



Laurens Central School District

Budgeting and Reserves

Report of Examination

Period Covered:

July 1, 2011 — March 7, 2013

2013M-135



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 2013

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 Laurens Central School District, entitled Budgeting and Reserves. 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 Laurens Central School District (District) is located in the Towns of Laurens, Hartwick, Milford, Morris, New Lisbon, and Otego in Otsego County. The District is governed by the Board of Education (Board) which comprises five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs, including budget development. 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. Responsibilities relating to the District's finances, accounting records, and reports are largely those of the Business Office, which consists of the District Treasurer and Deputy Treasurer.

There is one school building in operation within the District, with approximately 350 students and 96 employees. The District's budgeted expenditures for the 2012-13 fiscal year were \$8,626,984, which were funded primarily with State aid, real property taxes, and grants.

Objective

The objective of our audit was to review the budgeting practices and reserves of the District. Our audit addressed the following related question:

- Did District officials ensure that budget estimates and reserve balances were reasonable?

Scope and Methodology

We examined budgeting practices and reserves of the District for the period July 1, 2011, to March 7, 2013. We extended our scope period back to July 1, 2008, to examine the District's budgeting and reserves and provide additional information for perspective and background.

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 C 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 disagreed with the findings and recommendations in our report. Appendix B includes our comments on the issues raised in the District's response letter.

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 the CAP available for public review in the District Clerk's office.

Budgeting and Reserves

The Board and Superintendent are responsible for ensuring that budgets are prepared, adopted, and amended based on reasonable appropriation and revenue estimates. Sound budgeting provides sufficient funding for needed operations. Prudent fiscal management includes establishing reserves needed to address long-term obligations or planned future expenditures. Once the Board has addressed those issues, any remaining fund balance, exclusive of the amount allowed by law to be retained to address cash flow and unexpected occurrences, should be used to reduce the local tax levy. Additionally, the Board should monitor the amounts of those reserves and use them as intended for planned expenditures.

The Board adopted budgets that included the use of surplus fund balance to finance operations in an effort to avoid raising unnecessary real property taxes. However, although fund balance was included in the budgets, the District has not actually used fund balance to finance operations since 2008. In fact, the District has had operating surpluses for the past several years, as shown in Table 1.

Table 1: Results of Operations Compared to Appropriated Fund Balance						
	2008	2009	2010	2011	2012	Totals
Appropriated Fund Balance (Unused)	\$230,000	\$210,000	\$200,000	\$250,000	\$350,000	\$1,240,000
Results of Operations (Excess)	\$265,819	\$822,250	\$400,618	\$186,772	\$113,140	\$1,788,599
Variance (Total Unused and Excess) ^a	\$495,819	\$1,032,250	\$600,618	\$436,772	\$463,140	\$3,028,599
^a District officials indicated that a portion of the unplanned surplus in 2009 was due to high-needs special education students leaving the District after the budget was approved.						

Instead of spending down the District’s accumulated surplus by an average of \$248,000 annually, as the Board had planned, the District’s operations generated additional surpluses totaling nearly \$1.8 million over the last five completed fiscal years. These operational surpluses occurred because the Board’s adopted budgets consistently included overestimated expenditures for each of the last five years and underestimated revenues for three of those years.

Table 2: Budget (Adopted-to-Actual Revenue Comparison)

	2008	2009	2010	2011	2012
Estimated Revenues (Other Than Real Property Taxes)	\$4,586,227	\$6,009,426	\$6,244,279	\$5,895,488	\$5,642,986
Actual Revenues (Other Than Real Property Taxes)	\$4,974,877	\$6,153,681	\$6,383,815	\$5,744,013	\$5,487,580
Variance	\$388,650	\$144,255	\$139,536	(\$151,475)	(\$155,406)
Real Property Taxes	\$2,184,198	\$2,225,758	\$2,268,762	\$2,315,124	\$2,364,279
Appropriations Compared to Actual Expenditures					
Budgeted Appropriations	\$7,255,212	\$8,532,105	\$8,821,711	\$8,538,129	\$8,522,468
Actual Expenditures	\$6,898,163	\$7,556,567	\$8,251,959	\$7,872,362	\$7,738,719
Variance (\$)	\$357,050	\$975,538	\$569,752	\$665,767	\$783,749
Variance (%)	4.9%	11.4%	6.5%	7.8%	9.2%

The District had accumulated additional surpluses from its operations, and its reserve balances had also increased by nearly \$2 million to approximately \$2.9 million. The Superintendent authorized transfers to those reserve balances which grew from 13 percent of expenditures, as of the end of the 2008 fiscal year, to more than 38 percent, as of the end of the 2012 fiscal year.

While the District's reserves were increasing, significant capital improvements and purchases were underway. These capital transactions initially were financed with reserve proceeds as approved by the voters; the reserves were replenished and further increased with each year's surplus appropriations.¹ Further, as of the end of the 2012 fiscal year, the District had accumulated \$150,000 in each of the Workers' Compensation Reserve and the Unemployment Reserve. These reserve balances are 8½ times and nearly 36 times the average expenditures, since 2000, for each purpose, respectively. The Board included provisions to use \$25,000 from each of these reserves in the 2012-13 budget. However, the District does not have a policy stating how much it plans to accumulate in each reserve and how and when the balances in the reserves will be used.

District officials told us that, based on advice they received from a representative from the State Education Department, they believed that they should over-budget by at least 5 percent in order to be prepared for any contingencies. Officials also told us that certain expenditures, such as special education, are unpredictable in that they

¹ Capital improvement propositions, as approved by the voters, include reimbursing the reserve with any aid received for the related project or purchase, disclosing the actual cost to the District's taxpayers.

cannot anticipate when a family needing those services will move into and out of the District.²

As a result of the Board's budgeting practices, the District has accumulated significant reserve balances in excess of the District's average needs and has accumulated significant total fund balance, including reserves. For the fiscal years ending 2008 through 2012, total fund balance has increased 72 percent to \$3.6 million, with reserves at almost \$3 million, or 82 percent of the fund balance at June 30, 2012.

Recommendations

1. District officials should adopt budgets that include realistic estimates for revenues and expenditures based on contractual and historical data.
2. The Board should review the District's reserve fund balances and determine if the amounts are reasonable and necessary. If not, the Board should develop a plan to reduce the balance to an appropriate level. Such uses could include, but are not limited to:
 - Increasing only necessary reserves
 - Paying off debt
 - Financing one-time expenditures
 - Reducing District property taxes.
3. The Board should adopt a policy for reserves setting forth the planned balances to be accumulated in each reserve and how the reserves will be used.

² District officials informed us that due to their small size, changes in special education for one high needs individual can have a significant impact on the budget and budget-to-actual variances.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

LAURENS CENTRAL SCHOOL

"WHERE COMMUNITY AND SCHOOL CREATE SUCCESS."

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ROMONA N. WENCK
Superintendent

WILLIAM F. DORRITIE
Building Principal

August 21, 2013

Mr. Todd Eames
Office of the State Comptroller
Division of Local Government and School Accountability
Binghamton Regional Office
44 Hawley Street - Room 1702
Binghamton, NY 13901-4417

Re: Written Response to the Draft Audit Report

Dear Mr. Eames:

1. The draft audit recommends that the district use more realistic estimates for revenue and expenditures.

In response, the Laurens Central School District fully believes that our budgets are based on realistic and reasonable estimates given the data available at the time the budget is prepared. Due to time constraints placed on school districts by the State of New York there are many unknowns for both revenues and expenditures at the time of budget development. An example of an unknown, and as stated in the draft audit, "due to their small size, changes in special education for one high needs individual can have significant impact on the budget and budget-to-actual variances."

- A. Revenues:** Estimating revenue is difficult for certain line items such as BOCES Surplus, State Aid, and other unidentified revenue. The district looks at multiple years of data to identify revenue trends and estimates in an effort to develop the most accurate projections possible, without knowing what the actual revenues will be. For example:
 - i. BOCES surplus is based on the use of BOCES services by component districts throughout the year and a single district has no way of precisely estimating the final amount as BOCES costs change throughout the year.
 - ii. State Aid is often very unpredictable. In years past, aid has been frozen part way through the school year. In other years, the State has added to state aid after school budgets have been adopted.
- B. Expenditures:** When budgeting for expenditures, the district tries to calculate for both exact amounts as well as for the unexpected. Examples of commonly occurring "unexpected" expenditures that have a great impact on school budgets are:
 - i. Paid leaves of absence for an employee where a long term substitute would be needed; thus requiring payment of 2 salaries.
 - ii. The ever fluctuating population of students with disabilities. This can cause the district to either under or over estimate the needed expenditures. For example, when a student with a disability moves out of the district in the summer or part way through a school year, the funds budgeted to pay for that individual's education would become excess. We have students whose programs cause the district to budget close to \$100,000 per child. Should that same child move out of the district, or a child with similar needs move into the district, the budget would be severely impacted.

See
Note 1
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Note 2
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Note 3
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2. The draft audit recommends that the Board should review the district reserve fund balances and determine if the amounts are reasonable and necessary. The Board of Education of the Laurens Central School District does review all reserves annually and projects the amount of fund balance out to 5 years. The draft audit suggestions for reducing reserves are:

- a. Paying off debt – Laurens Central School looks at this annually. Due to the outstanding balance of our debt, at this time the district would be penalized for early payment.
- b. Financing one-time expenditures – The District Repair Reserve has been established for this exact purpose. For example, this summer the district discovered a much needed emergency repair. The district will be using funds from our repair reserve to cover the costs of the repair, which has the potential to fully exceed all repair reserve funds.
- c. Reducing district property taxes – Laurens Central School District has kept the tax levy increase at 2% or less for the last 6 years. We feel this has demonstrated great fiscal responsibility, especially our district generates less than \$24,000 with 1% tax increase.

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Note 4
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The Laurens Central School District feels that given the current economic climate of the State of New York, the necessity of reserves is very important as the future is an unknown. The push for merged districts increases the need for reserves in order to offset the financial burden that would be placed on our taxpayers if this district were forced to consolidate with another. In addition, increased unfunded state mandates have become commonplace, as have increases in ERS, TRS and health insurance, significantly impacting school budgets.

In closing, I would state that the district strongly believes our budgeting procedure is more than reasonable. We strive to review, in detail, the history of each line item and make estimates based on the best possible information available to us at the time of budget development. We provide our community with multiple opportunities to gather, discuss and make recommendations to the Board of Education regarding the budget. These meetings occur prior to presenting the budget at the required annual public hearing. The community of Laurens has supported our budget for the past several years indicating approval of our budgeting process and results. Given the all of these factors, we strongly feel that as a District we have been fiscally responsible with our budgeting practices.

Sincerely,

Romona N. Wenck
Superintendent

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

As Table 2 shows, the total variance between actual and budgeted amounts over the five-year period examined was only \$365,560 out of almost \$40 million budgeted, or less than 1 percent. Our report indicates that a balanced budget approach considering both revenues and expenditure estimates is a good practice since even small variances, accumulated over time, can contribute to unplanned surpluses.

Note 2

School districts are allowed to keep up to 4 percent of their subsequent year's budgeted expenditures in their unassigned fund balance for unplanned, unexpected expenditures. Some long-term leaves of absence can be planned for and should not impact budget variances.

Note 3

The cumulative effect of continuously planning for one-time, unexpected expenditures has led to excessive surpluses. As noted above, school districts are allowed to keep up to 4 percent of the subsequent year's budgeted expenditures in their unassigned fund balance for unplanned, unexpected expenditures, such as the fluctuating population of students with disabilities. Some of these unplanned expenditures may also be covered by Federal and State grants, thereby minimizing the impact on the budget. Historical trends indicate the District should cut back on their budgeted estimates. For example, over the five year period examined, special education expenditures have averaged approximately \$1 million and varied each year by less than 15 percent from that average and therefore are predictable. However the average budgeted expenditures of almost \$1.3 million are 22 percent higher than the average actual expenditures incurred.

Note 4

Some recommendations are included to inform the public and the Board of options that might be available to consider in the future and may not be applicable to the District's current circumstances.

Note 5

Over the five-year period examined, real property taxes increased a total of \$437,129. While taxes have increased on average less than 2 percent each year, the District generated an operating surplus of \$1,351,470 during this period, for a total operating surplus of almost \$1.8 million. The tax increase represents almost 25 percent of the total surplus generated.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to review the budgeting practices and reserves of the District. To accomplish the objective of our audit, we performed the following steps.

- We reviewed the results of operations and analyzed changes in fund balance for the general fund. To gain additional background information and perspective, we also reviewed financial data from fiscal years prior to those included in the audit scope period.
- We reviewed budget and revenue status reports and we compared the adopted budgets to the modified budgets and actual operating results to determine if the budget assumptions were reasonable.
- We analyzed the composition of sources of revenue to identify trends and compared them with eighteen other school districts in the Otsego Northern Catskills (ONC) BOCES region.
- We reviewed expenditures based on the District's budget categories to identify significant expenditures and analyze trends, and we compared them with eighteen other school districts in the ONC BOCES region.
- We reviewed Board meeting minutes and resolutions and interviewed officials and Board members to verify the budget development process, budget monitoring, and budget control.
- We reviewed the District's tax levy, taxable assessment, and tax rate for the last five years.
- We analyzed the composition of the District's fund balance reserves to identify trends and compared them with statewide averages (not including the metropolitan New York City area) and with eighteen other school districts in the ONC BOCES region.
- We reviewed Board meeting minutes and resolutions, interviewed officials and Board members, and reviewed the District's long-term capital plan to analyze the District's use and funding of reserves.
- We tested the reliability of the data reported on the annual update document and the financial statements by comparing the data to the District's CPA-audited financial statements.
- We tested the reliability of the data used to compare the districts in the ONC BOCES region by comparing selected data with data reported to the State Office of Real Property Tax Services.

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.

APPENDIX D

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