



# Richfield Springs Central School District Financial Condition

## Report of Examination

Period Covered:

July 1, 2012 — January 28, 2014

2014M-83



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	2
<b>INTRODUCTION</b>	3
Background	3
Objective	3
Scope and Methodology	3
Comments of District Officials and Corrective Action	4
<b>FINANCIAL CONDITION</b>	5
Recommendations	8
<b>APPENDIX A</b> Response From District Officials	9
<b>APPENDIX B</b> Audit Methodology and Standards	11
<b>APPENDIX C</b> How to Obtain Additional Copies of the Report	12
<b>APPENDIX D</b> Local Regional Office Listing	13

# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

August 2014

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of school districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Richfield Springs Central School District, entitled Financial Condition. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## Background

The Richfield Springs Central School District (District) resides in two towns in Herkimer County and four towns in Otsego County. The Board of Education (Board) comprises five elected members which govern the District. The Board has the responsibility for the general management and control of the District's financial and educational affairs, including developing the budget as well as monitoring and controlling the budget throughout the year. The Superintendent of Schools acts as the District's chief executive officer and has the responsibility, along with other administrative staff, for the District's day-to-day management under the Board's direction. The Treasurer and Deputy Treasurer are responsible for the District's finances and accounting records and reports. The Board President acts as the chief financial officer.

The District operates one pre-kindergarten through grade 12 educational facility and a transportation facility and enrolls approximately 500 students. The District had budgeted appropriations of \$11.5 million for the 2013-14 fiscal year, funded primarily through State aid and real property taxes.

The Office of the State Comptroller's Fiscal Stress Monitoring System<sup>1</sup> monitors local governments for indications of fiscal stress, such as operating deficits and declining fund balances. The District was identified as being susceptible to fiscal stress because the District spent approximately \$1.4 million more funds than received in 2012-13. This deficit derived from a \$1.2 million general fund transfer from the capital reserve to the capital projects fund to pay for a new roof and other necessary building maintenance.

## Objective

The objective of our audit was to examine the District's financial condition. Our audit addressed the following related question:

- Did the Board and District officials maintain reasonable fund balances?

## Scope and Methodology

We examined District records and reports for the period July 1, 2012 through January 28, 2014. To analyze trends in the District's fund balances, we extended our audit scope back to July 1, 2008 and forward through June 30, 2014.

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<sup>1</sup> For more information on the Fiscal Stress Monitoring System, see the OSC website at: <http://osc.state.ny.us/localgov/fiscalmonitoring/index.htm>

**Comments of  
District Officials and  
Corrective Action**

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix B of this report.

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with findings and recommendations and plan to implement corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3) (c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, 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, with a copy forwarded to 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 Board should make this plan available for public review in the District Clerk's office.

## Financial Condition

The Board and Superintendent are responsible for ensuring that adopted budgets are prepared and amended based on reasonable appropriation and revenue estimates. Sound budgeting provides sufficient funding for necessary operations and a reasonable amount of fund balance. Fund balance represents resources remaining from prior fiscal years that the District can use to lower property taxes for the ensuing fiscal year or to prepare for uncertain future expenditures. The estimation of fund balance acts as an integral part of the budget process. A district may retain a portion of fund balance, referred to as unrestricted fund balance, within the limits established by Real Property Tax Law. The District may also establish reserves to restrict a portion of fund balance for a specific purpose, also in compliance with statutory directives. Funding reserves at greater than reasonable levels contributes to higher than necessary real property tax levies because the excessive reserve balances do not fund current operations.

The District did not always maintain reasonable fund balances. The District accumulated a significant surplus of fund balance from 2008-09 through 2011-12. Although District officials included a budgetary provision to use some of the accumulated surplus to finance operations, the surplus was not used because the District spent less than the revenues received in those years. Most of this accumulation was the result of significant overestimations of expenditures from several years ago. For example, in 2008-09 the District overestimated expenditures by approximately 9 percent. Over the last three fiscal years, the Board adopted more reasonable budgets with actual revenues and expenditures coming within estimates by an average of 1 percent and 6 percent, respectively.

The District had an operating deficit in fiscal year 2012-13, although less than the amount planned in that year's adopted budget, and also used \$1.2 million from its capital reserve to fund a capital project. The District incurred another operating deficit in fiscal year 2013-14 and the 2014-15 adopted budget includes a planned operating deficit of \$800,000. While the District's actual revenues have exceeded its expenditures for many of the last several years, the trend seems to have reversed for the last two completed fiscal years.

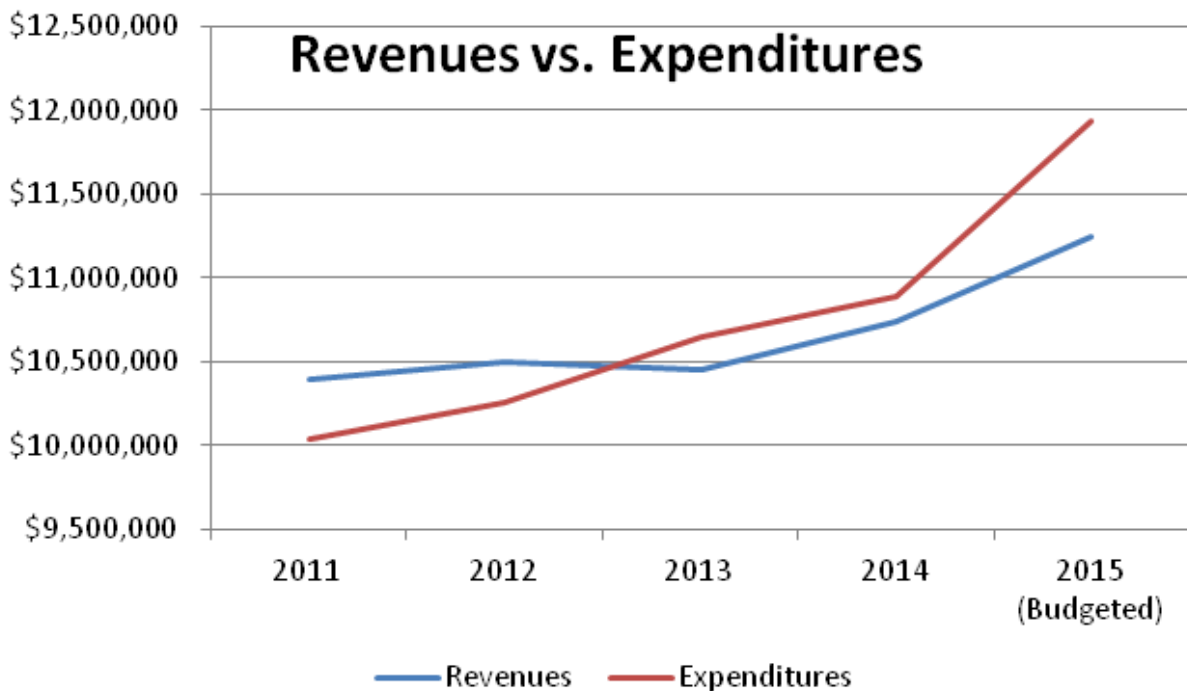
**Table 1: Results of Operations and Fund Balance**

	FY 2010-11	FY 2011-12	FY 2012-13 <sup>b</sup>	FY 2013-14
Operating Surplus/(Deficit)	\$362,242	\$232,671	(\$192,112)	(\$150,191)
Planned Deficits	(\$650,000)	(\$875,000)	(\$850,000)	(\$800,000)
Difference of Actual Results and Planned Deficits	\$1,012,242	\$1,107,671	\$657,888	\$649,809
<b>Total Fund Balance<sup>a</sup></b>	<b>\$5,618,101</b>	<b>\$5,850,773</b>	<b>\$4,423,763</b>	<b>\$4,273,572</b>

<sup>a</sup> The District had several prior period adjustments. Therefore, the total fund balance with the addition of an operating surplus or subtraction of an operating deficit in the ensuing year may not equal the total fund balance in the ensuing year.

<sup>b</sup> The decline in total fund balance for fiscal year 2012-13 includes a \$1.2 million expenditure District officials planned for a capital project.

These surpluses have come with increases in the real property tax levy, averaging 1.7 percent between the fiscal years ended 2008-09 and 2012-13. Continued operating deficits are likely as the District adopts budgets under the constraints of the property tax levy limit which will erode the surplus that has accumulated. In addition, from 2010-11 through 2012-13, the District's average rate of growth of expenditures of 3.0 percent has outpaced its growth of revenues at 0.3 percent, which will require District officials to seek alternative financing sources. This trend is likely to continue based on our review of 2013-14 operations and the 2014-15 budget.<sup>2</sup>



<sup>2</sup> The 2014-15 budget includes the use of \$800,000 of appropriated fund balance.

The District had significant balances in unreserved fund balance and reserves prior to the 2011-12 fiscal year. However, the trend of decreasing revenues, along with property tax levy constraints, and increasing expenditures have required the District to use unreserved fund balance and reserves.

	FY 2010-11	FY 2011-12	FY 2012-13 <sup>b</sup>	FY 2013-14
Total Reserves	\$3,886,530	\$4,150,531	\$3,095,530	\$3,095,530
Total Unreserved Fund Balance <sup>a</sup>	\$1,731,571	\$1,700,242	\$1,328,233	\$1,178,042
<b>Total Fund Balance</b>	<b>\$5,618,101</b>	<b>\$5,850,773</b>	<b>\$4,423,763</b>	<b>\$4,273,572</b>
Change in Total Fund Balance	\$407,853	\$232,672	(\$1,427,010)	(\$150,191)

<sup>a</sup> For comparative purposes due to GASB 54 changes effective for fiscal years ending June 30, 2011 and beyond, the reserve for encumbrances is included in the unreserved fund balance.

<sup>b</sup> The change in total fund balance for fiscal year 2012-13 includes a \$1.2 million expenditure District officials planned for a capital project.

We also determined that District officials have accumulated excessive balances in reserve funds that can be used to offset budgetary shortfalls in the near term. Specifically, the following reserves were overfunded:

- Compensated Absences Reserve – The District must only use this reserve for cash payments of accrued and unused sick, vacation and certain other leave time owed to employees when they leave District employment. As of June 30, 2013, the District had a liability for compensated absences of approximately \$239,849. However, the reserve had an actual balance of \$1,431,814, resulting in an overfunded amount of at least \$1,191,965.
- Liability Reserve – School districts can establish and maintain reserves, not to exceed 3 percent of the annual budget, to cover property loss and liability claims to reduce insurance costs. The District has not expended moneys from this reserve since its establishment in August 2010. The reserve had a balance of \$746,216 as of June 30, 2013, which exceeded the maximum amount allowed by approximately \$414,000.

Continuing to incur operating deficits without identifying alternative funding sources could lead the District to fiscal stress. The property tax limit restricts the District’s ability to increase the real property tax levy, thereby further inhibiting the Board’s ability to finance operations at the current rate of expenditure growth. Thus, after the exhaustion of viable revenue sources and the excess reserve balances, the Board will have no options but to reduce expenditures or seek taxpayer approval to override the property tax levy limit.



## **Recommendations**

1. District officials should continue to monitor the availability of fund balance to finance operations and seek alternative financing sources where available.
2. District officials should continue their efforts in establishing meaningful budgets that will aid in monitoring and controlling revenues and expenditures to the extent possible.
3. The Board should review all reserve balances and determine the amounts that can be used to fund operations and the balances that should be kept in reserve.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

The District officials' response to this audit can be found on the following page.

# Richfield Springs Central School

PO Box 631, 93 Main Street, Richfield Springs, New York 13439  
Phone 315-858-0610  
Fax 315-858-2440

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Scot Mondore  
*Vice President*  
Bradley Smith  
James Diliberto  
Thomas Shypski  
Bruce Watson



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*Superintendent*  
Daniel Myers III  
*High School Principal*  
Joseph D'Apice  
*Elementary Principal*  
TheriJo Climenhaga

July 24, 2014

Office of the State Comptroller  
Division of Local Government  
And School Accountability

Dear Comptroller Officials:

Richfield Springs CSD would like to thank the OSC for its audit of our school's financial condition for the period covered July 1, 2012 – January 28, 2014.

The District agrees materially to the Report of Examination.  
There was a planned deficit to finance a \$1.2 million roofing project.  
The District is slowly spending down available reserves in a prudent manner.

The District also agrees with the recommendations.  
We will continue to monitor fund balance in regards to finance operations and seek alternative financing sources.  
We will continue to establish meaningful budgets, in regards to revenues and expenses.  
The Board will review reserves for funding operations and for long term sustainability.

Once again, thank you for your assistance and guidance.

Sincerely,

Mr. Scot Mondore,  
President of the Board of Education

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed appropriate District officials, tested selected records and examined pertinent documents for the period July 1, 2012 through January 28, 2014. To analyze trends in the District's fund balances, we extended our audit scope back to July 1, 2008 and forward through June 30, 2014. Our examination included the following:

- We interviewed District officials and reviewed Board meeting minutes and resolutions to gain an understanding of their budgeting process, including their determination of fund balance available for appropriation and their procedures for monitoring and controlling the budget.
- We calculated the results of operations over the last six fiscal years (2008-09 through 2013-14) by comparing actual revenues to actual expenditures, including appropriated fund balance, where applicable.
- We compared the budgeted revenues and appropriations to actual revenues and expenditures for the general fund for the fiscal years 2008-09 through 2012-13 to determine if District officials had reasonable budget estimates.
- We analyzed the general fund reserves to determine if District officials properly established, supported, reasonably funded and met applicable statutory directives for all reserves. This included calculating average expenditures and comparing it to the current balance to determine how many years each of the reserve balances could fund annual expenditures.
- We reviewed the growth rate of revenues and expenditures over the past five years to illustrate potential future funding concerns.

We conducted this performance audit in accordance with 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.

## APPENDIX C

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