



# Altmar-Parish- Williamstown Central School District Financial Condition

## Report of Examination

Period Covered:

July 1, 2013 — June 30, 2015

2015M-232



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	1
<b>INTRODUCTION</b>	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	2
<b>FINANCIAL CONDITION</b>	4
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**

November 2015

Dear District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage district resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support school district operations. The Comptroller oversees the fiscal affairs of school districts statewide, as well as 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 school district assets.

Following is a report of our audit of the Altmar-Parish-Williamstown 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 New York State General Municipal Law.

This audit's results and recommendations are resources for school 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 Altmar-Parish-Williamstown Central School District (District) is located in the Towns of Albion, Amboy, Hastings, Mexico, Orwell, Parish, Richland, West Monroe and Williamstown in Oswego County. The District is governed by the Board of Education (Board) which is composed of seven elected members. The Board President is the chief financial officer. 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.

The District operates two schools with approximately 1,300 students and 270 employees. For the 2014-15 fiscal year, the District's operating budget was approximately \$29.8 million, which was funded primarily with State aid and real property taxes.

## Objective

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

- Did the Board and District management adequately manage the District's financial condition?

## Scope and Methodology

We examined the District's financial records for the period July 1, 2013 through June 30, 2015. We expanded our scope back to July 1, 2011 to analyze the District's fund balance, budgeting and financial trends and also reviewed the District's 2015-16 adopted budget.

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 are included in Appendix B of this report.

## Comments of District Officials and Corrective Action

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 our recommendations and indicated they plan to take corrective action.

The Board has the responsibility to initiate corrective action. 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, 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 the CAP available for public review in the District Clerk's office.

## Financial Condition

The Board is responsible for adopting budgets that contain estimates of actual and necessary expenditures that are funded by planned and realistic revenues. Sound budgeting provides sufficient funding for necessary operations. The estimation of fund balance is an integral part of the budget process. Fund balance represents resources remaining from prior fiscal years that can be used to provide a cushion for unexpected fluctuations in operations, assist with cash flow fluctuations or lower property taxes for the ensuing fiscal year. A district may retain a portion of fund balance, referred to as unrestricted fund balance, within the limits established by the New York State Real Property Tax Law (Real Property Tax Law). Currently, Real Property Tax Law limits the amount of unrestricted fund balance a school district can retain to no more than 4 percent of the next year's budgetary appropriations.<sup>1</sup>

Districts may also establish reserves to restrict a reasonable portion of fund balance for a specific purpose, also in compliance with statutory directives. Prudent fiscal management includes establishing reserves needed to address long-term obligations or planned future expenditures. The Board should fund reserves appropriately, monitor reserve amounts and use them as intended for planned expenditures.

During our audit period, the Board and District officials did not develop reasonable budgets or effectively manage the District's financial condition to ensure that the general fund's unrestricted fund balance was within the statutory limit. Over the last four fiscal years, the District spent nearly \$3 million less than planned and only used \$1.5 million of the over \$4 million of appropriated fund balance that was budgeted to finance operations. As a result, the District's year-end unrestricted fund balance as a percentage of the next year's budgetary appropriations averaged about 41 percent over the last four years, which is more than 10 times the statutory limit.

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<sup>1</sup> Fund balance appropriated for the next fiscal year, reserve funds, encumbrances and amounts reserved for insurance recovery and tax reduction are not subject to the 4 percent limitation.

<b>Figure 1: Unrestricted Fund Balance</b>				
<b>Fiscal Year</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Beginning Fund Balance <sup>a</sup>	\$17,416,847	\$18,755,299	\$13,393,291	\$15,618,942
Revenues	\$28,991,117	\$29,231,736	\$31,456,515	\$30,187,603
Expenditures	\$27,652,731	\$34,593,742	\$29,230,864	\$28,245,451
Operating Surplus (Deficit)	\$1,338,386 <sup>b</sup>	(\$5,362,006)	\$2,225,651	\$1,942,152
Year-End Fund Balance	\$18,755,233	\$13,393,293	\$15,618,942	\$17,561,094
Less: Fund Balance Appropriated for the Next Fiscal Year	\$1,533,712	\$1,821,003	\$728,590	\$0
Less: Reserve Funds	\$2,195,192	\$2,339,680	\$2,339,680	\$2,339,680
Less: Encumbrances	\$77,875	\$1,238,346	\$141,278	\$216,937
Unrestricted Fund Balance at Year End	\$14,948,454	\$7,994,264	\$12,409,394	\$15,004,477
Unrestricted Fund Balance as a Percentage of the Ensuing Year's Budget	49.8%	24.9%	41.6%	49.1%

<sup>a</sup> Includes prior period adjustments  
<sup>b</sup> The District did not appropriate fund balance as a financing source in the 2011-12 budget.

When fund balance is appropriated as a funding source in the budget, the expectation is that there will be a planned operating deficit in the ensuing fiscal year, financed by the amount of the appropriated fund balance. Although the District appropriated fund balance of about \$1.5 million for 2012-13, \$1.8 million for 2013-14 and \$729,000 for 2014-15 to help finance budgets, only the appropriated fund balance of \$1.5 million was used in 2012-13. The appropriated fund balance was used that fiscal year because the District made a one-time transfer of \$6,361,915 from the general fund to the capital projects fund for capital project expenditures in order to reduce the amount of debt needed for the project. Because the original budget appropriation estimates did not include this one-time transfer of funds, the general fund incurred a \$5,362,006 operating deficit that fiscal year.

In 2013-14 and 2014-15, the District generated operating surpluses in excess of or about \$2 million each year rather than the planned operating deficits of \$1.8 million and \$729,000, respectively. This primarily occurred because the Board adopted budgets that included inflated appropriation estimates.<sup>2</sup> Appropriations were overestimated by a total of \$3 million from 2011-12 through 2014-15, as indicated in Figure 2. Excluding the 2012-13 fiscal year, when the District made the unplanned transfer to the capital projects fund, the District overestimated expenditures by an average of \$2.5 million (8 percent) annually in the remaining three fiscal years.

<sup>2</sup> We found that budgeted revenues were generally reasonable.

<b>Figure 2: Overestimated Expenditures</b>			
<b>Fiscal Year</b>	<b>Appropriations</b>	<b>Actual Expenditures</b>	<b>Difference</b>
2011-12	\$30,748,040	\$27,652,731	\$3,095,309
2012-13	\$30,035,874	\$34,593,742	(\$4,557,868)
2013-14	\$32,135,954	\$29,230,864	\$2,905,090
2014-15	\$29,860,528	\$28,245,451	\$1,615,077
<b>Total</b>	<b>\$122,780,396</b>	<b>\$119,722,788</b>	<b>\$3,057,608</b>

Our review of budget variances in 2013-14 and 2014-15 found that they were primarily due to overestimating salaries and employee benefits. The Business Administrator told us that the District typically budgets conservatively in this area so there will be sufficient funds available for extra positions that may be needed to address student’s Individual Education Plans, in the event there is an unanticipated increase during the year in the number of students with special needs attending school. Because expenditures were less than budgeted, the District generated operating surpluses in three of the last four fiscal years and did not use the fund balance it appropriated.

The Superintendent told us that prior to our audit period, the District worked hard to reduce costs and it consolidated five buildings into two, which reduced building, transportation and staffing costs. These reductions in costs, combined with conservative budgeting, contributed to the accumulation of unrestricted fund balance prior to the beginning of our audit period.

The Board has not adopted a formal plan to reduce unrestricted fund balance to the statutory limit. District officials told us that they are aware that the District’s unrestricted fund balance exceeds the statutory maximum of 4 percent of the ensuing year’s budgeted appropriations and they are working to address this matter. District officials told us they have taken actions in the past to reduce fund balance, such as appropriating fund balance to pay one-time expenditures by transferring money from the general fund to the capital projects fund in 2013, in order to reduce the amount of debt needed for the project. In addition, the Board reduced the real property tax levy each year from 2012-13 through 2014-15.



**Figure 3: Change in Real Property Tax Levy**

Fiscal Year	2011-12 <sup>a</sup>	2012-13	2013-14	2014-15
Real Property Tax Levy	\$6,029,566	\$5,519,005	\$5,460,353	\$5,361,539
Dollar Change from Prior Year Levy	\$9,119	(\$510,561)	(\$58,652)	(\$98,814)
Percentage Change from Prior Year Levy	0.15%	-8%	-1%	-2%

<sup>a</sup> The 2010-11 tax levy was \$6,020,447.

Although the Board decreased taxes the last three fiscal years, it has not taken effective measures to reduce the unrestricted fund balance, which has averaged about \$11.4 million over Real Property Tax Law limit at the end of each of the last four years. Furthermore, for the 2015-16 budget, the District did not appropriate any fund balance and the total tax levy increased \$64,338 compared to the 2014-15 levy. District officials told us they increased the tax levy in 2015-16 in an effort to maintain a stable tax rate. However, because the District has continued to retain an excessive unrestricted fund balance, the increase in the real property tax levy was likely unnecessary to fund operations.

In addition to excessive unrestricted fund balance, the District accumulated a total of \$2,339,680 in its six reserve funds<sup>3</sup> as of June 30, 2015. We analyzed these reserves for reasonableness and adherence to statutory requirements. Five of the six reserves appeared to maintain reasonable amounts and adhere to statutory requirements. However, the funding and current balance of the tax certiorari reserve was questionable.

A tax certiorari reserve can be established to pay judgments and claims in tax certiorari proceedings in accordance with Real Property Tax Law. The total amount in this reserve fund may not exceed the amount that might reasonably be deemed necessary to meet anticipated tax certiorari judgments and claims.<sup>4</sup> Funds reserved for tax certiorari judgments and claims that are not expended for the payment of judgments or claims arising out of tax certiorari proceedings for the tax roll in the year the moneys are deposited to the fund, or that will not be reasonably required to pay any such 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 such moneys to the reserve fund.

<sup>3</sup> Workers' compensation reserve, unemployment insurance reserve, retirement contribution reserve, insurance reserve, tax certiorari reserve and employee benefits accrued liability reserve

<sup>4</sup> A tax certiorari is a legal proceeding whereby a taxpayer, who has been denied a reduction in property tax assessment by a local assessment review board or small claims procedure, challenges the assessment on the grounds of excessiveness, inequality, illegality or misclassification.

For at least the past four fiscal years, the balance in the tax certiorari reserve has remained the same at \$549,433. The Business Administrator did not provide us with any claims for tax certiorari proceedings to support the establishment and continuation of this reserve balance. Without documentation to show the District has tax certiorari proceedings pending, we question the District's need to maintain this reserve at its current funding level.

## **Recommendations**

The Board should:

1. Ensure that the amount of the District's unrestricted fund balance is in compliance with the Real Property Tax Law statutory limits.
2. Develop a formal plan to reduce the amount of unrestricted fund balance in a manner that benefits District taxpayers. Such uses could include, but are not limited to, reducing District property taxes, financing one-time expenditures, funding reserves to finance future capital needs or paying off debt.
3. Develop procedures to ensure it adopts more realistic budgets to avoid raising more real property taxes than necessary.
4. Review the amount held in the tax certiorari reserve and determine if the amount reserved is necessary, reasonable and in compliance with statutory requirements. To the extent it is not, transfers should be made to unrestricted fund balance in the general fund.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

# Altmar Parish Williamstown Central Schools

639 County Route 22, P.O. Box 97, Parish, NY 13131

Victor Holl, School Business Administrator

Phone: (315) 625-5254

Fax: (315) 625-7061

e-mail: [vholl@apw.cnyric.org](mailto:vholl@apw.cnyric.org)

November 12, 2015

Rebecca Wilcox, Chief Examiner  
Syracuse Regional Office of the State Comptroller  
333 E. Washington, Street, Room 409  
Syracuse, NY 13202-1428

Dear Ms. Wilcox:

This letter will comprise the Written Audit Response of the Altmar, Parish, Williamstown Central School District to the recently completed audit of our district's financial condition. The District appreciates the opportunity that this audit provided to examine and better understand its fiscal activities, as well as the opportunity to improve its financial stewardship of public resources.

The District agrees with the substance of the Audit findings and will utilize the report to develop a plan for the prudent investment of fund balance in support of the District's academic mission and strategic long term plan including funding of restricted reserves at appropriate levels.

The District appreciates the acknowledgement that our current FB position is the result of numerous difficult decisions including the closing of three buildings, the modification of a major capital project, the reduction of staff, and the consolidation of operations and transportation onto an adjacent two building campus. The District has also utilized fund balance to reduce long term debt and to purchase vehicles without incurring further debt.

The District has utilized fund balance to reduce tax rates from approximately \$24 per thousand to the current approximately \$18 per thousand. Since the 2% Tax Cap was implemented, the district has been reticent to reduce tax rates further or to exhaust its reserves.

The Board of Education and Administration appreciate the learning experience that this audit has provided and we look forward to sharing our corrective action plan with you.

Sincerely,

Victor Holl, School Business Administrator

*Providing Opportunities For Youth To Acquire Knowledge And Develop Skills For The Challenges Of Tomorrow.*

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed appropriate District officials and employees, tested selected records and examined pertinent documents for the period July 1, 2013 through June 30, 2015. To analyze the District's historical fund balance, budget estimates and financial trends, we extended our audit scope period back through July 1, 2011. We also reviewed the District's 2015-16 adopted budget. Our examination included the following procedures:

- We interviewed District officials and reviewed the Board meeting minutes, resolutions and policy manual to gain an understanding of the process and procedures over the District's financial management.
- We reviewed the results of operations in the general fund for the fiscal years 2011-12 through 2014-15.
- We calculated the unrestricted fund balance in the general fund as a percentage of the ensuing year's appropriations to determine if the District was within the statutory limitation during fiscal years 2011-12 through 2014-15.
- We analyzed the trend in total fund balance, including the use of appropriated fund balance, in the general fund for the fiscal years 2011-12 through 2014-15. We compared the appropriated fund balance to the same year's operating results to determine if the appropriated fund balance was actually used.
- We compared the budgeted revenues and appropriations to the actual revenues and expenditures for the general fund for fiscal years 2011-12 through 2014-15 to determine if the District's budgets were reasonable.
- We reviewed the trend of real property tax rates, levies and assessments for fiscal years 2011-12 through 2015-16.
- We analyzed the District's use and funding of reserves during fiscal years 2011-12 through 2014-15 to determine if the funds were properly authorized and planned for. We reviewed reserve balances and compared them to the related reserve liabilities, when applicable, to evaluate the reasonableness of reserve amounts.

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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