

Marathon Central School District

Fund Balances

MARCH 2018



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

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Report Highlights

Marathon Central School District

Audit Objective

Determine whether the Board and District officials ensured fund balances and reserves were reasonable.

Key Findings

- District officials reduced the excessive fund balance by \$1.3 million from 2014-15 through 2016-17 by maintaining a stable tax levy and appropriating fund balance to finance operations.
- Unassigned fund balance exceeded the statutory limit each year for the past three years, but decreased as a percentage of ensuing year's appropriations by 2 percentage points (from 6.9 to 4.9 percent) as of June 30, 2017.
- The debt service fund, employee benefit accrued liability reserve (EBALR) and retirement contribution reserve were not used as budgeted and overfunded as of June 30, 2017.

Key Recommendations

- Adopt a fund balance policy that includes a plan for using the excess accumulated fund balance in a manner that benefits District residents.
- Adopt a formal plan for reserves that indicates the targeted amounts of funds to be reserved, how each reserve will be funded and when balances will be used.
- Analyze all reserve balances to determine whether balances are necessary and reasonable, and use excess amounts in accordance with applicable statutes in a manner that benefits District residents.

District officials agreed with our recommendations and indicated they planned to initiate corrective action.

Background

The Marathon Central School District (District) serves seven towns in Cortland County, two towns in Broome County and one town in Tioga County.

The Board of Education (Board) is responsible for managing and controlling the District's financial and educational affairs. The Superintendent of Schools is responsible, along with other administrators, for the District's day-to-day management and for developing and administering the budget.

Quick Facts

2017-18 Appropriations	\$17.9 million
2016-17 Year-End General Fund Balance	\$7.9 million
2016-17 Enrollment	686

Audit Period

July 1, 2016 – June 30, 2017

We extended our audit period back to July 1, 2014 to analyze financial trends.

Fund Balances

How Does a Board Effectively Manage Fund Balances?

Fund balance represents resources remaining from prior fiscal years. A district may retain a portion of fund balance, referred to as unrestricted fund balance, within the limits established by New York Real Property Tax Law, which currently limits the amount of fund balance that can be legally retained to 4 percent of the ensuing year's budgeted appropriations.

Additionally, districts are legally allowed to establish reserves and accumulate reasonable funds for certain future purposes (e.g., capital project, retirement expenditures). Districts are also allowed to accumulate funds in a debt service fund for unexpended proceeds of long-term debt. This money should be used for debt service payments on the originating debt or, in certain cases, other outstanding debt.

Combining a reasonable level of unrestricted fund balance with specific legally established reserves provides for both unanticipated events and other identified or planned needs. The Board is responsible for developing a formal plan for the use of its reserves, including optimal or targeted funding levels and when the reserves will be used.

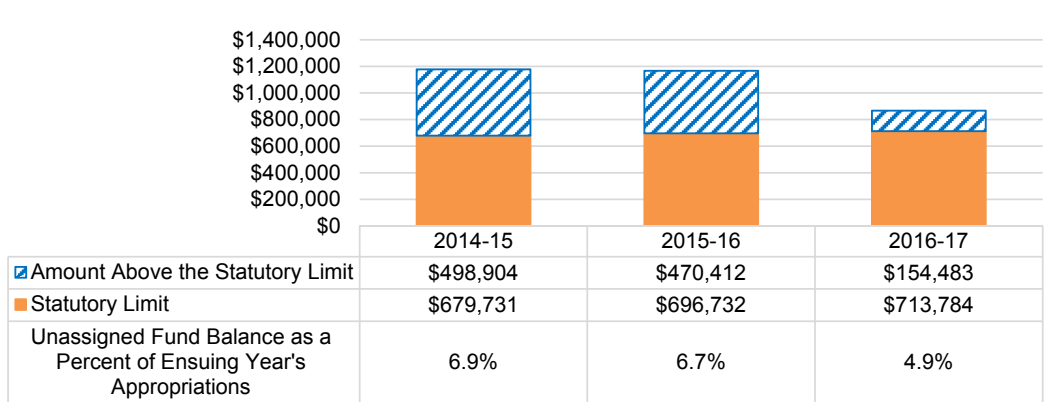
District Officials Reduced Excessive Unassigned Fund Balance

Although the District's unassigned fund balance exceeded the statutory limit from 2014-15 through 2016-17, unassigned fund balance as a percentage of ensuing year's appropriations decreased by 2 percentage points (from 6.9 to 4.9 percent). District officials adopted reasonable budgets over these years (with average revenue variances of less than 3.7 percent and average expenditure variances of less than 6.4 percent), which included appropriated and subsequent use of fund balance.

From 2014-15 through 2016-17, District officials used unassigned fund balance totaling \$1.3 million. As a result, the amount of unassigned fund balance that exceeded the statutory limit declined significantly during each of these years (from 2.9 to .9 percentage points).

FIGURE 1

General Fund Unassigned Fund Balance



In addition, the District's real property tax levy has remained relatively stable during these years.

Figure 2: Real Property Tax Levies

	2014-15	2015-16	2016-17	2017-18
Real Property Tax Levy	\$3,849,386	\$3,888,400	\$3,888,400	\$3,888,400
Dollar Increase from Prior Year	\$30,112	\$39,014	\$0	\$0
Percent Increase from Prior Year	0.8%	1.0%	0.0%	0.0%

District officials have reduced fund balance by maintaining a steady tax levy and appropriating fund balance to fund operations. Officials also appropriated unassigned fund balance totaling approximately \$880,000 to fund 2017-18 budgeted appropriations. If 2017-18 budget estimates remain on target, unless officials continue to appropriate fund balance to finance the 2018-19 budget, the District will likely still end 2017-18 with unassigned fund balance that exceeds the statutory limit.

The Debt Service Fund and Certain Reserves Were Overfunded

We analyzed the amount held in the District's debt service fund and six reserves as of June 30, 2017, with combined balances totaling \$7.9 million, to determine whether the amounts retained were reasonable. The capital, repair, workers' compensation and unemployment insurance reserves, with combined balances totaling \$2.2 million as of June 30, 2017, were reasonable based on supporting documentation and long-term plans. However, the debt service fund and the EBALR and retirement contribution reserves, with combined balances totaling \$5.7 million as of June 30, 2017, were overfunded.

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- **Debt Service Fund** – This fund, which is used to account for and report legally accumulated resources to make principal and interest payments on long-term debt, had a balance of \$2 million as of June 30, 2017. District officials were unable to identify the specific capital improvements or debt issuances for which these funds were retained.

Over the last three years, principal and interest payments totaled \$3.9 million and officials used \$435,000 in 2016-17 to finance these expenditures. Using the remaining funds for debt service would allow District officials to use general fund resources to reduce the real property tax burden.

- **EBALR** – This reserve, which must be used for cash payments of accrued and unused sick, vacation and certain other leave time owed to employees when they leave District employment, had a balance of \$2.1 million as of June 30, 2017. While the liability related to this reserve was \$383,000, related expenditures were paid from the operating budget. The reserve balance remained steady over the past three years and is more than five times the District’s liability. Based on the maximum payable of \$383,000, this reserve is overfunded by approximately \$1.7 million.
- **Retirement Contribution Reserve** – This reserve, which is used to pay the District’s retirement contribution to the New York State and Local Retirement System, had a balance of \$1.6 million as of June 30, 2017. The annual average qualifying expenditures over the past three years were approximately \$145,000 and these expenditures were paid from the operating budget.¹ The reserve balance generally remained steady over the past three years and is approximately 11 times the annual average qualifying expenditures. Based on the lack of use or long-term plans, this reserve is overfunded.

Using the resources accumulated in reserves for their related expenditures would allow for general fund resources to be used to reduce the real property tax burden.

What Do We Recommend?

The Board should:

1. Adopt a fund balance policy that includes a plan for using the excess accumulated fund balance to benefit District residents. Such uses could include, but are not limited to financing one-time expenditures, establishing needed reserves, reducing debt or reducing real property taxes.

¹ District officials attempted to use \$110,000 from the retirement contribution reserve in 2016-17. However, their accounting entry was incorrect. In 2017-18, officials corrected the accounting entry and reduced the reserve by \$110,000.

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2. Adopt a formal plan for reserves that indicates the targeted amount of funds to be reserved, how each reserve will be funded and when balances will be used.
 3. Analyze all reserve balances and transfer overfunded amounts to unassigned fund balance, where allowed by law, or other reserves established and maintained in compliance with statutory directives.

Appendix A: Response From District Officials

Marathon Central School District

Board of Education

Post Office Box 339

Marathon, New York 13803

Tel. 607-849-3117

Fax. 607-849-3305

Mr. Dale Betts
President

Mrs. Rebecca Stone
Superintendent of Schools

Mrs. Kirsten Parker
Vice-President

Board of Education Members

Mrs. Denise Castellot


Mr. Robert DePuy

Mrs. Rebecca Edsall

Mrs Penny Lisi

Mrs. Karen Standish

March 7, 2018


Division of Local Government
and School Accountability
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417

Re: Marathon Central School District response and Corrective Action Plan for the New York State Office of the State Comptroller Fund Balances Audit # 2017M-280.

1. **Audit Recommendation:** Adopt a fund balance policy that includes a plan for using excess accumulated fund balance to benefit District residents. Such uses could include, but are not limited to financing one-time expenditures, establishing needed reserves, reducing debt or reducing real property taxes.

Implementation Plan of Action: The district agrees with this recommendation. Over the past three years the district has used excess fund balance to finance one-time expenditures, establish needed reserves, fund existing reserves, and reduce district debt. The Board of Education will draft and approve a formal fund balance policy which will be adopted prior to the end of the 2017-2018 fiscal year.

2. **Audit Recommendation:** Adopt a formal plan for reserves that indicates the targeted amount of funds to be reserved, how each reserve will be funded and when balances will be used.

Implementation Plan of Action: The district agrees with this recommendation. The Board of Education and District Officials have developed and adopted a formal five year plan for each district reserve currently funded. It will be reviewed annually and amended if deemed necessary.

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Board of Education

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Mrs. Karen Standish

- 3. Audit Recommendation:** Analyze all reserve balances and transfer overfunded amounts to unassigned fund balance, where allowed by law, or other reserves established and maintained in compliance with statutory directives.

Implementation Plan of Action: The district agrees with this recommendation. Reserve balances are currently reviewed annually with the district Finance Committee and the Board of Education. Plans to reduce the reserves that have been deemed over funded by this audit have been addressed in the district's formal plan for reserves.

Persons Responsible for Implementation: Rebecca Stone –
Superintendent of Schools

Thomas Goskoski-
Business Official

Respectfully Submitted,

Rebecca Stone
Superintendent of Schools
Marathon Central School District

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 to gain an understanding of the District's goals and plans for fund balances and reserves.
- We analyzed the total fund balance trends from 2014-15 through 2016-17 and calculated the unassigned fund balance as a percentage of the ensuing year's appropriations to determine whether the District was within the statutory limit for these years.
- We calculated the results of operations from 2014-15 through 2016-17 and compared our results to appropriated fund balances to determine whether these amounts were actually used.
- We compared the District's budgeted revenues and appropriations to actual results from 2014-15 through 2016-17 to determine whether the budgets were reasonable.
- We analyzed District officials' use of, and balance maintained in, reserves and the debt service fund during the last three fiscal years to determine whether balances were excessive based on related expenditures, liabilities and supporting documentation.
- We analyzed trends in real property tax levies from 2014-15 through 2016-17 to determine whether they were increasing, decreasing or remaining steady.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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 2116-1(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 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. We encourage the Board to make the CAP available for public review in the Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.state.ny.us

www.osc.state.ny.us/localgov/index.htm

Local Government and School Accountability Help Line: (866) 321-8503

BINGHAMTON REGIONAL OFFICE – H. Todd Eames, Chief Examiner

State Office Building, Suite 1702 • 44 Hawley Street • Binghamton, New York 13901-4417

Tel: (607) 721-8306 • Fax: (607) 721-8313 • Email: Muni-Binghamton@osc.state.ny.us

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