



Newfield Central School District Financial Condition

Report of Examination

Period Covered:

July 1, 2011 — May 22, 2013

2013M-238



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 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 Newfield 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 Newfield Central School District (District) is located in the Towns of Danby, Enfield, Ithaca, Newfield, Spencer and Van Etten in Tompkins County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs and adopting the annual budget which is prepared by various District officials.

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 Board president is the Chief Financial Officer (CFO).

The Business Administrator is responsible for accounting for all District funds and preparing financial reports for the Board. She is assisted in these duties by two staff members – a payroll clerk and accounts payable clerk.

There are two buildings in operation within the District, with approximately 830 students and 190 employees. The District's budgeted expenditures for the 2013-14 fiscal year are \$17.6 million, which are funded primarily with State aid, real property taxes and grants.

Objective

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

- Did the Board ensure reasonable levels of fund balance were maintained?

Scope and Methodology

We examined the District's financial records for the period July 1, 2011 to May 22, 2013. We extended our scope to include the fiscal years ending 2009 to 2011 to determine the District's financial trends. We also reviewed the tax rates, levies and assessments for the same extended period.

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 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 generally agreed with our recommendations and indicated they plan to take corrective action. Appendix B includes our comments on 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.

Financial Condition

District officials generally have the authority and responsibility to adopt realistic, structurally balanced budgets on a continuous basis and manage fund balance responsibly in accordance with statute. District officials must ensure that budgets are prepared, adopted, and modified in a prudent manner, accurately depicting the District's financial activity while also using available resources to benefit its taxpayers. Prudent fiscal management also includes maintaining sufficient balances in reserves to address long-term obligations or planned expenditures. Moreover, Districts are restricted in the amount of unexpended surplus funds¹ they are legally allowed to maintain, which currently is 4 percent.

District officials did not ensure reasonable levels of fund balance were maintained. While their budgets included the use of surplus and reserved fund balances to finance operations, the positive variances between their budgets and actual results never necessitated the full use of the surplus funds. Instead, the amount of surplus increased the District's total fund balance by \$573,000 over a five-year period. Some of these surplus funds were transferred to various reserves resulting in three reserves having more money than is likely necessary. Additionally, the District reported liabilities that were more than \$1.3 million over the actual obligations for the same period. The adjustment of the overfunded reserves and correction of the overstated liabilities would increase the available fund balance by more than \$1.9 million. This would cause the fund balance to be well over the amount allowed by law.

Budgeting

Sound budgeting provides sufficient funding for necessary operations. Sound budgeting practices coupled with prudent fund balance management ensures that sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future expenditures. Any remaining fund balance should be used for reducing the property tax levy, a financing source, paying off debt and funding one-time expenditures.

¹ The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted and unrestricted (comprising committed, assigned and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54) and is now classified as unrestricted, minus appropriated fund balance, amounts reserved for insurance recovery and tax reduction and encumbrances included in committed and assigned fund balance (post-Statement 54).

The Board appropriated over \$2 million of fund balance and almost \$2.5 million in reserve funds in the general fund budgets for the last five fiscal years; however, only about \$300,000 was used to fund operations due to operating deficits. In three of the five years, the District received more money than was spent and therefore did not use any of this appropriated fund balance. For example, in the 2011-12 budget, the Board appropriated \$636,000 of reserve funds to pay for expenditures related to loss of State aid. However, again, none of this money was necessary as the District incurred actual expenditures far less than budgeted amounts.

	2008-09	2009-10	2010-11	2011-12	2012-13	Total
Appropriated Fund Balance	\$396,000	\$396,000	\$598,524	\$315,512	\$315,512	\$2,021,548
Appropriated Reserves	\$260,000	\$210,000	\$372,000	\$636,654	\$1,009,866	\$2,488,520
Total Amount Appropriated	\$656,000	\$606,000	\$970,524	\$952,166	\$1,325,378	\$4,510,068
Operating Surplus/ (Deficit)	\$241,882	\$482,152	(\$76,309)	\$148,253	(\$223,200)	\$572,778
Appropriated Amount Used	\$0	\$0	\$76,309	\$0	\$223,200	\$299,509
Excess Budgeted Appropriated Amounts	\$656,000	\$606,000	\$894,215	\$952,166	\$1,102,178	\$4,210,559

For the same time period, the Board generally budgeted appropriately for revenues. However, the Board over-budgeted appropriations for the general fund by almost \$4.2 million. Additionally, the District experienced operating surpluses in three of the last five fiscal years, which accumulated to \$572,778. During the same period, the District's real property tax levy increased nearly \$840,000.

Liabilities and Encumbrances

Current liabilities represent expenditures that were incurred, but not yet paid, as of the end of the fiscal year. These remain an obligation of the District to be paid in the early months of the ensuing fiscal year. Encumbrances are commitments related to unperformed contracts for goods or services.

The general funds' current liabilities reported for the fiscal year end 2011-12² were not reasonable. In total, these liabilities are in excess of future obligations by \$1,126,000.³ In addition, more than \$224,000 of 2011-12 year encumbrances were written off in 2012-13. The overstatement of liabilities and encumbrances results in the understatement of the total fund balance.

New York State and Local Retirement System (NYSLRS) and Teachers' Retirement System (TRS) — These liabilities should contain only the amount to be paid out in the next year for retirement

² During our fieldwork the liability amounts for 2012-13 were not yet calculated for audit testing.

³ NYSLRS liability of \$198,895 + TRS liability of \$646,477 + compensated absences of \$281,000

expenditures. However, these liabilities included amounts for two fiscal years, instead of only one year, which resulted in the liability for NYSLRS being overstated by \$198,895 and the liability for TRS being overstated by \$646,477. Moreover, the District’s annual budgets also included appropriations for these expenditures in each of the past five years. For the 2011-12 fiscal year, the District’s budgeted amounts for ERS and TRS expenditures totaled \$972,000.

Compensated Absences — This liability should only include payments for unused leave time for those employees who intend to leave District service by the fiscal year end. The District reported a liability for compensated absences of \$345,981, \$281,000 more than it should have reported.

Encumbrances — More than \$224,000 (65 percent) of the total encumbrances reported in the 2011-12 fiscal year were written off in the 2012-13 fiscal year. The Business Official could not provide specific support for this adjustment during our fieldwork, but told us the adjustments were primarily for changes in planned purchases and the correction of errors.

Reserves

Reserves may be established by the Board in accordance with applicable laws. Moneys set aside in reserves must be used only in compliance with statutory provisions which determine how reserves are established and how they may be funded, expended and discontinued. Reserves can be established for certain legal purposes, where money is set aside to finance future purposes. However, these amounts should be reasonable and based on known future expenditures that are permitted to be paid from those reserves.

The District’s reserve fund balances at fiscal year end 2012-13 are not reasonable. The District has overfunded reserves by at least \$561,000. By overfunding the reserves, the District has understated the amount of fund balance.

Reserve	Overfunded Amount
Unemployment Insurance	\$98,600
Tax Certiorari Reserve	\$162,361
Capital Reserve	\$300,000
Total	\$560,961

Unemployment Reserve — This reserve should only be used for payments made to claimants where the District has elected to use the “benefit reimbursement”⁴ method. Currently, there is \$110,000

⁴ Governments reimburse the Department of Labor (DOL) for all unemployment benefits paid to their employees.

reported in the unemployment reserve. Based on the average expenditures for the last five years, this amount would last for 10 years.

Tax Certiorari Reserve — This reserve is used for the payment of judgments and claims for tax certiorari proceedings for the tax roll in the specific year in which the money was deposited in the reserve. Currently, there is over \$160,000 reserved for tax certiorari purposes; however, there are no pending challenges to real property assessments and therefore no moneys should be reserved for this purpose.

Capital Reserve — This reserve is used to pay the cost of any object or purpose for which bonds may be issued by, or for the objects or purposes of, a District pursuant to the Local Finance Law. The District reported almost \$480,000 in this reserve as of the end of the 2012 fiscal year that increased to more than \$575,000⁵ by the end of the 2013 year, District officials informed us that this money is to be used for the purchase of buses. The District did use these moneys to purchase buses, but then replaced the amounts spent with generated operational surpluses each of the last five years. The Business Official told us it is the District's routine to replace two buses annually. However, only one bus was purchased during the 2012-2013 fiscal year and plans for 2013-14 include the purchase of just one bus. Thus, the Superintendent and Business Official believe this balance is necessary as the District will be "behind" their planned replacement cycle. While the balance in this reserve is sufficient to purchase five buses and could sufficiently finance bus purchases to come in line with their past replacement plan, it is currently \$300,000 more than necessary to purchase two buses.

The unnecessary reservation of funds and overstatement of liabilities and encumbrances causes available fund balance to be artificially lower. District officials told us they were planning for the impending fiscal cliff and preparing for potential future losses of State aid.

Recommendations

1. The Board should adopt realistic budgets that are consistent with the District's actual revenues and expenditures.
2. In conjunction with realistic budgeting practices, the Board should develop a plan to reduce the amount of unexpended surplus funds in a manner that benefits District taxpayers. Such uses could include, but are not limited to:
 - Reducing the property tax levy,
 - Using surplus as a financing source,

⁵ The capital reserve balance as of June 30, 2013 totaled approximately \$714,000 which included \$138,487 for a building project and \$575,402 for buses.

- Paying off debt, and
 - Funding one-time expenditures.
3. The Business Administrator should properly adjust the liability amounts reported to include only the amount that is realistically due within the next year.
 4. The Board should consult with the District's attorney as to appropriate methods for removing excess amounts out of the reserve accounts.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Newfield Central School District

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Dr. Cheryl Thomas, Superintendent

November 22, 2013

Office of the State Comptroller
State Office Building Room 1702
44 Hawley Street
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To Whom It May Concern:

We have reviewed the Newfield Central School District Financial Condition Report of Examination audit conducted by the Office of the State Comptroller. This letter is the official response of the Newfield Central School District to the audit findings.

We appreciate that this was the auditor's first school audit and want to acknowledge and recognize the time and effort spent in our district at the beginning of this learning curve.

See
Note 1
Page 14

The audit reported an excess of fund balance based on analysis of three financial areas: Budgeting, Liabilities and Encumbrances, and Reserves. While the State Comptroller's Office reported fund balance in excess of the allowed 4%, the district respectfully disagrees with the analysis performed to reach this conclusion. The District has consistently maintained a 4% unassigned fund balance and offers in support of this assertion the ST-3 in which the fund balance is calculated by NYSED, not by the school district. It is also worthy to note that the figures used in the Financial Condition section of the audit encompass a 5 year period which, as seen in Table 1 of the audit, actually include an operating deficit in two of the years audited.

See
Note 2
Page 14

Budgeting

The State Comptroller's Office has asserted that the District, over five years, appropriated fund balance which it did not need to balance the budget. The District budgeted in the most conservative manner in order to survive state aid shortfalls of \$3,575,478 over the same time period. The District's goals are to protect programs, minimize layoffs, protect fund balance and keep the tax levy below the 2% tax cap. The District has been successful in meeting all of these objectives. Newfield Central School has avoided large layoffs while maintaining level reserves and fund balance with a modest growth of less than 4% over five years. The District believes this is the best approach in the current economic climate. This practice has allowed for consistency in program and economic stability within the District.

Liabilities and Encumbrances

While the District acknowledges that liabilities and encumbrances are overstated, it believes the difference is not excessive and the amount held in liabilities to be a prudent resource. The Teacher Retirement System (TRS) liability account, as of 6/30/2013, recognizes \$1,369,595. TRS salary costs have increased from a low of .037% in 2002-2003 to a projected rate of 17.75% in 2014-2015. The State Comptroller's Office does not allow a reserve to help offset the spiraling TRS pension costs. Hence, this liability helps offset some of this large increase. Next year the District projects TRS costs to be \$993,000, which is 73% of the liability. In addition, the Employee Retirement System (ERS) currently averages 20.8% of salary. The cost for this fiscal year is \$354,089 which is 64% of the ERS liability.

See
Note 3
Page 14

Reserves

The District has established and maintains reserves in accordance with General Municipal Law and/or Education Law. We believe the reserves are funded at reasonable levels to ensure safeguarding of District assets. The Comptroller asserts over funding of the following reserves:

See
Note 4
Page 14

- Unemployment Reserve
 - The amount of \$98,600 would cover the unemployment costs for 3 teachers. This is not unreasonable, especially in these uncertain economic times where layoffs must always remain an option for compensating for lost revenue. We therefore do not agree that this reserve is overfunded.
- Tax Certiorari
 - The District is currently in possession of petitions in the amount of \$173,303.96 for which no settlement notice has been received. The amount held in reserve is not unreasonable and is, in fact, less than the potential liability. We therefore do not agree that this reserve is overfunded.
- Capital Reserve
 - The District normally buys two buses annually. The cost for two large buses with no handicap accessibility is approximately \$216,000. In order to maintain the normal replacement cycle the District will need to purchase a minimum of two buses additional within two years. The cost could be as high as \$432,000 which is more than the reserve. We therefore do not agree that this reserve is overfunded.

While the District comprehends and appreciates the State Comptroller's Office audit's analysis, our belief is that to relieve reserves (even if possible by law) to assigned fund balance will seriously jeopardize the District's ability to weather the uncertainty of state aid funding. We have observed that districts who have adopted the financial practices suggested in this audit have experienced a need for double-digit increases in tax revenue after relieving reserves and liabilities to assigned fund balances and several of them are now facing insolvency or merger.

This District has developed a 5-year Financial Plan which will help us weather the economic crisis without drastic layoffs, cuts to program, or large tax levy increases, and that will keep us fiscally healthy in the future. This Plan has been communicated and is fully supported by the tax payers of this community.

Sincerely,

Dr. Cheryl Thomas
Superintendent

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

Our audits are conducted in accordance with generally accepted government auditing standards (GAGAS). The audit team consists of the Auditor, a Supervisor and a Manager. The Auditor is responsible for conducting the audit in compliance with the standards. The Supervisor and Manager oversee and review all of the Auditor's work. Therefore, the experience of the Auditor has no bearing on the audit performed.

Note 2

The reported fund balance would have been in excess of the allowable 4 percent, after adding in amounts considered excessive in both the liability and reserves.

Note 3

As indicated in the report, current liabilities should only include amounts to be paid in the early months of the next year. Additionally, the Office of the State Comptroller does not authorize which reserves are allowable for schools.

Note 4

As indicated in the report, our Office considers the amounts reported as excessive.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To accomplish our audit objective, we interviewed appropriate District officials and employees, tested selected records and examined pertinent documents. Our procedures included the following:

- We interviewed District officials to gain an understanding of the budget development process and to determine how District officials monitor and control the budgets.
- We obtained the District's financial information and documented the operational trends for the general, school lunch and capital projects funds for the fiscal years ending 2009 to 2013.
- We analyzed trends in fund balances for all funds over the past five fiscal years ending 2009 to 2013 using reported form ST-3 data.
- We obtained the accounting records for all receivables and liabilities to verify the period ending June 30, 2012 balances and to determine collectability or when payments were made.
- We obtained the District's financial information reported on the form ST-3 for the 2009 to 2013 fiscal years to determine the District's financial condition by analyzing trends in fund balance, reserve funds and appropriated fund balance.
- We obtained and analyzed property tax rates, levies and assessments for the 2008 to 2012 fiscal years.
- We obtained reserve accounting records and made inquiries of District officials to determine if the funding and use of reserves were properly authorized and planned for.

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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