

Morris Central School District

Fund Balance Management

2023M-47 | July 2023

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Report Highlights

Morris Central School District

Audit Objective

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

Key Findings

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

- The Board overestimated appropriations from the 2019-20 through 2021-22 fiscal years by an average of \$617,000, or 6 percent.
- Surplus fund balance exceeded the 4 percent statutory limit in all three fiscal years by approximately \$1.1 million (10.1 percentage points) to \$2 million (21 percentage points).
- Four of the District's 10 reserves were not reasonably funded, or used to pay related expenditures, during the three fiscal years.

For example, the balance of \$508,923 in the retirement contribution for employees reserve was sufficient to cover expenditures for at least four years.

Key Recommendations

- Develop and adopt realistic budgets.
- Reduce surplus fund balance to comply with the statutory limit in a manner that benefits taxpayers.
- Develop a plan to reduce reserve balances to reasonable levels.

District officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comment on issues raised in the District's response.

Background

The District serves the Towns of Laurens, Morris, New Lisbon and Pittsfield in Otsego County.

The District is governed by the elected five-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 for the District's day-to-day management under the Board's direction.

The Board, Superintendent and District Treasurer (Treasurer) are responsible for developing the annual budget.

Quick Facts

2022-23 Appropriations	\$10.1 million
2022-23 Real Property Tax Levy	\$3.1 million
Reserve Funds as of June 30, 2022	
Number	10
Reserve Funds Balance	\$3.5 million

Audit Period

July 1, 2019 – December 31, 2022

Fund Balance Management

How Should School District Officials Effectively Manage Fund Balance?

Fund balance is the difference between revenues and expenditures accumulated over time. To effectively manage a school district's fund balance, a school board and school district officials should develop and adopt realistic and structurally balanced budgets. Budgets should be based on historical data or known trends, in which recurring revenues finance recurring expenditures.

A school board should use reasonable budget estimates to present the budget transparently to the public and ensure that the tax levy is not greater than necessary. When a school board appropriates fund balance in the budget to finance operations, this means that the school board is budgeting for a planned operating deficit (expenditures exceeding revenues), which is equal to the amount of fund balance that is appropriated.

School district officials may retain a portion of surplus fund balance¹ for unexpected occurrences and fluctuations in cash flow. However, school district officials must comply with New York State Real Property Tax Law Section 1318 which limits the amount of surplus fund balance that a school district can retain to no more than 4 percent of the following year's budgeted appropriations. School district officials must use any funds that exceed the 4 percent surplus fund balance limit to reduce the following year's real property tax levy or to fund needed reserves.

School district officials can legally set aside, or reserve, portions of fund balance to finance future costs for specific purposes (e.g., capital projects or retirement contribution expenditures). School boards should develop a formal written policy for reserves that includes the rationale for establishing each reserve, optimal or targeted funding levels and conditions under which the reserves will be used.

Also, school boards should periodically analyze the reasonableness of the reserves' balances. Combining a reasonable level of surplus fund balance with specific legally established reserves provides for unanticipated events and other identified or planned needs to help ensure that tax levies are not greater than necessary.

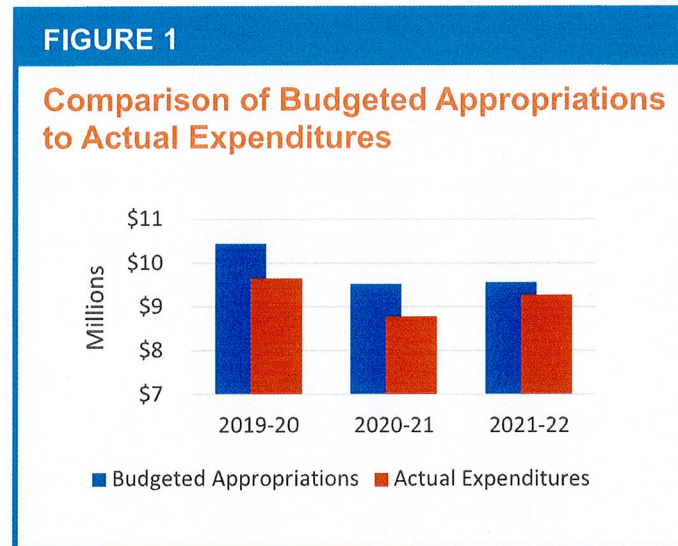
¹ Surplus fund balance generally is defined as unrestricted fund balance minus appropriated fund balance and encumbrances included in committed and assigned fund balance. For more information, refer to our accounting bulletin at <https://www.osc.state.ny.us/files/local-government/publications/pdf/gasb54.pdf>.

The Board Overestimated Appropriations

We compared estimated revenues and budgeted appropriations with actual operating results for the 2019-20, 2020-21 and 2021-22 fiscal years and determined that estimated revenues were generally reasonable. However, budgeted appropriations were overestimated by an average of \$617,000 per year, or 6 percent (Figure 1).

In aggregate, these variances contributed to an increase in surplus fund balance between 2019-20 and 2021-22. Three expenditure accounts had overestimated appropriations totaling more than \$100,000 in at least one of the three fiscal years, as follows:

- Programs for students with disabilities were overestimated in the three fiscal years by an average of \$306,227 (23 percent), with variances ranging from \$263,769 to \$365,796.
- Employee benefits were overestimated in two of the three fiscal years by an average of \$264,931 (11 percent), with variances ranging from \$256,043 to \$273,819.
- District transportation services were overestimated in two of the three fiscal years by an average of \$131,147 (22 percent), with variances ranging from \$115,801 to \$146,492.



The Superintendent and Treasurer told us that the budget variances for programs for students with disabilities were due to officials budgeting for an extra student each year in the event a new student requires services. In addition, during the COVID-19 pandemic, some Board of Cooperative Educational Services programs were closed and therefore students did not receive the expected services from these programs. While the costs for these services can fluctuate depending on the needs and number of students enrolled in the programs, officials must monitor this expenditure to help ensure future appropriations are realistic.

The Superintendent acknowledged that they budgeted for employee benefit premiums by anticipating that all new employees would choose family insurance

plans, which are more expensive than individual plans. However, they chose to budget for this expenditure in this manner even though new employees did not always sign up for family plans. Officials should use historical health insurance coverage information (i.e., percentage of employees opting for individual and family plans) when including health insurance cost estimates in the annual budget.

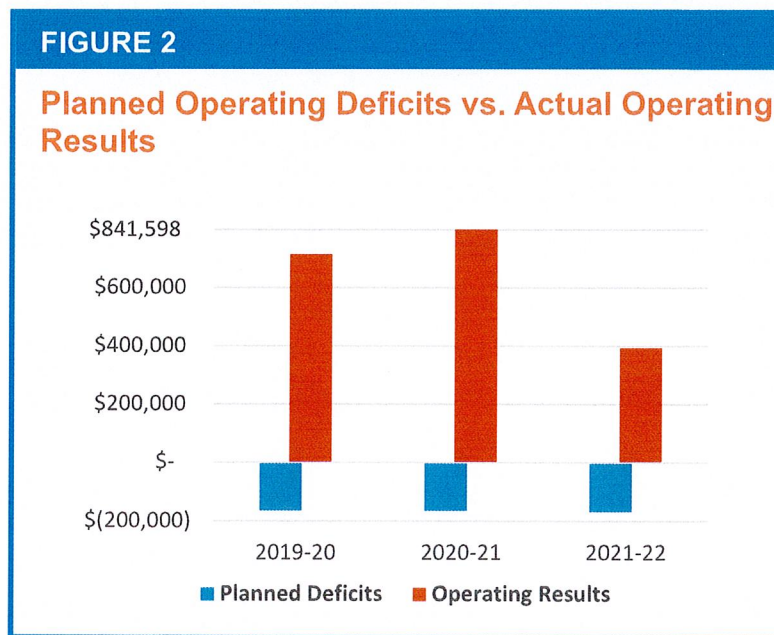
In addition, the Superintendent explained that budget variances for transportation services were due to the District being in a remote learning setting for most of the audit period and staff and students were not onsite. The District did not allow students and staff to fully return to in-person learning until the second quarter of the 2020-21 school year.

Because the Board and officials overestimated appropriations, it appeared that more revenue and financing sources (fund balance) were needed to maintain a structurally balanced budget despite historical trends showing otherwise. Had the Board and officials used historical trend analyses and previous years' actual results of operations to develop their budget estimates, they likely would have estimated more accurately and been more transparent with the public.

The Board Appropriated Unnecessary Fund Balance and Exceeded the Statutory Limit for Surplus Fund Balance

During the three fiscal years, the Board adopted budgets that planned for the use of \$497,500 of fund balance to fund projected operating deficits in the budgets.

However, the District realized operating surpluses totaling \$1.9 million during this time period (Figure 2) and, therefore, fund balance was not used.



Surplus fund balance exceeded the 4 percent statutory limit in all three fiscal years by approximately \$1.1 million (10.1 percentage points), \$2 million (21 percentage points) and \$1.1 million (11.2 percentage points), respectively.

Based on year-to-date revenues and expenditures as of December 31, 2022, and historical revenues and expenditures, we project an operating surplus for the 2022-23 fiscal year. We anticipate that the District will not use any appropriated fund balance (\$188,568) that was budgeted to be used for this fiscal year. As a result, recalculated surplus fund balance as of June 30, 2022 would have been \$1.7 million (17.6 percent), which exceeds the 4 percent limit by 13.6 percentage points (Figure 3).

Figure 3: Recalculated Surplus Fund Balance

Fiscal Year	2019-20	2020-21	2021-22
Surplus Fund Balance Reported at Fiscal Year-End	\$1,477,243	\$2,383,774	\$1,451,375
Add:			
Unused Appropriated Fund Balance	165,000	167,500	188,568
Overfunded Tax Certiorari Reserve	N/A ^a	N/A ^a	43,933
Recalculated Surplus Fund Balance	\$1,642,243	\$2,551,274	\$1,683,876
As a Percentage of Next Year's Budgeted Appropriations			
Reported by Officials	14.1%	25.0%	15.2%
Percentage Points Over the Legal Limit of 4%	10.1%	21.0%	11.2%
Recalculated by OSC	15.7%	26.8%	17.6%
Percentage Points Over the Legal Limit of 4%	11.7%	22.8%	13.6%

a) Our review of the tax certiorari reserve balance focused on the existence of any outstanding claims or liabilities as of June 30, 2022. Therefore, an excessive balance is not included for the 2019-20 and 2020-21 fiscal years.

Annually appropriating fund balance that is not needed is, in effect, a reservation of fund balance that is not provided for 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.

Consistently appropriating fund balance that is not needed does not provide a transparent budget process for taxpayers.

In addition, maintaining surplus fund balance that exceeds the statutory limit causes real property tax levies to be higher than necessary.

Certain Reserves Were Not Reasonably Funded

As of June 30, 2022, the District reported 10 reserves totaling \$3.5 million in the general fund. We analyzed all reserve balances for reasonableness and

...[A]ppropriating fund balance that is not needed is, in effect, a reservation of fund balance that is not provided for by statute.

compared the balances to the three-year historical expenditures related to the purpose of each reserve. We determined that the retirement contribution for teachers, property loss, liability, insurance and repair reserves were reasonably funded and the capital reserve was funded within the voter-approved maximum level. However, the other four reserves were not reasonably funded or used during our audit period.

Retirement Contribution for Employees Reserve – The \$508,923 in this reserve was sufficient to cover at least four years of New York State and Local Retirement System expenditures, which averaged \$106,738 during the last three years.

Unemployment Reserve – The \$317,510 in this reserve was sufficient to cover more than 50 years of unemployment expenditures, which averaged \$5,657 during the last three years.

Employee Benefit Accrued Liability Reserve – The \$294,665 balance in this reserve exceeded the amount needed to cover the compensated absences balance (\$161,416) by \$133,249.

Tax Certiorari Reserve – The \$43,933 in this reserve was overfunded because there were no outstanding tax certiorari claims supporting the balance as of June 30, 2022. Funds in the reserve that will not be reasonably required to pay a tax certiorari judgment or claim must be returned to the general fund within four years of deposit.

District officials could have used the reserve funds to pay for related expenditures but chose to pay for the expenditures with current years' funds. Therefore, we question the need for the significant balances in these reserves.

Also, the Board did adopt a written reserve plan that provided the rationale for reserved funds, optimal or targeting funding levels and conditions under which the reserves would be used. Although the Superintendent and Treasurer told us they periodically monitor reserve balances and present the balances to the Board for its review, the reserves mentioned above were not reasonably funded.

Although it is prudent to plan and save for unforeseen circumstances, overfunding and/or not using reserves for their intended purpose causes real property taxes to be higher than necessary.

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 used to fund operations.

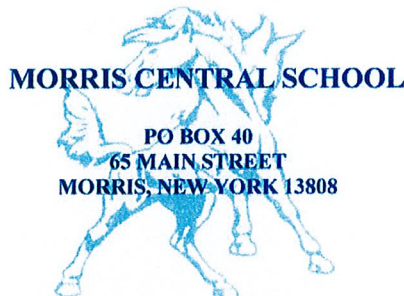
-
2. Discontinue the practice of appropriating fund balance that is not needed or used to finance operations.
 3. Develop a plan to reduce surplus fund balance in a manner that benefits District taxpayers. Surplus funds can be used for:
 - Reducing District real property taxes,
 - Funding one-time expenditures, such as capital improvements,
 - Funding needed reserves, and
 - Paying off debt.
 4. Review reserve fund balances and develop a plan to reduce balances to reasonable levels or use them to fund operations in accordance with applicable statutes.

The Board should:

5. Update the existing written reserve fund plan to reflect more reasonable targeted funding levels.

Appendix A: Response From District Officials

**BOARD OF
EDUCATION**
MARY DUGAN
President
RUSSELL TILLEY
Vice President
WENDY MOORE
EMILY BOSS
TERESA DELAURENTIIS



ADMINISTRATION

JAMIE MAISTROS
Superintendent
BRIAN BRECK
Principal

June 23, 2023

New York State Office of State Comptroller
Binghamton Regional Office
State Office Building, Suite 1702
44 Hawley Street
Binghamton, NY 13901-4417

Reference: Morris Central School District Fund Balance Report of Examination 2023M-47

To Whom It May Concern:

The Morris Central School District has received and thoroughly reviewed the draft audit report on the Fund Balance for the period of July 1, 2019, to December 31, 2022. We would like to express our sincere gratitude to the auditors for their flexibility and professionalism during their time at MCS.

While we generally agree with the report's findings and recommendations, there are a few areas that may benefit from further clarification.

The audit examined our fund balance during a time when our nation faced an unprecedented health emergency. The Covid-19 pandemic brought about significant uncertainty and challenges to the economy as a whole. National efforts and financial resources were primarily focused on addressing the pandemic, resulting in increased costs for materials and disinfecting supplies. Simultaneously, our spending in other areas was temporarily reduced due to quarantine orders. Unfortunately, the audit was unable to fully capture the impact of the pandemic and related regulations on our spending practices, as well as the additional costs incurred in closing the learning loss gaps for our most vulnerable students. Furthermore, during the review period, the Governor's office predicted a 20% decrease in state aid. If this prediction had materialized, Morris Central School would have been compelled to immediately reduce programming for students, as the majority of our funding originates from this source.

Subsequent to the audit, we have implemented a gradual and responsible approach to reducing our fund balance. This method allows us to balance the financial constraints of our community with the projected expenses outlined in our long-range financial plan. Since the conclusion of the 20-21 school year, we have reduced our unassigned fund balance by an overall 59.75%. The Tax Certiorari Reserve account is expected to have a balance of \$5,015 at the end of the 22-23 school year, representing an 88% decrease. Additionally, we have not made additional contributions to our Unemployment Reserve or Employee Benefit Accrued Liability Reserve since 2020. The long-range financial plan presented by our fiscal advisors predicts a steady decline of our existing fund balance over the next five years. Our recently approved 23-24 school budget maintains the tax levy significantly below the tax cap while keeping spending in check.

See
Note 1
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The Board of Education consistently strives to balance the needs of our learners with the fiscal limitations of our community. Through transparent planning, including annual budget hearings and open discussions at Board of Education meetings, we have been able to maintain fiscal solvency in this high-needs district, even in the face of unprecedented circumstances. We will continue to collaborate with our community, External Auditor, Shared BOCES Business Office, and Independent Financial Advisor to review and adjust our practices concerning the fund balance. The Board of Education and Administration of the Morris Central School District wish to express their appreciation for the recommendations provided through the audit process and will continue to fulfill our obligations to the taxpayers, students, and families of the school district.

Sincerely,

Jamie Maistros
Superintendent

Appendix B: OSC Comment on the District's Response

Note 1

Although the COVID-19 pandemic created a degree of financial uncertainty, the Board overestimated appropriations and appropriated fund balance that was not needed prior to the pandemic as well.

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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and reviewed Board meeting minutes, resolutions and policies to gain an understanding of the District's financial planning and budgeting procedures.
- We compared estimated revenues to actual revenues and budgeted appropriations to actual expenditures for the 2019-20 through 2021-22 fiscal years to analyze the reasonableness of the budgets. For appropriations, we analyzed expenditure accounts with budget variances that were equal to, or exceeded, \$100,000.
- We calculated the results of operations for the 2019-20 through 2021-22 fiscal years to determine whether there was an operating surplus or deficit and whether appropriated fund balance was used.
- We analyzed the District's fund balance for the 2019-20 through 2021-22 fiscal years to identify trends. We calculated surplus fund balance as a percentage of the next year's budgeted appropriations to determine whether it was within the statutory limit. We recalculated surplus fund balance as a percentage of the next year's budgeted appropriations after adding back unused appropriated fund balance and the tax certiorari reserve balance.
- Using the three years' averages (as of December 31, 2022), we projected revenues, expenditures and results of operations for the end of the 2022-23 fiscal year. We used those results to project whether the District would have an operating surplus or deficit and whether appropriated fund balance would be used.
- We analyzed reserve balances as of June 30, 2022, and expenditures paid from the reserves during the 2019-20 through 2021-22 fiscal years, to determine whether the reserves were reasonably funded, according to historical expenditures and anticipated uses.

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

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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

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www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

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