

Jordan-Elbridge Central School District

Financial Condition Management

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

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Report Highlights

Jordan Elbridge Central School District

Audit Objective

Determine whether the Board and District officials adequately managed the District's financial condition.

Key Findings

- The Board has maintained general fund unrestricted fund balance close to the 4 percent statutory limit.
- The District retained an annual average of \$983,978 in the debt service fund over the past four years without using this money for debt payments.
- The Board has not adopted comprehensive multiyear financial or capital plans.

Key Recommendations

- Closely monitor unrestricted fund balance and reserve fund balances to ensure they do not accumulate to excessive levels.
- Use money in the debt service fund to pay related debt service expenditures in compliance with statutory requirements.
- Develop and adopt comprehensive multiyear financial and capital plans.

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

Background

The Jordan-Elbridge Central School District (District) is located in the Towns of Brutus and Sennett in Cayuga County and the Towns of Camillus, Elbridge, Lysander, Skaneateles and Van Buren in Onondaga County. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is responsible for the District's day-to-day management and for the development and administration of the budget.

Quick Facts

Employees	436
Enrollment	1,320
2016-17 Budgeted General Fund Appropriations	\$29 Million

Audit Period

July 1, 2013 – June 30, 2017

Financial Condition Management

How Does a Board Effectively Manage Financial Condition?

To effectively manage a school district's financial condition, the board of education must adopt realistic and structurally balanced budgets based on historical data or known trends, in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. A district may retain a portion of fund balance, referred to as unrestricted fund balance.

School districts should ensure that unrestricted fund balance does not exceed the amount allowed by New York State Real Property Tax Law, which currently limits unrestricted fund balance to no more than 4 percent of the following year's appropriations. Any unrestricted fund balance over 4 percent must be used to fund operations.

Districts are legally allowed to reserve portions of fund balance to finance future costs (e.g., capital projects or retirement expenditures). Ideally, amounts to be placed in reserve funds should be included in the annual budget to ensure residents are aware of the board's intent to fund reserves in the upcoming year. While school districts are generally not limited as to how much money can be held in reserves, the balances should be reasonable. Therefore, the board should adopt a formal written policy or plan that indicates how the reserves will be funded, how much should be accumulated in the reserves and when the money will be used to finance related costs.¹ The board should balance the intent for accumulating money for future identified needs with the obligation to ensure that the district's real property tax levy is not greater than necessary.

The Board Has Maintained Fund Balance Close to the Statutory Limit but Fund Balance Continues to Increase

We compared the District's general fund total budgeted revenues and appropriations with actual results of operations for fiscal years 2013-14 through 2016-17 and found that the average revenue variances for the four-year period were about 2 percent and the average expenditure variances were about 1.5 percent (Figure 1).

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

Figure 1: Revenue and Expenditure Budget Variances

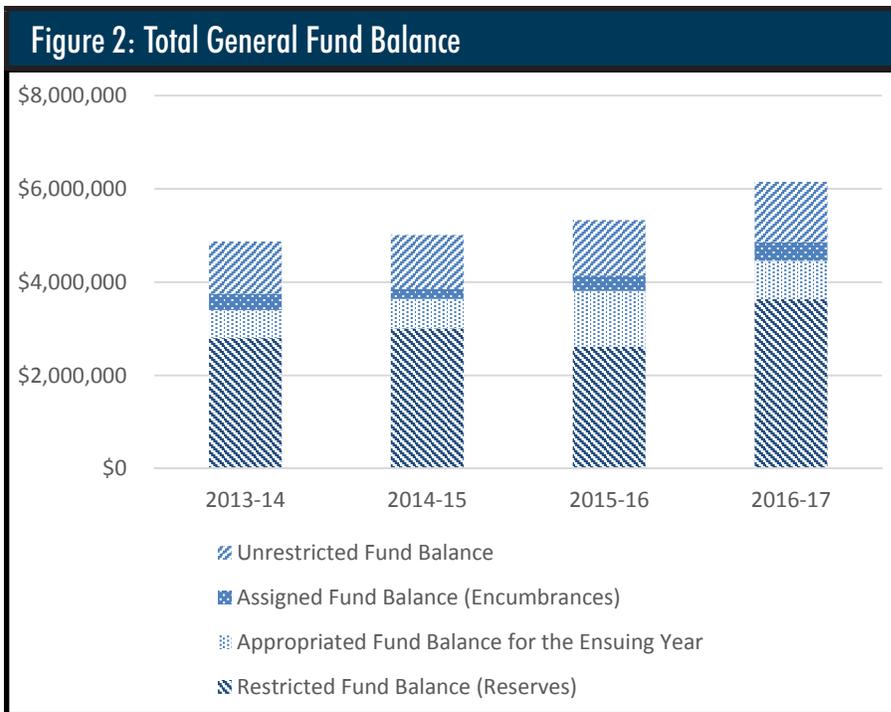
	2013-14	2014-15	2015-16	2016-17	Average
Budgeted Revenues	\$26,500,000	\$27,394,000	\$28,638,750	\$28,598,000	
Actual Revenues	\$26,886,875	\$27,818,031	\$29,101,602	\$29,501,743	
Amount Overbudget	\$386,875	\$424,031	\$462,852	\$903,743	
Percentage Overbudget	1.46%	1.55%	1.62%	3.16%	1.96%
Budgeted Appropriations	\$27,500,000	\$28,094,000	\$29,268,750	\$29,198,000	
Actual Expenditures	\$27,192,797	\$27,679,544	\$28,783,915	\$28,680,802	
Amount Underbudget	\$307,203	\$414,456	\$484,835	\$517,198	
Percentage Underbudget	1.12%	1.48%	1.66%	1.77%	1.51%

The District’s original budget variances were reasonable in total. However, the District made certain transfers to the capital projects fund each year that were not included in the original adopted budgets. For example, during 2015-16, the District transferred \$1,311,000 to the capital projects fund for projects such as the installation of an artificial turf field, new roofs, windows and energy performance matters that were approved by voters in February 2016. This transfer was primarily funded by a capital reserve, which was also approved by the voters in a separate proposition. Had this transfer not been made, the expenditure budget variance would have been 6 percent (appropriations exceeding actual expenditures). In 2016-17, the District transferred \$610,000 to the capital projects fund for an emergency asbestos, lead abatement and radon mitigation removal project. Without this transfer, the expenditure budget variance would have been about 4 percent (appropriations exceeding actual expenditures).

Even with these unplanned transfers,² the District did not need to use any of the fund balance it appropriated as a financing source in its budgets from 2014-15 through 2016-17 because actual revenues were greater than expected and other budgeted appropriation accounts were overestimated. For example, in the 2015-16 and 2016-17 budgets, the District overestimated health insurance expenditures by an annual average of \$632,400 (9 percent); Teachers Retirement System expenditures by \$132,000 (10 percent) and the State Retirement System expenditures by \$97,900 (25 percent). The District appropriated fund balance ranging from \$600,000 to nearly \$1.2 million in the annual budgets for 2014-15 through 2016-17 that was ultimately not needed to finance operations. Rather than generate planned operating deficits by using the appropriated fund balance, the District generated annual operating surpluses averaging about \$426,000, which has led to a \$1,277,000 increase in total fund balance since the end of 2013-14.

² Although these transfers were not included in the original budget, the Board did modify the budgets during the year to provide appropriations for these transfers.

The District reported unrestricted fund balance that was close to the 4 percent legal limit³ at the end of the 2013-14 through 2016-17 fiscal years and the Board has maintained a stable tax levy of \$12.24 million in the 2015-16 through 2017-18 budgets. However, if the Board continues its current budget practices, the fund balance in the general fund will continue to accumulate. Figure 2 shows the trend in the fund balance over the past four years.



In addition, the Board did not routinely use the budget process to fund reserves in a transparent manner. The Board passed resolutions to fund reserves at year-end instead of including appropriations in its adopted budgets to fund reserves. For example, the District increased the retirement contribution reserve by \$300,000 at the end of 2015-16 and by another \$230,000 at the end of 2016-17. As of June 30, 2017, the District reported six reserves totaling over \$3.6 million, which included reserves for capital, compensated absences, liability, retirement, tax certiorari and unemployment. Although the Board has adopted a written reserve fund policy, it does not describe the maximum funding levels and the planned use of these reserves.

Furthermore, the policy requires District officials to prepare an annual report that includes an analysis of the projected needs for the reserve funds in the upcoming

³ Reported unrestricted fund balance as a percentage of the next years appropriations ranged from 3.97 percent to 4.26 percent.

fiscal year and funding recommendations. The Treasurer told us she periodically reviews the reserves with the Board, but no written annual report is provided to the Board. Although the balances in the reserves were generally reasonable, the District risks accumulating excessive funds in reserves if it continues to generate annual operating surpluses and to fund the reserves at year-end without establishing targeted funding levels to ensure reserves are maintained at reasonable levels.

Money in the Debt Service Fund is Not Being Used to Pay for Related Debt Service

A debt service fund is used to account for the accumulation of resources for paying the 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 capital asset's sale that has 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.

The District's debt service fund⁴ had a balance of \$1,175,707 as of June 30, 2017. The District maintained an average balance of \$983,978 in this fund over the past four fiscal years (2013-14 through 2016-17). However, the District budgeted for and paid the debt-related principal and interest from the general fund each year. The District made debt payments of \$2,586,118 annually between 2013-14 and 2015-16. According to District officials, they were saving the money until it was needed as a financing source in the general fund budget. 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.

How Does Multiyear Planning Improve Budgeting?

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 fiscal years. It also allows District 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 reserve funds. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. These plans should be monitored and updated on an ongoing basis to provide a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate.⁵

⁴ As of June 30, 2016 the District had \$22,815,000 in outstanding bonds payable.

⁵ See <http://www.osc.state.ny.us/localgov/planbudget/index.htm>

District Officials Have Not Developed Multiyear Financial and Capital Plans

District officials have not developed comprehensive, written multiyear financial or capital plans. District officials told us that the Board often discusses long-term planning during budget preparation and throughout the year. However, they have not formally adopted any written multiyear plans. The development of formal long-term plans would help District officials address the use of fund balance, including the reserve funds, and prioritize and plan for future capital needs.

What Do We Recommend?

The Board, with the assistance of District officials should:

1. Closely monitor the unrestricted fund balance and reserve fund balances to ensure they do not accumulate to excessive levels.
2. Include a provision in the annual budget to notify residents of District officials' intent to fund reserves.
3. Require an annual report on reserves as referenced in the District's reserve fund policy.
4. Use money in the debt service fund to pay related debt service expenditures in compliance with statutory requirements.
5. Develop and adopt comprehensive multiyear financial and capital plans to establish the goals and objectives for funding long-term operating and capital needs. These plans should be monitored and updated on an ongoing basis.

Appendix A: Response From District Officials



JORDAN-ELBRIDGE CENTRAL SCHOOL DISTRICT

District Office: 9 Chappell Street, Jordan, NY 13080 • Mail: P.O. Box 902, Jordan, NY 13080
T: (315) 689-8500 • F: (315) 689-0084 • www.jecsd.org

James Froio,
Superintendent
District Office
(315) 689-8500 x5001
jfroio@jecsd.org

January 15, 2018

Rebecca Wilcox, Chief Examiner
Division of Local Government and School Accountability
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428

Re: Financial Condition Management Audit #2017M-241

Dear Chief Examiner Wilcox:

This letter is in response to the Financial Condition Management Report of Examination for the audit period of July 1, 2013 – June 30, 2017. I would first like to thank the auditors for their professionalism, insight and guidance throughout the audit process.

Relative to the key findings, the Board is aware that the unrestricted fund balance has been maintained at a level close to the 4 percent statutory limit. The Board feels that this 4 percent is essential to the financial condition and stability of the district. The Board will continue to monitor unrestricted fund balance and reserve fund balances.

The Board of Education is aware that there is a balance in the debt service fund and has developed a plan to appropriate these funds to reduce debt over a period of 9 years. This plan was developed with a goal to keep increases in taxes at or below the tax cap. This plan has allowed the district to develop budgets with tax increases over the past 3 years of .9%, 0% and 0% respectively.

Although the Board has not officially adopted a comprehensive multiyear financial or capital plan, the Board continues to review fund balances, reserves and the district capital needs. The district is working with [REDACTED] to develop a comprehensive multiyear financial plan based on historic trends and analytical projections. It is anticipated that this plan will be adopted within the next 6 months.

Again, thank you for your comments and courtesies extended by your staff.

Sincerely,

James R. Froio
Superintendent

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, we performed the following audit procedures:

- We reviewed and analyzed the District's financial records and reports for the general fund, including annual budgets, annual reports, bank statements, budget status reports and general ledgers.
- We calculated the general fund unrestricted fund balance as a percentage of the ensuing year's appropriations to determine if the District was within the statutory limitation during fiscal years 2013-14 through 2016-17.
- We compared the general fund's estimated revenues and budget appropriations with the actual revenues and expenditures for the 2013-14 through 2016-17 fiscal years to determine whether District budgets were reasonable.
- We reviewed reserve fund balances to determine whether they were reasonable and whether they were funded in a transparent manner.
- We interviewed District officials about the debt service fund and whether or not the District has a plan to use the funds to pay related expenditures.
- We interviewed the Board President and other District officials to determine whether the Board has long-term financial and/or capital plans.

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

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

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

<http://www.osc.state.ny.us/localgov/costsavings/index.htm>

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems <http://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 <http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lgmg>

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans <http://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 <http://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 <http://www.osc.state.ny.us/localgov/finreporting/index.htm>

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

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

SYRACUSE REGIONAL OFFICE – Rebecca Wilcox, Chief Examiner

State Office Building, Room 409 • 333 E. Washington Street • Syracuse, New York 13202-1428

Tel (315) 428-4192 • Fax (315) 426-2119 • Email: Muni-Syracuse@osc.state.ny.us

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