



# **Sherburne-Earlville Central School District**

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Financial Management

2024M-61 | October 2024

# Contents

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- Report Highlights . . . . . 1**
  
- Financial Management. . . . . 2**
  - How Should a School Board and District Officials Properly Manage Fund Balance? . . . . 2
  - The Board and District Officials Overestimated Appropriations . . . . . 2
  - The Board and District Officials Appropriated Fund Balance That Was Not Needed and Exceeded the Statutory Limit for Surplus Fund Balance . . . . . 3
  - How Should a School Board and District Officials Properly Manage Reserves? . . . . . 5
  - Certain Reserves Were Not Reasonably Funded . . . . . 5
  - What Do We Recommend? . . . . . 6
  
- Appendix A – Response From District Officials . . . . . 7**
  
- Appendix B – OSC Comments on the District’s Response . . . . . 8**
  
- Appendix C – Audit Methodology and Standards . . . . . 9**
  
- Appendix D – Resources and Services . . . . . 10**

# Report Highlights

## Sherburne-Earlville Central School District

### Audit Objective

Determine whether the Sherburne-Earlville Central School District (District) Board of Education (Board) and District officials properly managed fund balance and reserves.

### Key Findings

The Board and District officials did not properly manage fund balance and reserves. As a result, real property tax levies were higher than needed to finance actual expenditures. By continually overestimating appropriations year after year, the Board and District officials are not presenting the District's spending plan in a transparent and meaningful manner to taxpayers. In addition, the Board did not adopt a reserve policy to define its rationale for establishing reserve funds, maximum targeted funding levels and the conditions under which reserves will be used or replenished.

From 2020-21 through 2022-23, the Board and District officials:

- Overestimated appropriations by a total of \$8 million (7 percent) and appropriated \$2.5 million of fund balance that was not needed while generating operating surpluses totaling \$1.7 million.
- Allowed surplus fund balance to exceed the statutory limit by \$4.2 million, or 11 percentage points.
- Maintained unreasonably high balances or did not use reserve balances to pay related expenditures in three of the District's seven reserves.

### Recommendations

The audit report includes four recommendations to help the Board and District officials improve their financial management practices. Except as noted in Appendix A, District officials generally agreed with our findings. Appendix B includes our comments on the District's response.

### Audit Period

July 1, 2020 – December 31, 2023

### Background

The District is located in Chenango and Madison Counties.

The elected seven-member Board is responsible for managing and controlling the District's financial affairs.

The Superintendent of Schools is the chief executive officer responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The Director of Finance and Personnel (Director) is responsible for overseeing the day-to-day financial operations.

#### Quick Facts

2023-24 Appropriations	\$38.1 million
2023-24 Real Property Tax Levy	\$6.8 million
Total Reserves as of December 31, 2023	\$2.1 million

# Financial Management

## How Should a School Board and District Officials Properly Manage Fund Balance?

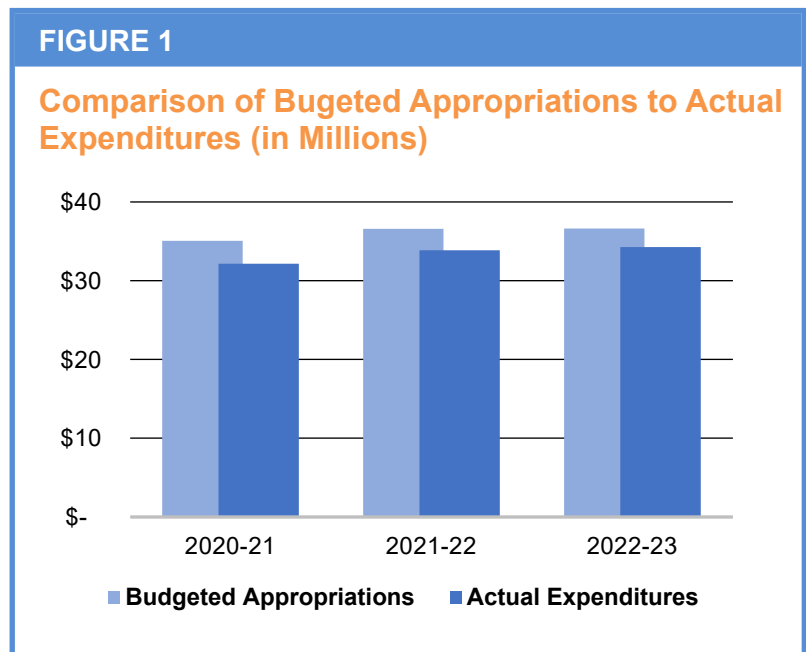
Fund balance is the difference between revenues and expenditures accumulated over time. School districts may retain a portion of surplus fund balance<sup>1</sup> for unexpected occurrences and fluctuations in cash flow. However, a school district board (board) and officials must comply with New York State Real Property Tax Law Section 1318, which limits the amount of surplus funds that a school district can retain to no more than 4 percent of the budget. Officials must apply any surplus fund balance in excess of the 4 percent limit to reduce the upcoming year's real property tax levy or appropriately fund needed reserves.

To properly manage fund balance, the board and school district officials should develop and adopt reasonably estimated and structurally balanced budgets based on historical data or known trends in which recurring revenues finance recurring expenditures. In preparing the budget, the 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 upcoming year's budget, and the expected real property tax levy. Accurate and reasonable budget estimates help ensure that the tax levy is not greater than necessary, the budget is presented transparently to the public, and surplus fund balance does not exceed the legal limit. During the course of the fiscal year, as school district officials have a better understanding of the results of financial operations, they should consider using anticipated surplus fund balance to finance one-time expenditures, fund needed reserves or pay off debt.

## The Board and District Officials Overestimated Appropriations

We compared budgeted revenues and appropriations with actual operating results from July 1, 2020, through June 30, 2023. Although revenue estimates were generally reasonable, appropriations were overestimated by an average of \$2.7 million annually for a cumulative total of approximately \$8 million, or 7 percent (Figure 1).

There were seven expenditure accounts with an average variance of more than \$200,000 in each of the last three fiscal years. The Board overestimated expenditures for:



<sup>1</sup> For guidance on fund balance classification and reporting see <https://www.osc.ny.gov/files/local-government/publications/pdf/gasb54.pdf>

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- Teaching regular school for two fiscal years by an average of \$766,522, with variances ranging from \$439,235 to \$1,093,808.
  - Program for students with disabilities for all three fiscal years by an average of \$425,971, with variances ranging from \$283,547 to \$508,741.
  - Guidance regular school for one fiscal year with a variance of \$380,110.
  - Hospital, medical and dental insurance employee benefits for two fiscal years by an average of \$313,013, with variances ranging from \$298,192 to \$327,834.
  - Operation of plant for two fiscal years by an average of \$301,585, with variances ranging from \$213,029 to \$390,141.
  - Interscholastic athletics regular school instructional salaries for one fiscal year with a variance of \$255,076.
  - District transportation Medicaid for one fiscal year with a variance of \$240,478.

The Director explained that the budget variances in most of these expenditures were due to unfilled, vacant positions or positions filled by employees at lower pay rates and benefit costs than anticipated. While officials review expenditure trends, they used the current employee's salary for the budget in case they needed to offer additional salary or benefits to fill a position. Furthermore, she told us that the COVID-19 pandemic disrupted expenditure trends the past few years, resulting in lower expenditures than planned.

Additionally, the Director explained that the budget variances for programs for students with disabilities occurred because officials budgeted for all potential students requiring services, including those students that the Board of Cooperative Educational Services may not be able to provide services for, necessitating placement in higher-cost programs. Furthermore, District officials accounted for all regular athletic teams, games, and trips when budgeting for transportation and interscholastic athletics. However, due to a shortage of participating students in extracurricular activities like sports competitions, fewer bus trips, coaches and game officials were required. Additionally, the variances for interscholastic athletics and District transportation occurred in the 2020-21 school year and actual costs were lower due to the COVID-19 pandemic disrupting normal operations.

Because the Board and officials overestimated appropriations, it appeared that more revenue and financing sources (fund balance) were needed to maintain a structurally balanced budget despite historical trends showing otherwise.

### **The Board and District Officials Appropriated Fund Balance That Was Not Needed and Exceeded the Statutory Limit for Surplus Fund Balance**

Because the Board and officials overestimated appropriations, it appeared the District needed to use appropriated fund balance to close projected budget gaps. During the three fiscal years, the Board appropriated \$2.5 million of fund balance. However, the District's annual revenues were sufficient to cover annual expenditures in two of the three years. As a result, the District realized operating surpluses totaling over \$1.6 million over those three fiscal years (Figure 2).

The District did not use all of its appropriated fund balance and total fund balance continued to increase. As of June 30, 2023, the District reported surplus fund balance totaling \$5.7 million and exceeded the statutory limit by \$4.2 million, or 11 percentage points.

Based on year-to-date revenues and expenditures as of December 31, 2023, and historical revenues and expenditures, we determined that the District will most likely generate another operating surplus for the 2023-24 fiscal year, and it will not need to use the \$750,000 of surplus fund balance appropriated in the 2023-24 budget.

The Board and District officials' practice of appropriating fund balance that is not needed is, in effect, a reservation of fund balance that is not provided for by statute and is a circumvention of the statutory limit on surplus fund balance.

Appropriating fund balance that is not needed artificially reduces the amount of surplus fund balance subject to the statutory limit, giving the appearance that surplus fund balance is closer to the statutory limit. For perspective, when unused appropriated fund balance and the overfunded tax certiorari reserve<sup>2</sup> is included in surplus fund balance, the District's surplus fund balance as of June 30, 2023 would have totaled \$6.4 million and exceeded the statutory limit by 14 percentage points (Figure 3).

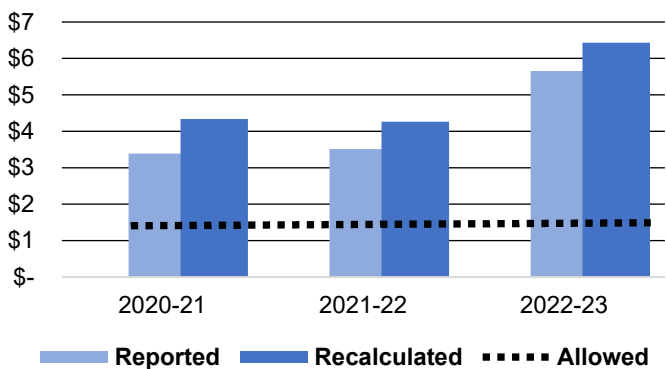
Officials' budgeting practices artificially inflated the total budget and resulted in a real property tax levy that was higher than needed to finance actual expenditures. Furthermore, by continually overestimating appropriations year after year, the Board and District officials are not presenting the District's spending plan in a transparent and meaningful manner to taxpayers. While the budgets presented to taxpayers included the planned use of fund balance to offset projected operating deficits, officials' budgeting practices generated operating surpluses resulting in the accumulation of additional surplus fund balance.

**Figure 2: Planned Operating Deficits Vs. Actual Operating Results**

Fiscal Year	Planned Deficit	Actual Operating Result
2020-21	- \$800,000	\$1,076,620
2021-22	- 950,000	(39,268)
2022-23	- 750,000	589,893
<b>Total</b>	<b>(\$2,500,000)</b>	<b>\$1,627,245</b>

**FIGURE 3**

**Surplus Fund Balance (in Millions)**



<sup>2</sup> See Section "Certain Reserves Were Not Reasonably Funded"

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## How Should a School Board and District Officials Properly Manage Reserves?

To properly manage reserve funds, a board should adopt a comprehensive written reserve fund policy that states the:

- Rationale for establishing reserve funds and the objectives for each reserve,
- Maximum targeted funding levels,
- Conditions under which reserves will be used or replenished, and
- Requirements for a periodic review of reserve balances to confirm compliance with this policy and reasonableness of each reserve fund.

Combining a reasonable level of surplus fund balance with specific legally-established reserves provides both for unanticipated events and for other identified or planned needs. Although school districts are generally not limited to the amount of funds that can be held in reserves, the board should maintain reserve balances which are reasonable by balancing the intent for accumulating funds for identified future needs with the obligation to help ensure real property taxes are not higher than necessary.

### Certain Reserves Were Not Reasonably Funded

As of June 30, 2023, the District reported seven reserves totaling \$2.1 million in the general fund. We analyzed the reserve balances for reasonableness by comparing the reserve balances to the three-year historical expenditures related to the purpose of each reserve. We determined that the repair reserve, employee benefit accrued liability reserve and insurance reserve were reasonably funded. We also determined that the capital reserve was funded within the voter-approved maximum level. However, the other three reserves were not reasonably funded.

Retirement Contribution Reserve – A retirement contribution reserve is used to pay retirement contributions to the New York State Local Employees Retirement System (ERS). The balance in this reserve remained the same for each year during our audit period and, as of December 31, 2023, had a reported balance of \$730,000. We determined that the reserve balance was sufficient to cover over one year of ERS expenditures, which averaged \$530,794 during the last three years. Furthermore, the District included appropriations for ERS averaging \$598,250 from 2020-21 through 2023-24 to fund and pay for these expenditures through the annual budget rather than this reserve.

Unemployment Insurance Reserve – A unemployment insurance reserve is used for the payment of claims to the New York State Unemployment Insurance Fund. The balance in this reserve remained the same for each year during our audit period and, as of December 31, 2023, had a reported balance of \$99,809. We determined that the reserve balance could fund eight full-time employees' unemployment expenditures for the maximum benefit. In addition, if future unemployment insurance costs averaged \$1,097 per year, the average unemployment insurance expenditure over the last three years, the reserve's current funding level would be sufficient to pay unemployment insurance expenditures for more than 90 years. Furthermore, the District included appropriations for unemployment insurance

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averaging \$31,250 from 2020-21 through 2023-24 to fund and pay for these expenditures through the annual budget rather than this reserve.

Tax Certiorari Reserve – A tax certiorari reserve is used for the payment of judgments or claims challenging real property tax assessments. The \$24,140 balance in this reserve was overfunded because the District did not have any outstanding tax certiorari claims during the audit period.

District officials could have used the reserve funds to pay for related expenditures but chose to pay for the expenditures with current years' funds. Therefore, we question the need for the balances in these reserves.

Additionally, the Board did not adopt a reserve fund policy that provided the rationale for reserved funds, optimal or targeting funding levels and conditions under which the reserves would be used. The Director was unsure why a reserve policy was not adopted. Although District officials presented the balances to the Board for its review, they did not monitor the reserve balances resulting in these three reserves not being reasonably funded.

Although it is prudent for the Board and District officials to plan and save for unforeseen circumstances, overfunding and/or not using reserves for their intended purpose causes real property taxes to be higher than necessary.

## What Do We Recommend?

The Board and District officials should:

1. Develop and adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be appropriated and used to fund operations.
2. Develop a plan to reduce surplus fund balance in a manner that benefits District taxpayers. Surplus funds can be used for:
  - Reducing District property taxes,
  - Funding one-time expenditures,
  - Funding needed reserves, and
  - Paying off debt.
3. Review reserve balances to determine whether the amounts reserved are necessary and reasonable. Reduce overfunded reserves to reasonable levels in accordance with applicable statute.
4. Develop and adopt a written reserve fund policy that establishes optimal or targeted funding levels and conditions under which each reserve will be used or replenished.

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<sup>3</sup> Refer to our Local Government Management Guide entitled Reserve Funds (<https://www.osc.ny.gov/files/local-government/publications/pdf/reserve-funds.pdf>) for additional guidance on reserves.



# Appendix A: Response From District Officials



## SHERBURNE-EARLVILLE CENTRAL SCHOOL

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**Robert G. Berson**  
Superintendent of Schools

**Antoinette Halliday**  
Asst. Superintendent for Instruction

September 20, 2024

Office of the State Comptroller  
44 Hawley St. 17<sup>th</sup> Floor  
Binghamton, NY 13901

Office of the Comptroller:

The Sherburne-Earlville Central School District is in receipt of the fund balance report of examination for the period of July 1, 2020, to December 31, 2023. Please accept this letter to serve as the District's response to the audit findings for 2024M-61.

On behalf of the Board of Education and the District's administration, we would like to thank the New York State Comptroller's field staff involved in the audit. They were courteous and professional throughout the process. The District is pleased with the extensive work of the auditors from your office and that the audit resulted in no findings of operational improprieties, fraud, waste, or abuse. Rather the focus of this audit was on the financial condition of the District in which your auditors have made valid recommendations in regard to fund balance and reserves.

See  
Note 1  
Page 8

While the District does not dispute the findings of the report, we feel that the report fails to cite the volatile economic climate under which the District has been forced to operate since the COVID-19 pandemic. The continued impact of inflation, external market factors coupled with current and pending state aid reductions have informed the Sherburne-Earlville Central School District strategic financial planning. The district continues to absorb unfunded mandates while operating within the district's allowable tax levy. The Sherburne-Earlville Central School District is fiscally conservative in both savings and expenses. Furthermore, Governor Hochul and State Legislators have stated the next fiscal year will be difficult. Therefore, the District feels that increasing reserves along with lower than allowable tax levies even during years of reducing state aid is not a detriment to the District but rather an indicator of solid long term financial planning and performance.

The District believes that at no time did it ask taxpayers for more funding than what was acceptable and disagrees with the comptroller's comment of tax levy, "real property tax levies were higher than needed to finance actual expenditures. By continually overestimating appropriations year after year, the Board and District officials are not presenting the District's spending plan in a transparent and meaningful manner to taxpayers." Since the advent of the two percent tax cap, the Sherburne-Earlville Central School District has consistently requested tax levies lower than the allowable level. For example, three of the last eight tax levies have been 0% and the other tax levies were below the tax levy limit that was greater than 2%.

See  
Note 2  
Page 8

We strongly believe that District has acted and will continue to act appropriately in the future financial climate.

Sincerely,

Robert Berson  
Superintendent of Schools  
Sherburne-Earlville Central School District

# Appendix B: OSC Comments on the District's Response

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## Note 1

The audit objective focused on whether the Board and District officials properly managed fund balance and reserves. The audit team assessed the risk of fraud occurring that is significant within the context of this audit objective, as required by generally accepted government auditing standards. Therefore, these audit results cannot be used to conclude there is no impropriety, fraud, waste or abuse in the District's operations.

## Note 2

Although officials may have requested tax levies that were lower than the allowable level, tax levies should be based on actual need and the Board and District officials presented taxpayers budgets that indicated fund balance was needed to fill a budget gap, when in fact there was no budget gap to fill. As a result, more taxes were levied than needed to fund operations.

## Appendix C: Audit Methodology and Standards

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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. We obtained an understanding of internal controls that we deemed significant within the context of the audit objective and assessed those controls. Information related to the scope of our work on internal controls, as well as the work performed in our audit procedures to achieve the audit objective and obtain valid audit evidence, included the following:

- We interviewed District officials and reviewed Board meeting minutes, resolutions and policies to gain an understanding of the District's financial planning and budgeting procedures.
- We compared estimated revenues to actual revenues and budgeted appropriations to actual expenditures for the 2020-21 through 2022-23 fiscal years to analyze the reasonableness of the budgets. For appropriations, we analyzed expenditure accounts with budget variances that were equal to, or exceeded, \$200,000.
- We calculated the results of operations for the 2020-21 through 2022-23 fiscal years to determine whether there was an operating surplus or deficit and whether appropriated fund balance was used.
- We analyzed the District's fund balance for fiscal years 2020-21 through 2022-23 to identify trends. We calculated surplus fund balance as a percentage of the upcoming year's budgeted appropriations to determine whether it was within the statutory limit. We recalculated surplus fund balance as a percentage of the upcoming year's budgeted appropriations after adding back unused appropriated fund balance and the tax certiorari reserve balance.
- Using the three years' averages (as of December 31, 2023), we projected revenues, expenditures, and results of operations for the end of the 2023-24 fiscal year. We used those results to project whether the District would have an operating surplus or deficit and whether appropriated fund balance would be used.
- We analyzed reserve balances as of June 30, 2023, and expenditures paid from the reserves during the 2020-21 through 2022-23 fiscal years, to determine whether the reserves were reasonably funded, according to historical expenditures and anticipated uses.

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

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### **Regional Office Directory**

[www.osc.ny.gov/files/local-government/pdf/regional-directory.pdf](http://www.osc.ny.gov/files/local-government/pdf/regional-directory.pdf)

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

[www.osc.ny.gov/local-government/publications](http://www.osc.ny.gov/local-government/publications)

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

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

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[www.osc.ny.gov/local-government/required-reporting](http://www.osc.ny.gov/local-government/required-reporting)

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