

Canastota Central School District

Financial Condition Management

NOVEMBER 2019



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

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Report Highlights

Canastota Central School District

Audit Objective

Determine whether the District officials effectively managed the District's financial condition.

Key Findings

District officials could improve their management of the District's financial condition. We found:

- Officials overestimated appropriations by a total of \$7.1 million from 2015-16 through 2017-18, which resulted in most of the appropriated fund balance not being needed to fund operations.
- The tax certiorari reserve was overfunded by \$963,200 (615 percent) as of June 30, 2018.
- Encumbrances were overstated by a combined total of \$264,000 from 2015-16 through 2017-18.
- Although surplus fund balance was reported at or below the statutory limit from 2015-16 through 2017-18, recalculated surplus fund balance exceeded the statutory limit ranging from 7.2 percent to 10.9 percent.

Key Recommendations

- Adopt annual budgets that contain realistic estimates and develop a plan to reduce the amount of surplus fund balance.
- Account for and report year-end encumbrances that are valid and supported.
- Return excess funds in the tax certiorari reserve to the unrestricted fund balance in the general fund in accordance with the law.

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

Background

The Canastota Central School District (District) serves the Towns of Fenner, Lenox, Lincoln, Smithfield and Sullivan in Madison County.

The District is governed by a seven-member Board. The Superintendent of Schools is responsible, along with other administrative staff, for managing day-to-day operations under the Board's direction. The Assistant Superintendent for Business (Assistant Superintendent) is responsible for the business operations.

Quick Facts

| | |
|----------------|----------------|
| 2018-19 Budget | \$30.3 million |
| Enrollment | 1,347 |
| Employees | 250 |

Audit Period

July 1, 2017 – February 1, 2019

Financial Condition

How Does a Board Effectively Manage Financial Condition?

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.

A 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 Law (RPTL)¹ limits the amount of surplus fund balance² that a school district can retain to no more than 4 percent of the next year's budgeted appropriations.

School districts are legally allowed to establish reserves and accumulate reasonable funds for certain future purposes (for example, capital projects or retirement expenditures). Combining a reasonable level of surplus fund balance with specific legally established reserves provides for both unanticipated events and other identified or planned needs. New York State Education Law³ authorizes the Board to establish a tax certiorari reserve to pay for judgments and claims resulting from tax certiorari proceedings.⁴ 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 on or before the first day of the fourth fiscal year following the deposit of funds to the reserve.⁵

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

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 <https://www.osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>

3 New York State Education Law, Section 3651

4 For more information, please refer to our publication Reserve Funds available at www.osc.state.ny.us/localgov/pubs/lmg/reservefunds.pdf

5 Money in a tax certiorari reserve fund are deemed "reasonably required" to pay a tax certiorari judgment or claim if the proceeding or claim has not been finally determined or otherwise terminated or disposed of after the exhaustion of all appeals.

Districts are allowed to encumber obligations in the form of unfulfilled purchase orders or contracts. Encumbrances that exist at year-end may be carried over to the next year, but must represent valid commitments for specific future expenditures and should not be established as a means of artificially reducing available year-end fund balance. Expenditures for the next year should not be encumbered against the prior year's budget.

It is important for district officials to develop a comprehensive multiyear financial plan to estimate the future costs of ongoing services and future needs and plan for various methods or resources to finance them.⁶ Planning on a multiyear basis allows district officials to identify developing revenue and expenditure trends, set long-term priorities and goals and consider the impact of current budget decisions on future years. It also allows officials to assess the impact and merits of alternative approaches to address financial issues, such as the use of fund balance to finance operations and the accumulation of money in board-authorized reserves.

Officials Overestimated Expenditures and Appropriated Unneeded Fund Balance

We compared appropriations and estimated revenues in the adopted budgets with actual operating results for 2015-16 through 2017-18 and found that revenue estimates were generally reasonable.⁷ However, District officials overestimated appropriations, spending about \$7.1 million (8 percent) less than budgeted during the three-year period.

Figure 1: General Fund Budget-to-Actual Comparison - Appropriations

| | 2015-16 | 2016-17 | 2017-18 | Totals |
|--|--------------|--------------|--------------|--------------|
| Appropriations | \$27,638,020 | \$28,605,351 | \$29,506,361 | \$85,749,732 |
| Actual Expenditures | \$25,196,645 | \$26,479,109 | \$26,947,641 | \$78,623,395 |
| Amount Under Budget | \$2,441,375 | \$2,126,242 | \$2,558,720 | \$7,126,337 |
| Percentage Under Budget | 9% | 7% | 9% | 8% |
| Operating Surplus (Deficit)^a | \$596,731 | (\$153,868) | \$568,851 | \$1,011,714 |

a Operating Surplus (Deficit) = Actual Revenues Less Actual Expenditures

6 Refer to our multiyear financial planning resources available at: <https://www.osc.state.ny.us/localgov/planbudget/index.htm>

7 The District included general fund appropriated reserves as estimated revenues (interfund transfers) in the budget each year (\$540,000 in 2015-16, \$900,000 in 2016-17 and \$844,116 in 2017-18). While appropriated reserves can be used as a financing source in the budget, similar to appropriated fund balance, this is not considered a revenue. The District's average annual budget variance was .5 percent for the three-year period (total revenues exceeded the estimates) when the appropriated reserves are deducted from estimated revenues.

The Board and District officials did not reasonably estimate certain general fund appropriations in the budget each year. Some of the more significant variances between budgeted and actual expenditures for the three-year period were in the following line items: Board of Cooperative Educational Services contractual expenditures (\$1.1 million or 18 percent), teacher retirement system (\$724,000, 18 percent), employee retirement system (\$459,000, 63 percent) and instructional salaries for Grades 4-6 (\$362,000, 9 percent). The Board overestimated these expenditures by an average of \$882,000 each year and by a total of \$2.6 million over the three-year period.

The Business Administrator told us that they overestimate some contractual and personal services appropriations to cover expenditures in the event that more special need students enroll than they had originally planned for. While some expenditures are difficult to accurately estimate, others, such as retirement costs can be easily predicted and officials should be able to reasonably estimate these amounts in the annual budgets.

Because the Board and District officials overestimated appropriations by an average of \$2.4 million each year, the District realized operating surpluses or smaller deficits than planned, and appropriated fund balance and reserve funds were not needed to finance operations by the amounts estimated. For example, officials appropriated an average of \$1.9 million of fund balance and reserve funds each year to finance the 2015-16 to 2017-18 budgets.⁸

However, instead of generating planned operating deficits consistent with the amount appropriated each year, the District generated operating surpluses totaling \$596,731 in 2015-16 and \$568,851 in 2017-18 and a small operating deficit of \$153,868 in 2016-17. As a result, total fund balance increased by over \$1 million during the three-year period.

The Board also appropriated \$1 million of fund balance and \$1.2 million in reserve funds to finance the 2018-19 budget. Based on our review of 2018-19 appropriation and revenue budget status reports as of July 2019 (preliminary, unaudited figures), the District will likely report a small operating deficit of \$16,461 as of June 30, 2019, which means that \$983,539 (98 percent) of the amount appropriated may not be needed.

The practice of appropriating fund balance each year that was not needed was, in effect, a reservation of fund balance that is not provided for by statute and that circumvents the statutory limit on surplus fund balance.⁹

⁸ For 2015-16, about \$1.4 million in fund balance and \$540,000 in reserves; for 2016-17, \$1 million in fund balance and \$900,000 in reserves; and for 2017-18, \$1 million in fund balance and \$844,000 in reserves.

⁹ Although the District routinely appropriated reserve funds that were not needed to finance operations, the reserve funds (restricted fund balance) are excluded from the surplus fund balance subject to the legal limit.

Officials Overfunded the Tax Certiorari Reserve

The District's tax certiorari reserve had a balance of about \$1.2 million as of June 30, 2018 and officials have maintained an average of \$1.2 million in the reserve for at least the last five years.

We examined all tax certiorari judgments and claims against the District for the last five years and determined that the reserve was overfunded by \$963,196 (615 percent) as of June 30, 2018, and only \$187,000 of the reserve balance was supported by tax certiorari claims. Because the overfunded amount has resided in this reserve in excess of four years, District officials should return the excess to the general fund unrestricted fund balance.

When excess funds are held in reserves, it could result in real property taxes being higher than necessary because the funds are not being used to benefit the taxpayers.

Officials Improperly Classified Funds as Encumbrances

District officials recorded year-end encumbrances, which they asserted to represent valid purchase orders against the prior year's budget. However, officials overstated encumbrances, in effect circumventing the statutory limit on surplus fund balance.

The overstatement of encumbrances made it appear that surplus fund balance was lower than it actually was. Officials reported encumbrances between \$375,000 and \$503,000 at the end of each year (2015-16 through 2017-18), for a three-year accumulated total of approximately \$1.1 million. However, we found that at least \$264,027 of the encumbered funds reported at the end of these years did not represent a true commitment of current year funds and therefore should not have been encumbered.

For example, officials encumbered \$502,827 at the end of 2017-18, and \$148,680 (30 percent) remained encumbered after more than eight months had passed in 2018-19, when we concluded our audit field work. Of this amount, \$96,891 (65 percent) was for utility bills that officials fully paid in December 2019 (half-way through the year), officials also failed to reduce the encumbrance by any payments made before then.

Year-end encumbrances of this nature do not represent unfulfilled obligations for the current year and should not have been carried forward to the next year and used to reduce surplus fund balance at year-end.

Recalculated Surplus Fund Balance Exceeded the Statutory Limit

Over the last three completed years (2015-16, 2016-17 and 2017-18), the District reported surplus fund balance that ranged from 3.1 percent to 4 percent of the next year's appropriations, which was within the statutory limit. However, when unused appropriated fund balance, overfunded reserves and overstated encumbrances were added back, surplus fund balance exceeded the statutory limit by almost 7 percentage points, or about \$2.1 million as of June 30, 2018.

Figure 2: Recalculated Surplus Fund Balance

| | 2015-16 | 2016-17 | 2017-18 |
|--|-------------|-------------|-------------|
| Total Surplus Fund Balance at Year-End | \$1,143,678 | \$910,942 | \$1,208,876 |
| Add: Unused Appropriated Fund Balance | \$863,466 | \$1,000,000 | \$983,539 |
| Add: Overfunded Reserve (Tax Certiorari) | \$0 | \$0 | \$963,196 |
| Add: Overstated Encumbrances | \$39,061 | \$76,286 | \$148,680 |
| Total Recalculated Surplus Fund Balance | \$2,046,205 | \$1,987,228 | \$3,304,291 |
| Recalculated Surplus Fund Balance as a Percentage of Next Year's Budget | 7.2% | 6.7% | 10.9% |

Most of the appropriated fund balance was unneeded, and District officials held excess funds in the tax certiorari reserve that could have been used to fund operations. However, officials increased the tax levy by an annual average of 1.6 percent from 2015-16 through 2018-19, resulting in a total tax levy increase of \$728,000 over the four-year period.

Figure 3: Real Property Tax Levies

| | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|--|--------------|--------------|--------------|--------------|
| Real Property Tax Levy | \$11,434,698 | \$11,549,046 | \$11,740,000 | \$11,949,379 |
| Increase From Prior Year | \$213,293 | \$114,348 | \$190,954 | \$209,379 |
| Percentage Increase From Prior Year | 1.9% | 1.0% | 1.7% | 1.8% |

The Board Did Not Adopt a Multiyear Financial Plan

The Board has not adopted a comprehensive written multiyear financial plan. Such a plan would help the Board and District officials address and plan for the use of fund balance, including reserve funds, and prioritize and plan for future capital needs. While, the Assistant Superintendent prepared a multiyear financial projection (budget forecast), it was not presented to or approved by the Board.

Although the District has generated operating surpluses in two of the past three years and records show a small operating deficit (about \$16,500) for 2018-19, the financial projection was based on the 2018-19 adopted budget and showed a significant financial decline with annual operating deficits increasing from \$1 million in 2018-19 to \$3.9 million in 2023-24.

As officials work to develop a multiyear financial plan, they should review historical revenue and expenditure trends to develop realistic projections of future operating results and address how the District plans to address the future budget gaps. This was not addressed in the Assistant Superintendent's financial projection.

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

What Do We Recommend?

The Board and District officials should:

1. Develop and adopt budgets that include realistic estimates for appropriations and the amount of fund balance that will be available and used to finance operations.
2. Develop a plan to reduce the amount of surplus fund balance in a manner that benefits taxpayers. Surplus funds can be used as a financing source for:
 - Funding one-time expenditures;
 - Funding needed reserves;
 - Paying off debt; and
 - Reducing District real property taxes.
3. Return excess funds in the tax certiorari reserve to the unrestricted fund balance in the general fund.
4. Ensure year-end encumbrances are valid and supported.
5. Develop a comprehensive multiyear financial plan to provide a framework for future budgets and guide management of financial condition. The plan should be periodically reviewed and updated as appropriate.

Appendix A: Response From District Officials

Canastota Central School District

120 Roberts Street, Canastota, New York 13032 • 315.697.2025

District Office

Jason A. Mitchell
Deputy Superintendent

Nicholas A. Panuccio
School District Business Leader

Shawn D. Bisetta
Superintendent of Schools



October 28, 2019

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

Dear Ms. Wilcox;

The Canastota Central School District has received and reviewed the draft Financial Condition Management Report of Examination (2019M-174) for the audit period July 1, 2017 to February 1, 2019. On behalf of Canastota CSD's Board of Education and administrative team, we appreciate the hard work and professionalism exhibited by the audit team while they were in Canastota. This letter includes the district's response to the report.

Canastota CSD's Board of Education always seeks to balance its ongoing commitment to be fiscally responsible stewards of our stakeholders' tax dollars, while simultaneously continuing to provide a strong educational program for the students of Canastota CSD. Concurrently, the district must abide by evolving financial constraints from state and federal laws, regulations, mandates and requirements. The Canastota CSD Board of Education spends many months monitoring the development of sound budgets and fiscal practices of administration, that balances the priorities of the school district community.

Based on the Comptroller's recommendations, Canastota CSD would like to acknowledge the following:

- 1) The district will develop and adopt budgets that include realistic estimates for appropriations and the amount of fund balance that will be available and used to finance operations.
- 2) The district will develop a plan to reduce the amount of surplus fund balance in a manner that benefits taxpayers the best way possible with respect to the unsure amount of our revenue sources.
- 3) Excess funds in the tax certiorari reserve will be returned to the unrestricted fund balance in the general fund
- 4) The district agrees that year-end encumbrances will be valid and supported with backup documentation that relates to purchasing out of the subsequent budget.
- 5) A comprehensive multiyear financial plan is in the process to be developed to provide a framework for future budgets and guide management of the financial condition. The plan will be periodically reviewed and updated as appropriate.

Canastota Central School District

120 Roberts Street, Canastota, New York 13032 • 315.697.2025

District Office

Jason A. Mitchell
Deputy Superintendent

Nicholas A. Panuccio
School District Business Leader

Shawn D. Bissetta
Superintendent of Schools



We appreciate the Office of the Comptroller's review of the District's financial condition management. Under new administration within Canastota CSD we continue to look for ways to maintain the quality of our educational programs and to continually improve our budget and financial process, which allows us to be fiscally responsible to our community.

Canastota CSD will submit a Corrective Action Plan to achieve compliance with stated recommendations.

Sincerely,

Bill Haddad
Board of Education

Shawn Bissetta
Superintendent of Schools

Striving for Excellence
canastotacsd.org

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, resolutions, financial records and budget policies to gain an understanding of the financial management processes.
- We reviewed and analyzed year-end encumbrances to determine which purchase orders were included and paid the following year.
- We reviewed reserve fund balances for reasonableness and to determine whether they were properly established.
- We compared the general fund's estimated revenues and budget appropriations with the actual revenues and expenditures for 2015-16 through 2017-18 to determine whether budgets were reasonable. We identified the budget items that contributed the most to the budget-to-actual variances and followed up with officials on significant variances.
- We reviewed and analyzed the financial records and reports issued during the audit period for the general fund, including annual budgets, audited financial statements, annual reports, bank statements, budget status reports and general ledgers.
- We recalculated surplus fund balance as a percentage of the next years' appropriations after adding back unused appropriated fund balance, overstated encumbrances and an overfunded reserve for 2015-16 through 2017-18.
- We analyzed the trend in real property tax levies for the 2015-16 through 2018-19 fiscal years.

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.

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 2116-1(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 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 to the District's website for public review.

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/pubs/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/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

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