

Madison Central School District

Reserves and Debt Service Fund

JUNE 2019



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

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Report Highlights

Madison Central School District

Audit Objective

Determine whether reserve funds and the debt service fund balance were reasonable.

Key Findings

- The Board did not adopt a written reserve fund policy.
- Three reserve funds totaling \$1.3 million as of June 30, 2018, were overfunded.
- The approximately \$1 million balance in the debt service fund was not used towards the \$2.8 million in debt payments made by the District during the three-year audit period.

Key Recommendations

- Adopt a comprehensive written reserve fund policy.
- Review all reserves and determine if the amounts are necessary, reasonable and in compliance with statutes. To the extent they are not, transfers should be made to unrestricted fund balance as allowed by law, or to other reserves per statutes.
- Use money in the debt service fund to pay related debt service expenditures.

District officials agreed with our findings and indicated they plan to initiate corrective action.

Background

The Madison Central School District (District) serves the Towns of Eaton, Madison and Stockbridge in Madison County and the Towns of Augusta, Marshall and Vernon in Oneida County. The District is governed by the Board of Education (Board), which is composed of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

Quick Facts

Employees	144
Enrollment	461
2017-18 General Fund Appropriations	\$10,083,581
Total Reserve Funds as of June 30, 2018	\$1,365,059
Debt Service Fund as of June 30, 2018	\$1,044,728

Audit Period

July 1, 2015 – June 30, 2018

Reserves and Debt Service Fund

How Should the Board Ensure Reserves and the Debt Service Fund Are Reasonable?

Reserves may be established by the board in accordance with applicable laws to provide financing for specific purposes. Money set aside in reserves must be used only in compliance with statutory provisions which determine how reserves are established and how they may be funded, expended and discontinued. Generally, school districts are not limited as to how much money can be held in reserves; however, reserve balances should be reasonable. It is important that the board adopt a written policy that communicates why the money is being set aside, the board's financial objectives for the reserves, optimal funding levels and conditions under which the assets will be used.¹ The board should also periodically analyze the reasonableness of the balances in its reserves.

A debt service fund is used to account for the accumulation of resources for paying principal and interest on long-term debt. For example, a debt service fund must be established and maintained to account for the proceeds of a sale of a capital improvement with outstanding debt or if State or federal aid is received for a capital improvement for which there is outstanding debt. School districts are also required to account for and restrict unexpended bond proceeds and related interest earnings in accordance with statutory provisions. District officials should use the money in this fund to make the related debt service payments.

Reserve Balances Are Unreasonable

As of June 30, 2018, the District reported four general fund reserves with balances totaling nearly \$1.4 million.

Figure 1: Reserve Funds as of June 30, 2018

Employee Benefits Accrued Liability Reserve (EBALR)	\$665,420
Liability Reserve	\$433,597
Unemployment Insurance Reserve	\$196,871
Retirement Contribution Reserve	\$69,171
Total	\$1,365,059

The Board has not adopted a written reserve fund policy. Rather, the Board periodically reviews a reserve report, prepared by the Treasurer, which communicates the purpose, funding source, monitoring, use and year end balances of each reserve; however, this report does not include optimal or targeted funding levels for all of the reserves reported.² When the Board does not

¹ For more information, please refer to our *Local Government Management Guide - Reserve Funds*: <http://www.osc.state.ny.us/localgov/pubs/lgmgreservfunds.pdf>

² The report does address the targeted funding level for the EBALR.

communicate its financial objectives for the reserves and establish their optimal funding levels, there is an increased risk that the reserve balances will not be maintained at appropriate levels.

We analyzed the four reserves reported in the general fund for reasonableness as of June 30, 2018 and found that the retirement contribution reserve is reasonably funded. However, the other three reserves, with balances totaling approximately \$1.3 million are overfunded.

- EBALR – This reserve is authorized for the cash payment of compensated absences which include accrued and unused sick, vacation and certain other leave to employees upon separation from service and expenditures related to the reserve's administration. The EBALR had a balance of \$665,420 at the end of 2017-18. Total compensated absences reported by the District as of June 30, 2018 were \$204,117, which means the balance in the reserve is more than three times the associated liability. Therefore, the District has overfunded its EBALR by about \$461,000.³
- Liability Reserve – This reserve is used to pay legal liability claims against the District. The District retained approximately \$433,000 in this reserve each year, for the last three fiscal years, while using no funds from this reserve. Education Law⁴ limits the amount of this reserve to 3 percent of the budget or \$15,000, whichever is larger. Three percent of the District's 2017-18 budget would be \$302,507,⁵ therefore, the District has exceeded the legal limit for this reserve by \$131,090.
- Unemployment Insurance Reserve – This reserve is used to reimburse the State of New York for payments to claimants. The balance as of June 30, 2018 was \$196,871. The District made no payments to the New York State Unemployment Insurance Fund for 2014-15 through 2017-18. Because the District did not use any of these funds for the last three years, we question the reasonableness of the balance in this reserve.

While it is a prudent practice for officials to save for future expenditures, overfunding reserve balances can result in the real property tax burden being greater than necessary because the excess funds are withheld from productive use.

³ The District used \$20,250 from this reserve over the last three years.

⁴ Section 1709(8-c)

⁵ $\$10,083,581 \times .03 = \$302,507$

Money in the Debt Service Fund Is Not Being Used for Related Debt Service

The District's debt service fund maintained a balance of approximately \$1 million over the past three fiscal years while no funds were used from this fund during this period. For the last three fiscal years, the District has included a \$225,000 transfer in its adopted budgets from the debt service fund to the general fund, each year, to help pay for related debt service costs. However, the transfers were not made to help offset debt principal and interest payments made out of the general fund totaling \$2.8 million over the audit period. The Superintendent and other Board members told us that the general fund was able to pay this debt without a transfer being necessary. Therefore, the debt service fund is not being used and its balance continues to grow as it earns interest.

Using debt service money for its intended purpose could allow general fund resources to be used for other purposes, which could result in the reduction of real property taxes.

What Do We Recommend?

The Board should:

1. Adopt a comprehensive written reserve fund policy that clearly communicates the purpose and intent for establishing each reserve fund, the manner in which the Board will fund and maintain each reserve fund, the optimal or targeted funding levels and conditions under which each fund's assets will be used or replenished.

The Board and District officials should:

2. Review all reserves and determine if the amounts reserved are necessary, reasonable and in compliance with statutory requirements. To the extent they are not, transfers should be made to unrestricted fund balance, where allowed by law, or to other reserves, in compliance with statute.
3. Use money in the debt service fund to pay related debt service expenditures.

Appendix A: Response From District Officials

Board of Education

Stephanie Clark-Tanner
President
Jona Snyder
Vice President
Jessica Clark
Michael Filipovich
Jennifer Lavoie
Brittany Rizzo
Steven Yancey



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Michael Davis
Superintendent
Larry Nichols
Building Principal
Brian J. Latella
Elementary Principal
Melanie Brouillette
Treasurer
Tracey Lewis
District Clerk

May 7, 2019

Office of the State Comptroller
Attn: Rebecca Wilcox, Chief Examiner
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428

Re: Audit report 2019M-63

Dear Ms. Wilcox:

On behalf of the Madison Central School District I would like to thank you for this opportunity to respond to the draft copy for the Reserves and Debt Service Fund audit report for the period July 1, 2015 – June 30, 2018. The District acknowledges and values your recommendations for improvement.

It is the District's goal to be fiscally responsible while providing financial stability for our educational institution. That being said, we take the recommendations that you provided with great interest.

As recommended, the District is in the process of reviewing a written reserve fund policy and will adopt it in the next couple of months. As for the reserve funds that were pointed out as being overfunded, the Board of Education will be reviewing them for appropriateness.

Also in the report it states that the money in the debt service fund is not being used for related debt service. Madison has budgeted over the last several years a transfer from debt service. If the calculation for fund balance at year-end is greater than the School District's limited unreserved amount of 4 percent the Board of Education has chosen not transfer the funds from debt service.

The District thanks the examiners for the time they spent in the District reviewing various facets of operations and financial matters.

Sincerely,

Stephanie Clark Tanner
Board President

Appendix B: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials to gain an understanding of the operations related to reserves and the debt service fund and whether the Board has a written reserve policy.
- We reviewed and analyzed the District's reserve balances, as compared to actual expenditures and accrued liabilities for each year of the audit period, to determine the reasonableness of the reserves.
- We reviewed and analyzed debt service fund year-end balances during the audit period to determine whether amounts were used to pay for related debts. We reviewed District budgets and recorded debt payments to determine how much debt was paid by other funds.

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 District 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#lgmg

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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