

Indian River Central School District

Financial Condition Management

AUGUST 2022



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

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Report Highlights

Indian River Central School District

Audit Objective

Determine whether the Indian River Central School District (District) Board of Education (Board) and District officials adequately managed the District's financial condition.

Key Findings

The Board and District officials did not adequately manage the District's financial condition and the current findings and recommendations are similar to our November 2016 Financial Condition audit report. While the Board and officials made some progress in implementing the prior audit recommendations, they must continue to improve their management of financial condition, otherwise more taxes will be levied than are needed to fund operations. From 2017-18 through 2020-21, the Board:

- Underestimated general fund revenues by \$68.8 million.
- Overestimated appropriations by \$29.5 million.
- Purported the District would incur operating deficits totaling \$75.5 million but had operating surpluses totaling \$13.9 million (after transfers), which led to operational shifts totaling \$89.4 million.

Additionally, the District's reported surplus fund balance as of June 30, 2021 was 10 percent, exceeding the statutory limit of 4 percent. When unused appropriated fund balance is added back, the recalculated surplus fund balance totals \$27.8 million which exceeds the statutory limit by \$24 million.

Key Recommendations

- Develop and adopt reasonable and realistic budgets and reduce surplus fund balance to comply with the statutory limit.

District officials disagreed with many of our findings but indicated they would take corrective action.

Background

The District serves the Towns of Alexandria, Antwerp, Le Ray, Orleans, Pamela, Philadelphia, and Theresa in Jefferson County and the Town of Rossie in St. Lawrence County. The District is governed by an elected nine-member Board.

The Superintendent of Schools is the District's chief executive officer and along with other administrative staff, is responsible for the District's day-to-day management under the Board's direction. The Business Manager plays a key role in the budget development process and daily administration of the business office. The Board adopts the annual budget.

Quick Facts

2020-21 General Fund (in millions)	
Expenditures	\$81.8
Federal and State Aid	\$80.5
Year-End Fund Balance	\$46.7

Audit Period

July 1, 2017 – May 9, 2022

Financial Condition Management

The District operates eight schools with approximately 3,600 students and 960 employees. The District's student population is impacted by its proximity to the Fort Drum Army military installation. The student population attributed to the military installation averaged approximately 60 percent from 2017-18 through 2020-21. As a result, the District was eligible to receive Federal Impact Aid¹ (Impact Aid).

Fund balance is the difference between revenues and expenditures accumulated over time. School districts are currently limited by New York State Real Property Tax Law Section 1318 to retain surplus fund balance totaling no more than 4 percent of the next year's budget. Any surplus fund balance over this percentage must be used to reduce the upcoming year's tax levy or to fund needed reserves. When fund balance is appropriated for the next year's budget, the expectation is that there will be a planned operating deficit equal to the amount of fund balance that was appropriated.

This audit includes findings that are similar to our previous audit of the District released in 2016.² Our previous audit found realistic budgets were not developed, fund balance was artificially used to balance the budget and was excessive, money was improperly held in the debt service fund, and the District's multiyear plan was not comprehensive.

The Board and officials have taken some steps to address our prior audit findings and recommendations, such as establishing and financing reserve funds, funding one-time capital expenditures and reducing real property taxes two years in our audit period to help address surplus fund balance levels. Officials also returned money improperly held in the debt service fund to the general fund following our last audit. However, based on our current audit findings, the Board and officials have not fully addressed several of our prior recommendations.

Reasonable estimates help ensure that the tax levy is not greater than necessary, and that surplus fund balance does not exceed the statutory limit.

How Should Financial Condition Be Properly Managed?

To effectively manage financial condition, a board should adopt reasonably estimated and structurally balanced budgets based on historical data, trends and known expenditures. In preparing the budget, a 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 next year's budget and the expected real property tax levy. Reasonable estimates help ensure that the tax levy is not greater than necessary, and that surplus fund balance does not exceed the statutory limit.

1 The Impact Aid law (now Title VII of the Elementary and Secondary Education Act of 1965) provides assistance to local school districts with concentrations of children who reside on Indian lands, military bases, low-rent housing properties, and other federal properties, or have parents in the uniformed services or employed on eligible federal properties.

2 Refer to *Indian River Central School District-Financial Condition* (2016M-287), issued in November 2016.

Additionally, school districts are legally allowed to establish reserves to accumulate funds for certain future purposes (e.g., capital projects, retirement expenditures). To be transparent, the board should include the amounts to be reserved in its annual budget to give taxpayers the opportunity to know and approve the board's plan to fund reserves.³ School district officials should plan for the funding and use of reserves by balancing the desire to accumulate funds for future needs with the obligations to make sure real property taxes are not higher than necessary.

Finally, a board should approve a multiyear financial plan. This plan enables school district officials to identify revenues 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 a new reserve) to finance operations.⁴ A board and officials should review and update the plan annually. This provides a reliable framework for preparing budgets and ensures that information used to guide fund balance, reserve balances and other decisions is current and accurate.

The Board Did Not Adopt Realistic Budgets

We compared general fund appropriations and estimated revenues with actual operating results for 2017-18 through 2020-21 and found that the total budget variances were between \$21 million and \$27 million each year, totaling approximately \$98.3 million over the 4-year period (Figure 1).

Figure 1: Total Budget Variance in Millions

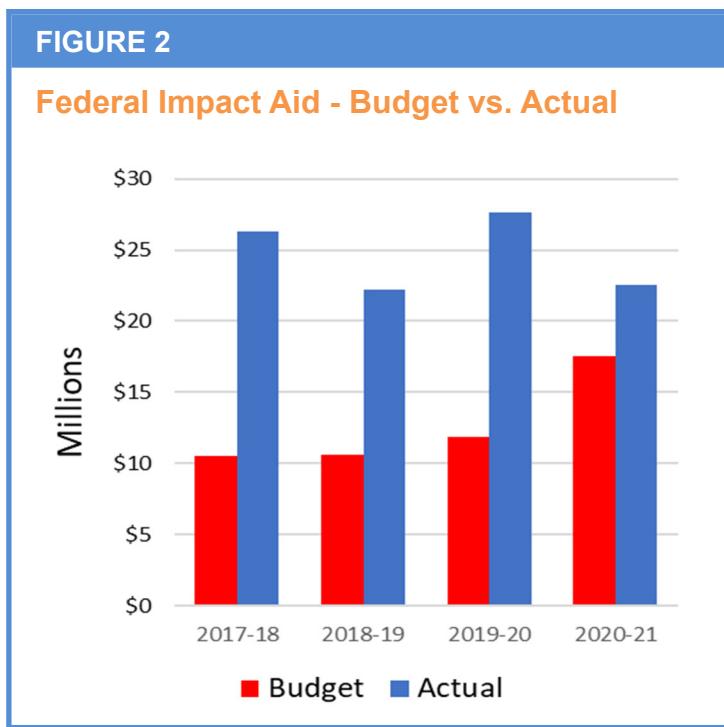
	2017-18	2018-19	2019-20	2020-21	Totals
Revenues					
Actual Revenues	\$85.7	\$86.0	\$91.6	\$86.0	\$349.3
Less Estimated Revenues	67.5	70.2	72.9	69.9	280.5
Total Underestimated Revenues	\$18.2	\$15.8	\$18.7	\$16.1	\$68.8
% Variance	27%	23%	26%	23%	25%
Expenditures					
Appropriations	\$87.4	\$88.1	\$90.7	\$89.8	\$356.0
Less Actual Expenditures	80.3	82.3*	82.1*	81.8	326.5
Total Overestimated Appropriations	\$7.1	\$5.8	\$8.6	\$8.0	\$29.5
% Variance	8%	7%	9%	9%	8%
Total Budget Variance	\$25.3	\$21.6	\$27.3	\$24.1	\$98.3

* Excludes an unbudgeted transfer to the capital projects fund of \$3.5 million in 2018-19 and \$5.5 million in 2019-20

³ Refer to our publication *Reserve Funds* available at <https://www.osc.state.ny.us/files/local-government/publications/pdf/reserve-funds.pdf>

⁴ Resources for multiyear planning are available at <https://www.osc.state.ny.us/local-government/resources/planning-resources>

Revenues were annually underestimated by an average of \$17.2 million (25 percent). Revenue variances totaled \$68.8 million over four fiscal years and were largely due to underbudgeting Impact Aid. The District applies for Impact Aid every year in January for the following year. For each fiscal year reviewed, the District received Impact Aid that averaged 27 percent of the District's total annual revenues. District officials used unrealistic Impact Aid estimates when they developed each fiscal year's budget. For fiscal years 2017-18 through 2020-21, District officials estimated receiving Impact Aid totaling \$50.5 million. However, the District received more than \$98.7 million, which was approximately \$48.2 million (95 percent) more than budgeted (Figure 2). Although District officials reduced the Impact Aid 2020-21 budget variance to \$5 million (29 percent), the budget variances the prior three years averaged \$14.4 million (131 percent).



In addition, appropriations were overestimated by an average of \$7.4 million each year for a total of \$29.5 million over four years. The most significant appropriation variances were for BOCES special education services (\$5.1 million), K-12 teacher and instructional salaries (\$4.7 million), transportation (\$3.4 million), medical insurance (\$1.8 million) and fuel (\$1.1 million).

The Board President and Business Manager stated that they base the budgeted revenues and appropriations on estimated student enrollment projections for the coming school year. They said they take a conservative approach in budgeting for

enrollment and related appropriations due to the high number of military student population, which can vary from year to year. The Board President also stated that because of the uncertainty of the federal budget process, and the fact that Impact Aid is not an annual appropriation in the federal budget, the revenue is not guaranteed. Also, Impact Aid is dependent on the number of students with a military connection, which is unpredictable, so the District budgets conservatively for this revenue.

However, due to the Board's overly conservative estimates in its budget, the District generated operating surpluses each of the last four years, averaging \$3.45 million (including interfund transfers). The District initially generated operating surpluses of \$3.7 million in 2018-19 and \$9.5 million in 2019-20. However, officials made year-end transfers to the capital projects fund of \$3.5 million and \$5.5 million for approved projects, which reduced the surpluses to (and increased fund balance by) \$170,000 and \$4 million for 2018-19 and 2019-20, respectively.

By underestimating revenues and overestimating appropriations, the Board gave taxpayers the impression that it needed to use appropriated fund balance to close the projected budget gaps.

In the 2017-18 through 2020-21 budgets, the Board annually appropriated an average of \$18.8 million of fund balance, but the District did not use the fund balance that was appropriated for those fiscal years, totaling approximately \$75.5 million. Over this period, the Board gave the appearance the District would have operating deficits totaling \$75.5 million, when it actually had operating surpluses, after transfers, totaling approximately \$13.9 million (Figure 3).

Figure 3: Planned Operating Deficits vs. Operating Surpluses After Transfers in Millions

Fiscal Year	Planned Operating Deficit*	Operating Surplus Before Transfers	Unbudgeted Transfers to Capital Projects Fund	Operating Surplus After Transfers	Variance
2017-18	\$19.9	\$5.4	\$0.0	\$5.4	\$25.3
2018-19	17.9	3.7	(3.5)	0.2	18.1
2019-20	17.8	9.5	(5.5)	4.0	21.8
2020-21	19.9	4.3	0.0	4.3	24.2
Total	\$75.5	\$22.9	(\$9.0)	\$13.9	\$89.4

*The amount of fund balance appropriated as a financing source in the budget

Based on the Business Manager's 2021-22 fiscal year-end projections as of February 28, 2022, the District will receive about \$10.2 million more in revenue and will spend \$7.5 million less in expenditures than budgeted. This is an operational shift of about \$17.7 million.

In addition, although the District received more Impact Aid than was budgeted for in each of the last four years, the Board continued to underestimate this revenue in the 2021-22 budget. As of May 9, 2022 (the end of our audit period), the District has received \$4.3 million more Impact Aid than it originally budgeted and \$1.7 million more than the Business Manager's February 2022 projections. With nearly two months remaining in the 2021-22 fiscal year, the Impact Aid variance will likely continue to grow.

Because the District will receive more in revenue and spend less than originally budgeted, it will not use any of the \$18.5 million of fund balance appropriated in the 2021-22 budget. By annually appropriating fund balance that is not needed, and significantly underestimating revenues, the Board and District officials have not presented surplus fund balance or the budgets in a transparent manner.

Surplus Fund Balance Exceeded the Statutory Limit

The District's reported surplus fund balance in the general fund exceeded the 4 percent statutory limitation from 2017-18 through 2020-21. The reported surplus fund balance ranged from 6.8 to 12.9 percent of the next year's budget (see Appendix A, Figure 5).

The Board and officials' practice of annually appropriating fund balance that is not needed to finance operations misrepresents the amount of surplus fund balance the District is maintaining and is, in effect, a reservation of fund balance that is not provided for by statute and is a circumvention of the statutory limit imposed on the level of surplus fund balance.

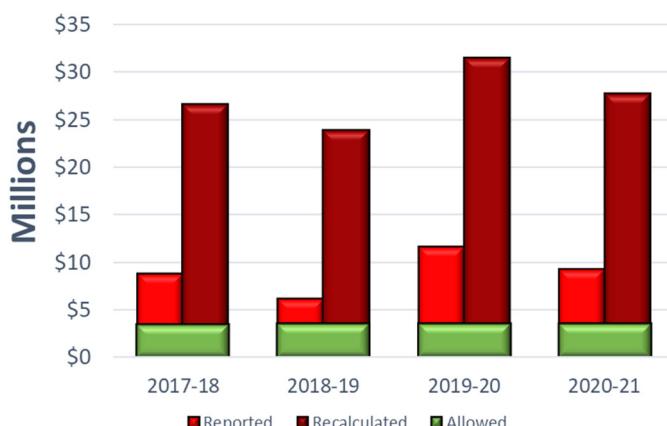
When unused appropriated fund balance is added back in, the recalculated surplus fund balance is approximately 31 percent, which exceeds the 4 percent statutory limit by 27 percentage points (see Appendix A, Figure 5), or more than \$24 million at the end of 2020-21 (Figure 4).

The Board President stated the Board uses conservative budgeting practices and appropriated fund balance as a financing source into its budgets because of the uncertainty of the federal budget process, possible sequestration,⁵ and the Board and officials not knowing if or how much the District will receive in Impact Aid until it is received. Per our review of the last 16 years of financial data submitted to the Office of the State Comptroller, the District has received, on average, \$18.5 million of Impact Aid each year. However during the audit period District officials, on average, only budgeted \$12.6 million of Impact Aid each year.

⁵ Sequestration refers to automatic spending cuts that occur through the withdrawal of funding for certain federal government programs.

FIGURE 4

Surplus Fund Balance



The consistent underestimation of revenues and overestimation of appropriations during our audit period caused the District to generate annual operating surpluses so it did not need to use any of its appropriated fund balance. Because of the annual operating surpluses, total fund balance of the general fund has increased \$13.9 million (42 percent) from \$32.8 million at the beginning of 2017-18 to \$46.7 million at the end of 2020-21. If the Board continues its past budgeting practices, revenues will continue to exceed expenditures each year and fund balance will continue to increase.

By maintaining surplus fund balance in excess of the statutory limit, the Board and District officials have withheld funds from productive use which resulted in real property tax levies that were higher than necessary. Although the Board decreased the real property tax levy by \$956,000 over two years from \$3.46 million in 2018-19 to \$2.51 million in 2020-21, it has since increased the real property tax levy by approximately \$76,000 (3 percent) in 2021-22. Based on the adopted budget, the Board plans to increase the tax levy by another \$32,000 (1 percent) for the 2022-23 fiscal year.

The Board Should Have Been More Transparent When Funding Reserves

The Board adopted a reserve fund policy that provides a list of the District's financial reserves, including creation date, purpose, funding methods, targeted funding levels, and use and monitoring of the reserves. As of June 30, 2021, the District had six reserve funds⁶ with cumulative balances totaling approximately

If the Board continues its past budgeting practices, revenues will continue to exceed expenditures each year and fund balance will continue to increase.

6 Two capital reserves, two retirement contribution reserves, a tax certiorari reserve and an employee benefit accrued liability reserve

\$18.7 million. We analyzed the reserve balances and activity for reasonableness and adherence to statutory requirements and found all reserves were properly established and used, and that reserve balances were reasonable.

However, the Board should have been more transparent when funding the reserves. While the initial funding of the District's two capital reserves was taxpayer approved, the Board provided additional funding to one of the capital reserves and to the four other reserves by making fiscal year-end unbudgeted transfers from operating surpluses generated by the conservative budgeting practices. For example, at the end of the 2020-21 fiscal year, District officials transferred approximately \$8 million from surplus fund balance into reserve funds (capital reserve - \$5.5 million, retirement contribution - \$1.6 million, and employee benefit accrued liability - \$928,000).

Although it is the District's practice to transfer surplus funds into reserve funds at fiscal year end, the Business Manager agreed that funding reserves within the annual budget that is taxpayer approved increases transparency. While it is prudent to plan for the future by funding necessary reserves, not showing transfers to reserves within the District's voter-approved budget reduces transparency to taxpayers.

The District's Multiyear Financial Plan Needs Improvement

It is important for District officials to develop a comprehensive written multiyear financial plan that projects operating needs and financing sources over a three-to five-year period. In November 2021, the Board adopted a financial plan that provides actual overall revenue and expenditure trends for the general fund for the previous three fiscal years (2018-19 through 2020-21) and shows a history of the District's fund balance. However, the plan does not project revenues and expenditures into the future along with the effect on fund balance and reserve funds.

A well-developed written multiyear financial plan provides a good starting point for the officials when developing annual budgets. It illustrates a District's ability to pay for and provide education, given certain economic assumptions. It also helps the Board and residents see the impact of the Board's financial decisions over time.

The lack of a comprehensive written multiyear financial plan limits the Board and District officials' ability to effectively manage finances and address future needs. As the District moves forward, a well-designed written plan can assist the Board in making timely and informed decisions about programs and operations and help the Board and District officials manage fund balance.

The lack of a comprehensive written multiyear financial plan limits the Board and District officials' ability to effectively manage finances and address future needs.

What Do We Recommend?

The Board and District officials should:

1. Develop and adopt budgets that include reasonable estimates for revenues, appropriations and the amount of fund balance that will be used to finance operations.
2. Discontinue the practice of adopting budgets that appropriate fund balance that is not needed or used to fund operations.
3. Develop a plan to reduce surplus fund balance to within the statutory limit and use excess funds in a manner that benefits District taxpayers. Surplus fund balance can be used for:
 - Funding one-time expenditures
 - Funding needed reserves
 - Paying off debt
 - Reducing District property taxes.
4. Include a provision in the annual budget to notify residents of planned transfers to fund reserves.
5. Develop and adopt a comprehensive written multiyear financial plan that includes a projection of revenues and expenditures, including the effect on fund balance. The plan should be periodically reviewed and updated as appropriate.

Appendix A: Surplus Fund Balance and Statutory Limit

Figure 5: Surplus Fund Balance and Statutory Limit (rounded to nearest thousand)

	2017-18	2018-19	2019-20	2020-21
Reported Year-End Surplus Fund Balance	\$8,764,000	\$6,177,000	\$11,592,000	\$9,249,000
Add: Appropriated Fund Balance Not Used to Fund Next Year's Budget	17,901,000	17,777,000	19,937,000	18,508,000
Total: Recalculated Surplus Fund Balance	\$26,665,000	\$23,954,000	\$31,529,000	\$27,757,000
Next Year's Budget	\$88,082,000	\$90,680,000	\$89,854,000	\$89,922,000
Reported Year-End Surplus Fund Balance as a Percentage of Next Year's Budget	9.9%	6.8%	12.9%	10.3%
Recalculated Surplus Fund Balance as a Percentage of Next Year's Budget	30.3%	26.4%	35.1%	30.9%
Recalculated Surplus Fund Balance Exceeding the Statutory Limit	\$23,142,000	\$20,326,000	\$27,935,000	\$24,160,000

Appendix B: Response From District Officials

*Indian River Central School District
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Philadelphia, New York 13673*

Celebrating Over 50 Years of Academic Excellence

www.ircsd.org

August 8, 2022

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Syracuse Regional Office
Attention Chief Examiner
State Office Building, Room 409
333 E. Washington Street
Syracuse, NY 13202-1428

RESPONSE SUMMARY

This is the written response to the 2022 Office of the State Comptroller's (OSC) Financial Condition Management, Report of Examination, performed on Indian River Central School District covering the July 1, 2017 to May 9, 2022 period. Specifically in regards to the scope of this Audit, the District appreciates that after several months of analysis, OSC identified no accounting irregularities. We also appreciate the professionalism, communication and partnership shown by the auditor.

Overview

While we appreciate the opportunities for growth, the District disagrees with many of the conclusions of this audit and is concerned that it doesn't adequately represent actions taken by the District since 2016. It also does not address that the period of this audit included pandemic years with all of the uncertainty that brought.

The District advocates that it is a reliable and conservative fiscal steward of taxpayer monies and will continue to manage the annual tax levies as responsibly as possible within the flawed framework of the NYS property tax cap legislation.

Given that 60% of all NYS schools exceeded the law limiting unexpended surplus funds to 4% (with 83% of North Country schools exceeding that limit)¹, it is the District's opinion these findings for schools across the state identify a problem with the Real Property Tax Law 1318 itself not with the fiscal management of IRCSD or public schools across the state.

Quick Facts

- The District's **tax levy decreased by 25%** during the period covered by this audit
- **IRCSD's full value tax rate is lower than 98% of all school districts in the state**
- The cited overestimation of expenditures includes the **pandemic timeframe with an overestimation of only 9%**
- **60% of IRCSD students are military connected.** The transience of these students makes estimating necessary services and student counts very difficult
- The **underestimation of Impact Aid was reduced by over 60%** over the past 2 years
- The District has moved from using only capital reserves to **8 varying reserves**
- The District **reduced the appropriated fund balance by \$11.6M** in the 2022/23 budget
- The District will continue to develop reasonable estimates and modify our practices in a responsible, slow and measured manner
- The District will continue to expand and document long range planning

(315) area code

District Office - 642-3441 High School - 642-3427 Middle School - 642-0125 Intermediate School - 642-0405
Antwerp Primary - 659-8386 Calcium Primary - 629-1100 Evans Mills Primary - 629-4331
Philadelphia Primary - 642-3432 Theresa Primary - 628-4432 District Pupil Personnel Services - 642-0100
Transportation - 642-0331 Building & Grounds - 642-0338 Food Services - 642-1250

DETAILED RESPONSE TO FINDINGS

The audit has four headlines that the District will address in order.

THE BOARD DID NOT ADOPT REALISTIC BUDGETS

Based on the 2016 Audit, the District has continued to modify budgeting practices to deliver budgets that are as realistic as possible given the information available and faced with a high degree of uncertainty when budgeting for a highly mobile, military population on Fort Drum especially during a global pandemic.

- For the past two budget cycles, with a goal of refining our estimation processes, the District has instituted an appropriation estimation process that averages the past few years of actual expenditures by category then makes adjustments considering the local, state and worldwide environment considering predictions for the next 12 – 18 months. For student service areas, to ensure we are able to meet the needs of students we may not have met yet (because of the 60% military connected student body), we do also include adjustments.
- Considering the uncertainties of the pandemic and the significant limitations of expenditures for more than a full school year (not only because of supply chain issues, but also because of the lack of extracurricular activities, sports, theater/arts events, travel, conferences, etc.) the changes in the District's practices are not easily evident by just summing overestimations during the audit period.
- For the past three budget cycles, the District has significantly modified its revenue estimation process. In regards to Federal Impact Aid, the estimations have shifted significantly from the original 60% methodology that the 2016 Audit criticized. The table below clearly illustrates the narrowing of the Federal Impact Aid underestimation. Using a 90% methodology, the District has reduced the underestimation by 60%.

	YEAR	BUDGET	ACTUAL	DIFFERENCE
Old methodology	2020	\$11,900,000	\$27,658,781	\$15,758,781
New methodology	2021	\$17,540,587	22,563,966	\$5,023,379
	2022	\$16,300,000	22,666,648	\$6,366,648
	2023	\$18,450,000	tbd	

Given the strength of the current fund balance, it has allowed the District to take a less conservative approach to this estimation that would not have always been prudent. Also during the audit period, the District received Federal Impact Aid "catchup" payments for many prior years. These payments are not predictable in their amounts or the timing of what year they will be received, so were not included in original estimates. This significantly contributed to the underestimation but was deemed the most prudent course of action. To include revenue estimates when there is no certainty of the year or amount we are going to receive is not a fiscally sound practice. In regards to New York State funding, the District uses estimates provided by New York State. This has always been the methodology, but the estimate for the 21/22 school year reduced NYS expected revenue because the state itself was expressing uncertainty and IRCSD had already experienced several 20% withholdings of expected state funding. It is important to note that in the 22/23 budget cycle, the District again utilized the full estimates provided by New York State. NYS funding accounts for more than 60% of IRCSD's revenues. State and Federal

revenue sources together account for approximately 95% of actual revenues received over the past few years. As we are estimating State funding based on estimates from the State and Impact Aid at 90% of expected funds², our revenue underestimation should be significantly reduced going forward. We believe this is reasonable because of the reducing number of military connected students and the details identified in footnote 2.

The District will continue to refine budgeting practices where possible keeping in mind the level of uncertainty we face as a District. The goal is to create as realistic a budget as possible.

SURPLUS FUND BALANCE EXCEEDED THE STATUTORY LIMIT

The District agrees it reported surplus fund balances over 4% and had a practice of annually appropriating fund balance. In the 22/23 school year, the appropriated fund balance was significantly reduced as a first step to modify this practice. This was an \$11.6M reduction in one year. What wasn't considered is that fund balance is needed during the year (at times) to cover cash flow because of the unpredictability of the Impact Aid timing. When more than a quarter of our revenue comes from Impact Aid and we can't plan on when it will be received, this can create cash flow issues. During the 2020/2021 school year we did not receive significant funding until January – 50% of the way through the school year. In the 2021/2022 school year we did not receive significant funding until April – 80% of the way through the school year. In three of the past six years, the District has had to use the appropriated fund balance during the year and then replace it with Impact Aid received late in the year. Excessive reductions to fund balance could reduce the District's ability to maintain adequate cash flow. Appropriating some fund balance (at the level done in the 22/23 school year or lower) to show the need for those revenues (even though they have been able to be replaced by year end in the past) will be revisited as we continue to refine our practices. We will align any appropriated fund balance with documented needs.

THE BOARD SHOULD HAVE BEEN MORE TRANSPARENT WHEN FUNDING RESERVES

The Board discusses all reserve creations, balances and fundings in detail each year more than once. This is done with a goal of transparency and clarity for our community. Towards this goal, the creation of the reserves identifies that they will be funded by budgetary appropriations OR existing unappropriated fund balance on hand. The District agrees that planning for reserve funding during the budget cycle could increase this transparency.

THE DISTRICT'S MULTIYEAR FINANCIAL PLAN NEEDS IMPROVEMENT

The District values multiyear financial planning. IRCSD is in the process of updating the Financial and Reserve Plan to show a view of the next 5 years hopefully in a manner that will meet OSC requirements. As we have always done, we will continue to plan for the future (at least annually if it is not required more frequently) and discuss potential outcomes so we have the necessary information to ensure financial stability long-term.

DETAILED RESPONSE TO RECOMMENDATIONS

The audit has five recommendations that the District will address in order. This will also serve as our Correction Action Plan (CAP).

1. DEVELOP AND ADOPT BUDGETS THAT INCLUDE REASONABLE ESTIMATES FOR REVENUES, APPROPRIATIONS AND THE AMOUNT OF FUND BALANCE THAT WILL BE USED TO FINANCE OPERATIONS.

The Business Official is responsible for drafting budgets that are discussed, modified and ultimately accepted by the Board of Education. Modified budgeting practices began in the 2019/2020 budget cycle and have continue to be refined with the goal of achieving the most accurate budget as possible. The District will continue to refine revenue and appropriation estimations within the various uncertainties unique to Indian River.

2. DISCONTINUE THE PRACTICE OF ADOPTING BUDGETS THAT APPROPRIATE FUND BALANCE THAT IS NOT NEEDED OR USED TO FUND OPERATIONS.

As previously stated, during the 2022/2023 budget cycle, the District reduced the appropriated fund balance from approximately \$18M in prior years to \$6.9M. If there are no major changes in the District's financial situation, the Business Manager and Board will approach the 2023/2024 cycle with a goal of reducing this even further and will continue to monitor this in subsequent years.

3. DEVELOP A PLAN TO REDUCE SURPLUS FUND BALANCE TO WITHIN THE STATUTORY LIMIT AND USE EXCESS FUNDS IN A MANNER THAT BENEFITS DISTRICT TAXPAYERS. SURPLUS FUND BALANCE CAN BE USED FOR:

- FUNDING ONE-TIME EXPENDITURES
- FUNDING NEEDED RESERVES
- PAYING OFF DEBT
- REDUCING DISTRICT PROPERTY TAXES

The Business Manager and Board will continue to fund reserves and identify one-time expenditures as appropriate from the surplus fund balance. Given that the NYS Property Tax Cap calculation penalizes schools that reduce property taxes or pay off debt early, we will approach that avenue cautiously given there is concern of a fiscal cliff in the near future. While the tax cap legislation was meant to provide relief to the spiraling real property taxes faced by the state's homeowners, the unfortunate part of the formula is that it actually serves as a disincentive to reducing taxes. While there is an available carryover as a reward for not levying to the limit, the entry number to the calculation is the prior year's tax levy and if this is reduced in one year, it carries forward to the following year. Thus, the formula acts as a disincentive to ever reducing taxes or paying off debt early. A more realistic approach, and one that would lift this disincentive, would be to permit a governing body to use any of the past three-year's tax levies as the entry point into the calculation. In that way, a windfall could be used to make a one-year reduction without requiring a supermajority vote the following year to return to prior levels. The irony is that a law intended to reign in tax increases acts as a disincentive to implementing a short-term tax decrease.

The District will focus on maintaining and where appropriate utilizing the surplus fund balance while remaining focused on the importance of maintaining a strong fiscal profile that shields the District from unplanned financial hardships that might be brought on by changing labor markets, rising inflation, continued supply chain issues, reduced state and/or federal funding or other uncontrollable events.

4. INCLUDE A PROVISION IN THE ANNUAL BUDGET TO NOTIFY RESIDENTS OF PLANNED TRANSFERS TO FUND RESERVES.

The Business Manager and Board agree with this recommendation and will begin this practice in the 2023/24 budget cycle.

5. DEVELOP AND ADOPT A COMPREHENSIVE WRITTEN MULTIYEAR FINANCIAL PLAN THAT INCLUDES A PROJECTION OF REVENUES AND EXPENDITURES, INCLUDING THE EFFECT ON FUND BALANCE. THE PLAN SHOULD BE PERIODICALLY REVIEWED AND UPDATED AS APPROPRIATE.

The District's Financial and Reserve Plan is drafted by the Business Manager and accepted by the Board of Education. It has been in place and is updated annually. This practice will continue. The plan is being updated at the 8/18/2022 Board of Education meeting to include a multiyear forecast succinctly in one place. It also identifies the effects of the predicted fiscal cliff on the District's fund balance. It can be found at: ircsd.org/business-office-b6f92b40

This is a lengthy response as Indian River takes its fiscal responsibility and transparency to our community very seriously. Please accept this as our Corrective Action Plan (CAP) with oversight of progress on the recommendations held by the Business Manager and Board of Education.

Respectfully,

Troy Decker
Superintendent of Schools

Thomas L. Lapp
President, Board of Education

¹OSC School District Fund Balances: The Law and the Reality presentation by [REDACTED]
[REDACTED]

² We have been notified we are fully paid for 2020 Impact Aid. In 2022, the federal government clawed back some 2021 Impact Aid funding making us believe we are fully paid for 2021. Having to repay prior funding is not a normal experience for us. Based on this, we do not anticipate prior year funds in the 22/23 SY as opposed to other years where we have received prior year payments for up to 4 prior years that were unanticipated. This is documented as evidence of the unpredictability of our Federal funding.

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, relevant laws, District policies, audited financial statements, financial and reserve plans, and adopted budgets to gain an understanding of the financial management processes.
- We reviewed the adopted general fund budgets from 2017-18 through 2020-21 to determine whether they were reasonable and structurally balanced by comparing adopted budgets with actual results of operations and assessed whether appropriated fund balance was used to fund operations as planned. We reviewed the 2021-21 budget versus actual results as of February 28, 2022, and discussed projections with officials to evaluate whether the District will need to use the fund balance appropriated.
- We analyzed the trend in total general fund balance for 2017-18 through 2020-21 and also compared surplus fund balance with the next year's budgeted appropriations to determine whether the District complied with the statutory limit. We recalculated surplus fund balance as a percentage of the next year's appropriations by adding back the unused appropriated fund balance for 2017-18 through 2020-21.
- We analyzed reserves to determine whether they were properly established, funded and used and whether the reserve balances were reasonable.

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

Contact

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Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236
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www.osc.state.ny.us/local-government
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