



Johnson City Central School District Financial Condition

Report of Examination

Period Covered:

July 1, 2013 — March 10, 2015

2015M-204



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 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 Johnson City 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 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 Johnson City Central School District (District) is located in the Village of Johnson City and the Towns of Union, Maine, Chenango and Dickinson in Broome County. The District is governed by the Board of Education (Board), which is composed of nine 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 Board's direction. The Business Executive is responsible for accounting for the District's finances, maintaining accounting records, preparing financial reports as well as assisting with the annual budgeting process. The Business Executive retired from the District at the end of March 2015. All business functions are now being performed by the Broome-Tioga Board of Cooperative Educational Services (BOCES). As of April 1, 2015, BOCES provides Central Business Office services to the District which include payroll, accounting and other financial analysis including budgeting.

The District operates four schools within two buildings, with approximately 2,600 students and 850 employees. The District's budgeted expenditures for the 2015-16 fiscal year are \$50.5 million, funded primarily with State aid, real property taxes and grants.

Objective

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

- Did the Board properly manage the District's financial condition?

Scope and Methodology

We examined the financial activities of the District for the period July 1, 2013 through March 10, 2015. To analyze the District's historical fund balance, budget estimates and financial trends, we extended our audit scope back through July 1, 2005.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**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.

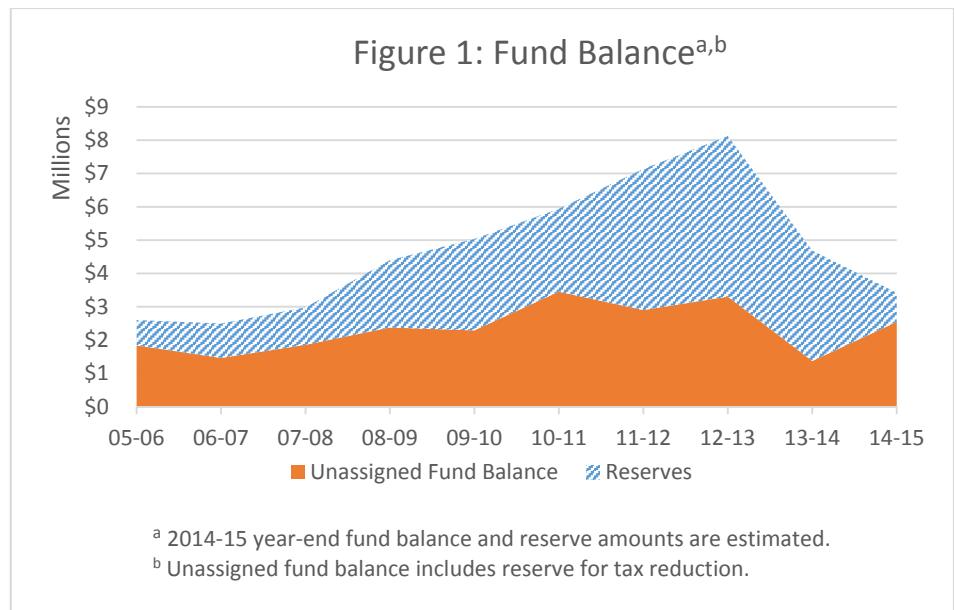
The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3) (c) of New York State Education Law, and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings 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 and Superintendent are responsible for developing budgets that include realistic estimates of expenditures and the resources available to fund them. A key measure of the District's financial condition is its fund balance level, which is the difference between revenues and expenditures accumulated over time. When maintained at reasonable levels, fund balance provides a cushion for unexpected fluctuations in operations, assists with cash flow fluctuations and can be used to help finance the next year's operations. Districts may establish reserves to restrict a reasonable portion of fund balance for a specific purpose, in compliance with statutory directives. A district may retain fund balance within the limits established by New York State Real Property Tax Law.

The appropriate use of reserve funds is an important part of the budget process. A reserve fund should be established with a clear intent or plan regarding the future purpose, use and, when appropriate, replenishment of funds into the reserve. Although school districts generally are not limited as to how much money they can maintain in reserves, they should ensure that all reserve funds have reasonable balances. Districts should have a policy that address the need for maintaining reserve balances and the specific circumstances for when reserves will be used and replenished.

While District officials use sound budget preparation methodology, the District realized operating surpluses for seven of the 10 years reviewed, ranging from \$638,000 to \$2.3 million. Though each yearly surplus was immaterial, the accumulation of these surpluses over a long period of time resulted in a steady increase in total fund balance. However, the Board did not adopt any formal plans for funding reserves or for the planned use of fund balance.



This surplus eventually was consumed by several significant one-time events during the 2013-14 fiscal year. If not for these events, the District most likely would have excessive fund balance.

- The District had to repay approximately \$2 million of State aid related to capital projects that was received during the 2005-06 through 2012-13 fiscal years. To recover the overpayment, the District’s State aid revenue was reduced by \$1.1 million¹ in 2013-14. However, notification of this reduction occurred after the 2014-15 budget had been approved, forcing the District to rely on fund balance to fill the budgetary gap caused by the decrease in State aid.
- The District had to pay approximately \$1.3 million for increases in retirement expenditures due to contract negotiations for non-instructional employees and an increase in rates for the Teacher’s Retirement System (TRS). The District properly planned and budgeted for the \$721,000 increase in the TRS rates. However, we could not establish that the District planned for the \$543,000 increase related to the non-instructional employee retirement expenditure, as

¹ In May 2014, the District received a letter from the New York State Education Department (SED) requiring repayment of State aid relating to a capital projects overpayment totaling \$2 million. The District had to pay the remaining balance of \$900,000 within the next two fiscal years. However, in May 2015, the District received a letter from SED stating that the District would receive the \$1.1 million previously withheld and have to repay the \$2 million over a five-year period starting in June 2015. The District received the \$1.1 million in May 2015 and had \$398,000 withheld from the June 2015 State aid payment as the first repayment.

District officials could not determine if the appropriated fund balance of approximately \$1.4 million was intended to cover this amount or was a figure to balance the District's budget.

- The District transferred \$1.3 million of excess tax certiorari reserve balance to cover expenditures for a current capital project.

In 2014-15, the District is projected to return to the pattern of operating surpluses, with a projected surplus of \$149,000. Additionally, District officials stated that excess reserve moneys will be transferred to unassigned fund balance to pay for current retirement expenditures and unemployment benefits in the 2015-16 fiscal year. Also, excess amounts will be transferred from the tax certiorari reserve to unassigned fund balance to make those funds more readily available. The 2014-15 operating surplus and transfer of reserve funds will increase unassigned fund balance to \$1.9 million² at the end of the 2014-15 fiscal year, which is an increase of \$1.6 million³ from 2013-14 fiscal year.

Even though the budget estimates were a few percentage points from actual amounts, this allowed for the consistent accumulation of annual surplus funds, which became significant as it occurred over many years. Fortunately, some of this accumulation allowed the District to absorb the impact of the one-time events previously noted. However, if these events did not occur, the District's fund balance levels would have been excessive. Total fund balance had more than doubled, from 13 percent of the real property tax levy in 2006 to 35 percent in 2013. The year-end fund balance for 2014-15 is projected to be approximately 16 percent⁴ of the tax levy. Further, total fund balance also doubled when compared to total expenditures, growing from 7 percent of the levy in 2006 to 18 percent in 2013. The year-end fund balance for 2014-15 is projected to be approximately 8 percent of total expenditures. Without having formal plans for the funding and use of reserves and fund balance, the District may again accumulate surpluses without a clear plan for their use.

Recommendations

District officials should:

1. Include the funding and use of reserves in their budget plan each year.

² Excluding the reserve for tax reduction

³ This amount includes the \$149,000 operating surplus, a \$670,000 transfer from the retirement reserve, a \$750,000 transfer from the tax certiorari reserve and a \$29,000 transfer from the unemployment insurance reserve.

⁴ This percentage calculation does not reflect the recording of the \$1.065 million State aid payment less the current year State aid repayment of \$398,000.

The Board should:

2. Develop comprehensive policies for establishing and using reserve funds.
3. Develop a plan for the use of fund balance and reserves funds in a manner that benefits District taxpayers. Such uses could include, but are not limited to:
 - Reducing real property taxes.
 - Increasing other necessary reserves.
 - Paying off debt.
 - Financing one-time expenditures.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Johnson City Central School District

666 Reynolds Road
Johnson City, NY 13790
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Educational Excellence for a Changing Tomorrow

December 18, 2015

██████████
Office of the State Comptroller
State Office Building, Rm. 1702
44 Hawley Street
Binghamton, NY 13901

Dear ██████████

The Johnson City Central School District Board of Education and Administration submits this letter as its official response for the audit report “Financial Condition – Period Covered: July 1, 2013 – March 10, 2015.”

We are appreciative of the time and effort expended by the Comptroller’s staff and are always looking for ways to improve the District’s procedures.

The Comptroller’s report states that the district accumulated surpluses over a long period of time which resulted in a steady increase in total fund balance. Budgeting is a process of estimating future revenues and expenditures based upon the information available at the time. Put simply, there are a lot of unknowns districts must account for when budgets are being developed. Given these fluctuating financial variables and reliance on state aid districts such as Johnson City are challenged to maintain stable budgets without creating surpluses or deficits.

As stated in the report, this surplus eventually was consumed by several significant one-time events in 2013-14. Sustaining fiscal balance requires planning on a multiple year basis while anticipating and accounting for unfunded mandates, changes to regulations, fluctuations in state aid, and unanticipated expenditures. Thankfully, the district had the resources available which were accumulated over an extended period of time to absorb these one-time events.

District administration and the Board agree that clear and consistent communication on the plans for funding and using reserves to the constituents is important. This will be accomplished with the adoption of a Board policy covering the funding or use of reserves. The district will also continue to provide information regularly throughout the year and especially during the budget process regarding the funding and use of reserves. The District and Board of Education have strived to stabilize taxes and to maintain educational programs. The Board of Education continues to believe in long range planning that is both transparent to the public and will ensure the fiscal stability of a strong educational program.

Sincerely,

Mary Kay Fry
Superintendent of Schools

Richard G. Martinez
President, Board of Education

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials to gain an understanding of the process and procedures over the District's financial management.
- We compared the District's budgeting estimates for revenues and appropriations to actual revenues and expenditures so that we could determine the accuracy of the District's budgeting as well as the use of appropriated fund balance.
- We reviewed SED's State aid reduction letter to determine the total amount of State aid overpayments and repayment terms.
- We reviewed changes in expenditures greater than \$100,000 to determine if changes were reasonable.
- We analyzed the District's reserves' balances and reserve uses to determine if balances were excessive.
- We reviewed the trends in the District's fund balance over a 10-year period to evaluate the reasonableness of the increases.
- We compared the growth in total fund balance to the tax levy.

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.

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