds.
4. Include planned transfers to reserves in the budget and appropriate reserves as a funding source in the budget, if it is the Board's intention to use them during the year.
5. Review the District's reserves at least annually and continue to reduce reserve funds to reasonable levels in compliance with statutory restrictions.

Appendix A: Response From District Officials



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June 5, 2020

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Mount Markham Central School District is in receipt of the New York State Office of the State Comptroller's draft audit report entitled "Mount Markham Central School District Financial Management". The audit period is July 1, 2018 through September 30, 2019.

Key recommendations of the report are:

Develop and adopt budgets that include realistic estimates for expenditures

Discontinue the practice of adopting budgets that appropriate fund balance that is not needed or used to fund District operations.

Periodically review and update the multiyear financial plan

District Response:

These are unprecedented times for school districts, New York State, the United States of America and the world. Currently, the District is delivering instruction in a totally new way. Our focus has been on supporting student success in learning, while assuring that children are receiving all necessary services to the maximum extent possible during this challenging time. When the Board of Education adopted an expenditure plan in April of 2019 for the 2019-2020 school year, there was no way to predict the needs the district has today. Therefore, it is difficult to respond to an audit that is based on old ways while we are working in an every changing environment.

Develop and adopt budgets that include realistic estimates for expenditures

The district utilizes conservative budgeting practices, to guarantee that educational services can be provided to the students throughout the year. The District has been reviewing actual expenditures while developing the 2020-2021 budget and will continue to be vigilant in projecting budget expenditures based on prior year actual expenditures.

Discontinue the practice of adopting budgets that appropriate fund balance that is not needed or used to fund District operations.

The District will continue to monitor Fund Balances. The District's 2020-2021 Budget uses a significant amount of Reserve Funds and Fund Balance. These funds will be used to offset the

loss of projected state aid caused by the COVID -19 crisis. We feel confident that the conservative budget practices prepared the district to respond to the current economic crisis.

Periodically review and update the multiyear financial plan

The District administrators and the Board of Education will annually review Reserve Funds. As we know today multiyear financial plans cannot project or plan for economic shifts. However as guardians of public funds the District will monitor its financial plan annually.

The District wishes to thank the New York State Comptroller's Office and the examiners that worked with the District for their professionalism and cooperation throughout the audit. The District will continue to strive to ensure we are including appropriate estimates for appropriations within adopted budgets and are monitoring the Reserve Funds while continuing to be good stewards of our ~~tax~~ payer funds.

Sincerely,

Paul Berry
Superintendent

Thomas Huxtable
Board President

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, policies, plans, budgets, and financial records to gain an understanding of the District's financial management processes.
- We compared the general fund's total estimated revenues and budget appropriations with actual revenues and expenditures for 2016-17 through 2018-19 and followed up with District officials on significant budget variances.
- We analyzed the trend in fund balance for 2016-17 through 2018-19. We compared the budgeted appropriated fund balance to operating results to determine how much appropriated fund balance was used.
- We calculated the surplus fund balance as a percentage of the ensuing year's appropriations to determine whether the District was within the statutory limitation from 2016-17 through 2018-19.
- We reviewed the District's multiyear financial plan to determine whether it was up to date.
- We interviewed District officials and reviewed the Board minutes and the District's reserve fund plan for information on the establishment, ideal funding levels and planned use of reserves. We reviewed general fund budgets to identify any provisions for funding or using reserves and reviewed the balances in the reserve funds as of June 30, 2019 to determine whether the balances were reasonable.
- We reviewed Board minutes and resolutions, accounting records, audited financial statements, applicable statutes and activity within the reserves to determine whether reserves were properly funded and used.

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/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf

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

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All

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?title=&body_value=&field_topics_target_id=263206&issued=All

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/sites/default/files/local-government/documents/pdf/2020-05/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?title=&body_value=&field_topics_target_id=263211&issued=All

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

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

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