



# Groton Central School District Financial Management

## Report of Examination

Period Covered:

July 1, 2013 — August 21, 2014

2014M-288



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

January 2015

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 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 district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Groton Central School District, entitled Financial Management. 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 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 Groton Central School District (District) encompasses the Towns of Dryden, Groton and Lansing in Tompkins County, the Town of Homer in Cortland County and the Towns of Locke and Summerhill in Cayuga County.

The District is governed by the Board of Education (Board) which comprises six 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 chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The District contracts with the Tompkins Seneca Tioga Board of Cooperative Education Services (TST BOCES) to provide its central business functions. The District also has a Treasurer who is responsible for managing the District's finance-related operations under the Direction of the Superintendent and the Board.

There are two schools in operation within the District, with 833 students and 167 employees. The District's budgeted appropriations for the 2014–15 fiscal year are \$18.8 million, funded primarily with State aid and real property taxes.

## Objective

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

- Did the Board and District officials effectively manage the District's fund balance?

## Scope and Methodology

We examined the District's financial activities for the period July 1, 2013 through August 21, 2014. To analyze the District's historical and projected fund balance, budget estimates and financial trends, we extended our audit scope period back through July 1, 2011.

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.

## 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. Except as indicated in Appendix A, District officials generally agreed with our recommendations and indicated they will take 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 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 Management

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. The estimation of fund balance is an integral part of the budget process. A district may retain a portion of fund balance, referred to as unassigned fund balance, within the limits established by the New York State Real Property Tax Law (Real Property Tax Law). Districts may also establish reserves to restrict a reasonable portion of fund balance for a specific purpose, also in compliance with statutory directives. Funding reserves at greater than reasonable levels contributes to real property tax levies that are higher than necessary because the excessive reserve balances are not being used to fund operations. Therefore, the appropriate use of reserve funds is an important part of the budget process. The Board is responsible for developing a formal plan for the use of its reserves, including how and when disbursements should be made, optimal or targeted funding levels and why these levels are justified, and for ensuring that District officials are maintaining appropriate documentation to account for and monitor reserve activity and balances.

The Board and District officials are not developing budgets that provide realistic financial plans or effectively managing the District's fund balance. For the three-year period ending June 30, 2014, District officials budgeted to use \$2.6 million of fund balance to finance District operations; however, due to unrealistic appropriation estimates, they did not use any of this appropriated fund balance during this period. As a result, the unassigned fund balance exceeded the statutory maximum of 4 percent of the ensuing year's budget, ranging from 8 to 13 percent. In addition, the District has three reserve funds with excessive balances and no plans or policies for the use of reserves.

**Figure 1: Fund Balance and Tax Levy**

	FY 2012	FY 2013	FY 2014
Total Year End Fund Balance	\$4,579,166	\$5,219,513	\$5,217,793
Less: Encumbrances	\$458,538	\$406,186	\$263,810
Less: Appropriated Fund Balance	\$855,000	\$855,000	\$951,983
Less: Reserves	\$1,836,429	\$1,814,822	\$1,519,911
Unassigned Fund Balance	\$1,429,199	\$2,143,505	\$2,482,089
Ensuuing Year's Appropriations	\$18,236,520	\$18,920,245	\$18,818,783
Unassigned Fund Balance as % of Ensuuing Year's Appropriations	8%	11%	13%
Tax Levy (Including STAR)	\$5,464,682	\$5,667,179	\$5,864,187

The Superintendent, Board President and Treasurer were all aware that the District's unassigned fund balance exceeded the statutory maximum of 4 percent of the ensuing year's budgeted appropriations in each of the past three years. While District officials budgeted for operating deficits and the use of fund balance during our audit period, they instead had operating surpluses totaling \$2.6 million for the same period. District officials indicated that, due to the fluctuations in State aid revenues, gap elimination adjustments<sup>1</sup> and the desire to avoid cutting programs and staff, they are very cautious about lowering the fund balance levels too quickly. District officials also told us that they have no plans in place to reduce the unassigned fund balance within the statutory limits.

Although District officials have accurately estimated revenues when developing the budgets, the budget-to-actual variances for appropriations had an average variance of 12 percent over the three year period ending June 30, 2014. We also reviewed the fiscal year 2014-15 budget, which includes an appropriations increase of 9.4 percent or \$1.8 million from the prior year's actual expenditures.

In addition to excessive unassigned fund balance, District officials have accumulated excessive balances in their reserve funds. As of June 30, 2014, the District had four reserves<sup>2</sup> in the general fund, totaling approximately \$1.52 million. We analyzed these reserves for reasonableness and adherence to statutory requirements and found that the funding of the reserves for Unemployment Insurance, Compensated Absences and Retirement Contributions, with balances totaling approximately \$1.5 million, was questionable as to the amounts required for their stated purposes and the amounts actually retained.

- Unemployment Insurance Reserve – This reserve is used to pay unemployment insurance claims under the “benefit reimbursement” method.<sup>3</sup> The District's average annual unemployment insurance expenditure for the past three years was \$30,000. However, the \$201,000 reserve balance as of June 30, 2014 was almost seven times the average annual expenditure. Until June 30, 2014, this reserve fund had not been used to pay any of the District's unemployment insurance

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<sup>1</sup> The gap elimination adjustment is an amount deducted from each school district's State Aid allocation to help the State fill its revenue shortfalls. This adjustment first occurred in the 2009-10 school year and is still in effect as of the 2013-14 budget year.

<sup>2</sup> The District's four reserves were Capital, Unemployment Insurance, Retirement Contributions and Compensated Absences.

<sup>3</sup> The New York State Labor Law's benefit reimbursement option allows employers to reimburse the Unemployment Insurance Fund for benefits paid to their former employees instead of paying on a contribution basis.

disbursements and the District continually budgeted for this expenditure out of the annual General Fund budget. The balance of this reserve declined approximately \$17,000 as of June 30, 2014.

- **Compensated Absences Reserve** – This reserve must be used only for cash payments of accrued and unused sick, vacation and certain other leave time owed to employees when they leave District employment. We determined the District’s liability for compensated absences was approximately \$212,000 as of June 30, 2014; however, the actual reserve balance was \$574,000. Therefore, this reserve was over-funded by \$362,000. In addition, the District spent \$81,000 from this reserve in fiscal year ending June 30, 2013 for longevity payments to teachers, which was not an appropriate use of this reserve.
- **Retirement Contributions Reserve** – This reserve is used to pay the District’s retirement contribution to the New York State and Local Retirement System (NYSLRS). The District’s average annual NYSLRS expenditure for the past five years was \$221,000. However, even though District officials used approximately \$198,000 for retirement contributions in fiscal year 2013-14, the reserve balance as of June 30, 2014, was \$726,000 – three times the current annual contribution. The District continually budgeted for this expenditure out of the annual General Fund budget.

Furthermore, District officials do not have a formal plan for the use of reserves, including how and when disbursements should be made or optimal or targeted funding levels and why these levels are justified. District officials stated that they rely on the external auditor’s recommendations with regards to reserves.

Over the past four years, the tax levy increased a total of \$509,000, which was unnecessary based on the excessive levels of fund balance. By maintaining excessive reserves, combined with budgeting practices that generate surplus funds, the Board and District officials have withheld significant funds from productive use and raised taxes unnecessarily.

## **Recommendations**

The Board should:

1. Ensure that the amount of the District’s unassigned fund balance is in compliance with Real Property Tax Law statutory limits and reduce the amount of unassigned fund balance in a manner that benefits District taxpayers. Such uses

could include, but are not limited to, using surplus funds as a financing source, funding one-time expenditures or funding appropriate reserves.

2. Transfer excess reserve funds to unassigned fund balance, where allowed by law, or other reserves established and maintained in compliance with statutory directives.
3. Develop a formal plan for the use of its reserves, including how and when disbursements should be made, and optimal or targeted funding levels.
4. Stop raising more real property taxes than necessary.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

# GROTON CENTRAL SCHOOL



*District Office*

*P.O. Box 99*

*Groton, NY 13073*

Office of the State Comptroller  
Attention: H. Todd Eames, Chief Examiner  
State Office Building, Room 1702  
44 Hawley Street  
Binghamton, NY 13901-4417

Dear Mr. Eames and Groton Community,

The Groton Central School District is in receipt of the draft audit report, Financial Management, for the period July 1, 2013 through August 21, 2014, prepared by the Office of the State Comptroller. First and foremost, the Board of Education and District Administrators wish to thank the state auditors for their patience and professionalism.

Cited within the draft audit report the district has carried an unassigned fund balance in excess of the 4% statutory limit. We recognize that our budgeted expenses in certain areas may have been overstated, creating a positive fund balance at the end of the year.

As a course of action and with prudent budgetary planning for unanticipated expenses, while considering the possibility of state aid reductions, we strive to maintain valuable educational programs for our students in Groton. Particularly over the past four years, with the accompanying economic crisis, our budgeting has become more conservative as we considered the fact that we had made such significant reductions in personnel and programs in anticipation of an even longer recession. These difficult decisions have contributed to our improved financial condition and, with the recent increases in state aid (though still at a level below what was received in 2008), we are slowly building back some of the capacity that was lost three and four years ago. We have accomplished this while steadily reducing the tax levy increase. The 2014-15 school budget required a 1.87% tax levy increase, below our maximum allowable tax levy increase. We believe that we will be able to further reduce the tax levy in subsequent years

*District Offices - 400 Peru Rd, Groton New York*

*Phone - (607) 898-5301 Fax - (607) 898-4647 [www.grotoncs.org](http://www.grotoncs.org)*

*Superintendent School Business Manager District Clerk Employee Benefits Manager Tax Collector*

based on the financial condition of the district as reported in both the external auditor and state comptroller's audit reports. However, the recession has ingrained in us the real possibility that it may occur again, and we must be in the fiscal condition to weather that storm for sustainability. The main difference would be that we will have fewer possibilities for personnel and program reductions and would need to rely solely on our reserves and fund balance.

The district acknowledges the importance of long-range planning and has utilized a tool provided by the State Comptroller's Office to predict revenue and expenses for the next three years. What we have found is that those projected estimates painted a dire position for the district and contributed to our extremely conservative budget practices. We acknowledge that we budgeted to use available reserves as revenues to offset budgeted expenses when we could have met those expenses without transferring those funds. In the coming budget cycles the district will again analyze the actual expenses in prior years, account for unanticipated expenses, and present a budget to the voters which maintains the fiscal health of the district while providing an outstanding educational program.

Given the volatile economic climate the district is committed to two important concepts. First, carrying an unassigned fund balance over 4% does provide the district some latitude in the use of those funds, especially in light of the maximum allowable tax cap legislation. Second, it is better to retain an unassigned fund balance greater than the statutory limit rather than expend it on programs or services that may not be the most beneficial to our students. Over the past two years we have used the unassigned fund balance over 4% to pay off all capital debt for bus purchases, to replace an aging playground at the Elementary School, and to repair a potentially dangerous situation with a collapsed drainage pipe at the Junior-Senior High School. We anticipate using the present unassigned fund balance to fund a capital reserve for a future project to complete work identified in our 5-year Facilities Plan. The district plans on establishing and funding a repair reserve to offset the impact of future significant unexpected repairs. All of these decisions have been made with consideration of provision for the needs and safety of our students in a way that best utilizes both the local and state resources.

Each year, at Board of Education meetings, we review our reserve levels and make decisions about the best use of unanticipated fund balance. We understand, but do not agree that our aggregate fund balance is excessive and that we should transfer some of those funds over to the unassigned fund balance. As mentioned previously, given the potential for decreases in

state aid, the depth of the reductions already made, and the obstacles to increasing the local tax level to fill the gap, we believe our present reserve level, that is under ten percent of our actual expenditures, is at an appropriate level. We do believe that the reserves at their present level are sufficient to sustain us in the event of another recession.

Within 90 days of the issuance of the State Comptroller' final report, we, the district's officials, will post a Corrective Action Plan (CAP) which will be filed with the Office of the State Comptroller, the New York State Department of Education, and a copy will be made available for public inspection.

Respectfully submitted,

James F. Abrams  
Superintendent of Schools

cc. Members, Board of Education  
Heather Ferris, Treasurer

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed appropriate District officials and examined pertinent documents for the period July 1, 2013 through August 21, 2014. To analyze the District's historical and projected fund balance, budget estimates and financial trends, we extended our audit scope period back through July 1, 2011. Our examination included the following:

- We interviewed District officials to gain an understanding of the process and procedures over the District's financial management.
- We calculated the unassigned fund balance 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 2013-14.
- We analyzed the District's 2014-15 budget and compared the prior year's actual results to the current year's budget to determine if the District is overestimating budgeted appropriations.
- We analyzed the trend in fund balance for fiscal years 2011-12 through 2013-14. We compared the appropriated fund balance to the same year's operating deficit (if there was one) to determine if the deficit was planned. We also compared the appropriated amounts per the adopted budgets to actual amounts used to determine if the full amount was budgeted.
- We analyzed the District's use and funding of reserves during fiscal years 2011-12 through 2013-14 to determine if the funds were properly authorized and planned for. We reviewed the reserve balances and compared them to the related reserve liabilities to determine if the balances were excessive. We also discussed with District officials if there were any plans for the use of excessive funds.
- We reviewed the real property tax levy increases to determine if the increases in property taxes were necessary.

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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