Office of the New York State Comptroller

Division of Local Government & School Accountability

Roxbury Central School District

Financial Condition

Report of Examination

Period Covered:

July 1, 2011 — May 23, 2013

2013M-207

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government and School Accountability

November 2013

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments 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 local government assets.

Following is a report of our audit of Roxbury 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 General Municipal Law.

This audit's results and recommendations are resources for local government 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 Roxbury Central School District (District) is located in the Towns of Roxbury, Middletown, and Gilboa in Delaware and Schoharie Counties. The District is governed by the Board of Education (Board) which comprises five 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, including budget development. The Board is also responsible for monitoring and controlling the budget throughout the year.

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 Treasurer plays a key role in the budget development process along with performing the daily accounting duties.

The District's budgeted expenditures for the 2013-14 fiscal year are approximately $10 million, which are funded primarily with real property taxes and State aid. There is one school in operation within the District, with approximately 360 students and 90 employees.

Objective

The objective of our audit was to evaluate the District's financial condition. 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 condition and budgeting practices for the period July 1, 2011, to May 23, 2013. We expanded our scope to review the District's financial condition back to July 1, 2007, and forward to June 30, 2013, to obtain additional information for perspective and up-to-date fund balance information.

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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comments on the issues raised in the District's response letter.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, 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 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. We encourage the Board to make this plan available for public review in the District Clerk's office.

Financial Condition

The responsibility for accurate and effective financial planning rests with the Board, Superintendent, and Treasurer. The Board should adopt budgets that reflect current expenditures for necessary District operations financed by recurring revenue sources, and ensure that the levy of real property taxes is not greater than necessary. Reserves may be established for a variety of future purposes and used to accumulate funds to finance those purposes. Prudent fiscal management ensures that reserve balances do not exceed what is necessary to address long-term obligations or planned expenditures.

The Board and District officials believed they were effectively managing the District's fund balance. However, the adopted budgets continually included overestimated expenditures. Although the actual results of the District's operations were reasonably close to the budgeted estimates each year, the cumulative effect of these variances generated over $2.4 million in operating surpluses for the fiscal years ending in 2008 to 2012. To reduce the year-end fund balances to under the 4 percent limit, District officials had to transfer moneys to the District's reserves, which now total $4 million. Some of these reserve balances are questionable as to the amounts required for their stated purposes.

Budgeting

In preparing the budget, the Board must estimate what the District will receive in revenue and spend in the ensuing fiscal year. The Board must also estimate how much fund balance will be available at fiscal year-end (some or all of which may be used to fund the ensuing year's appropriations and to balance the budget) to determine what the tax levy will be. Accurate estimates help ensure that the levy of real property taxes is not greater than necessary.

For the fiscal years ending in 2008 to 2012, the Board adopted budgets that overestimated expenditures by $3.8 million, with overestimates of special education costs comprising approximately $1.5 million of those variances. The budgeted revenue estimates were far more accurate, only varying by less than $45,000, or one-tenth of one percent from the estimates. The continuing trend of overestimating expenditures resulted in surpluses that totaled more than $2.4 million:

Table 1: Results of Operations

	Fiscal Years Ended					Total
	2007-08	2008-09	2009-10	2010-11	2011-12	
Revenues	$9,113,190	$9,296,977	$9,142,855	$9,041,784	$9,096,383	$45,691,189
Expenditures	$8,393,302	$8,338,959	$8,993,622	$8,916,266	$8,600,416	$43,242,565
Surplus/(Deficit)	$719,888	$958,018	$149,233	$125,518	$495,967	$2,448,624

District Officials told us that the District regularly includes provisions in the special education appropriations in the event that students with high-cost special needs unexpectedly move into the District during the year. However, the District's actual special education costs have decreased over the last five completed fiscal years. Also, due to a change in accounting treatment for compensated absences in 2009, the District was required to make a $600,000 adjusting entry to expenditures; this contributed significantly to the budget variance in that year.

The Board planned to use $1.6 million of fund balance in the adopted budgets for 2007-08 through 2011-12. However, no fund balance was used because of the surpluses of over $2.4 million that were generated. As a result, the Board had to transfer surplus moneys to reserves and appropriate surplus moneys in each of the ensuing years' budgets so that the total fund balances would stay below the 4 percent statutory limit.[1] Although the average annual increase in the total tax levies for fiscal years ending 2009, 2011 and 2012 is 2.35 percent, our analysis shows that the increases in tax levies for those years may not have been necessary because the surpluses generated were more than the tax levy increases. If the real property tax levies remained at the level of the fiscal year ended 2008, the total taxes paid by residents would have been approximately $1.4 million less than the amounts actually paid, while still generating more than $1 million in surpluses.

Reserves

As mentioned, the Board transferred surplus moneys to reserve funds so that the fund balance could remain below the 4 percent statutory limit. These transfers to reserves were not planned and provided for in the original budget but rather were done using unexpended operating surplus moneys. 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. Generally, school districts are not limited as to how much money can be held in reserves. However, funding reserves at greater than reasonable levels contributes to real property tax levies

[1] State Education Department (SED) regulations require school districts to use any available fund balance that is greater than 4 percent of the ensuing year's total general fund appropriations to fund operations.

that are higher than necessary because the excessive reserve balances are not being used to fund operations. The Board is responsible for developing a formal plan for the use of its reserves, including how and when disbursements should be made, and optimal or targeted funding levels and why these levels are justified, and for ensuring that appropriate documentation is maintained to monitor reserve activity and balances.

As of June 30, 2012, the District had five reserves with balances totaling nearly $4 million, up from approximately $2.1 million as of the fiscal year ended in 2008. We analyzed these reserves for reasonableness and adherence to statutory requirements, and found that the funding of the reserves for insurance and repairs was reasonable. However, some of the balances in the reserves for unemployment insurance, employee benefits, and retirement were 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. The District's average annual unemployment insurance expenditure for the past five years was $17,671. However, the reserve balance as of June 30, 2012, was $273,065, or more than 15 times the average annual expenditure.

- Employee Benefit Accrued Liability Reserve (EBALR) — 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. District officials are aware that this reserve is excessive and have had the Office of the State Comptroller (OSC) certify the excess balance to fund known liabilities for the past three years. The balance of the reserve as of June 30, 2012, was $2,442,867, of which OSC certified $1,714,073 as excess. However, District officials are limited by the GAP Elimination Adjustment as to the amount they can withdraw from this reserve to fund current operating expenditures.

- Retirement Contribution Reserve — This reserve is used to pay the District's retirement contribution to the New York State and Local Retirement System (NYSLRS). The NYSLRS contribution in the 2012-13 fiscal year was $181,639. The reserve balance as of June 30, 2012 was $1,178,113, which is more than six times the current annual contribution.

These reserve balances accumulated each year because District officials transferred surplus moneys generated from operations into these reserves so that the general fund year-end balances would stay below the 4 percent statutory limit. District officials could not present us with formal plans regarding the expected expenditures or obligations related to their reserve purposes to support the funding of the reserves. The funding of reserves at greater than reasonable levels contributes to real property tax levies that are higher than necessary.

Recommendations

1. The Board and District officials should develop expenditure estimates that are realistic and based upon all information available at the time the budget is developed.

2. The Board should review all reserve balances to determine if the amounts reserved are necessary and reasonable and create a written reserve fund plan. To the extent that they are not necessary and reasonable, transfers should be made to unrestricted fund balance, where allowed by law, or other reserves established and maintained in compliance with statutory directives.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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October 10, 2013

Mr. H. Todd Eames, Chief Examiner
State Office Building, Suite 1702
44 Hawley St.
Binghamton, NY 13901

Dear Mr. Eames:

This letter shall serve as the official response from the Roxbury Central School District regarding the "Draft Audit Report" covering July 1, 2007 to May 23, 2013. We have found it beneficial to have such a review of our financial management procedures and we are thankful that this review found no professional misconduct or illegal fiscal practices. We have pondered and discussed your findings and will continue to work hard to ensure our taxpayers funds are used appropriately. We will also continue to strike the delicate balance of having a meaningful educational plan in concert with long-term fiscal viability.

In your opening paragraph you state, "Prudent fiscal management ensures that reserve balances do not exceed what is necessary to address long-term obligations or planned expenditures." This has been our ongoing intention, and though you find some of our reserve amounts to be "questionable" (over-funded) we would be much more concerned if the reverse were true. While we respect the Comptroller's comments, we feel our practices have ensured long-term financial stability in these times of reduced funding and fiscal uncertainty. Though the statements made by your office are strong, your guidance is subjective and not based on any statutory language or other formal guidelines.

In your report you questioned our budgeting for unanticipated special education costs, even though our special education costs have gone down. From the Comptroller's perspective we can understand this query. From an educational and financial perspective in operating a public school we see how expensive out-of-district placements can be. It is our district's intention is to keep our students in-district when we can, but we are well aware of the looming unforeseen expense if a change of placement(s) is warranted, or a high-cost student(s) enrolls. See Note 1 Page 12

Your report continues to speak specifically about our reserves. I appreciate your comment about the district endeavoring to remain compliant with the 4% fund balance requirement and our using EBALR to off-set the New York State mandated GAP Elimination Adjustment. You continue to make a subjective statement: "However, funding reserves at greater than reasonable levels contributes to real property tax levies that are higher than necessary because excessive reserve balances are not being used to fund operations". We respect your position but we feel it is inaccurate as we have transferred these funds when allowed by law to fund the school district's operations. In the closing of your report you re-assert this position of "real property levies that are higher than necessary." We have a very low levying history See Note 2 Page 12

of *2.35% for the period examined based on your own calculations. With the new levy limit (tax cap) legislation, your assertion would have future dire consequences if we were to decrease our levy even more.

Our district has been able to navigate the fiscal storm that started in 2008 quite well. We have been able to preserve jobs and programs and have been prudent with the funds we have been entrusted to utilize. Other than two more years of long-standing capital debt, we have borrowed no money and been successful in meeting our obligations within our own means. We assure your office that whatever possible statutory means we have at our disposal, this district will turn to its reserves with greater frequency to off-set our ever-growing anticipated and unanticipated expenses.

You have helped us look at our fiscal house through a different lens, and we appreciate it. It should also be formally noted that those individuals that have worked with us on this audit from your office were professional and timely with their feedback.

Sincerely,

Thomas J. O'Brien
Superintendent

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* As stated in the audit report the levy average stated is only for 2009, 2011 and 2012. As stated in the report's "Scope and Methodology" on page 4 : "We examined the District's financial condition and budgeting practices for the period July 1, 2011, to May 23, 2013. We expanded our scope to review the District's financial condition back to July 1, 2007, and forward to June 30, 2013, to obtain additional information for perspective and up-to-date fund balance information." By excluding years 2008, 2010 and 2013 the average levy in your report is higher than the average for all years in the analysis, which was actually 2.09%.

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

While a budget cushion for unforeseen circumstances may be a prudent fiscal consideration, the repeated overestimation of expenditures not only results in real property tax levies that are higher than necessary, but also continues to inflate the surplus fund balance.

Note 2

Although the District has utilized a portion of these reserves for operations, the Unemployment Insurance and the Retirement Contribution Reserves have increased each year since FYE 2008 by an aggregate of more than $1.3 million (or nearly 14 times the 2008 balances).

APPENDIX C

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, 2011, to May 23, 2013. We expanded our scope back to July 1, 2007, and forward to June 30, 2013, to obtain additional information for perspective and up-to-date fund balance information.

Our examination included the following:

- We interviewed District officials and reviewed the meeting minutes, resolutions, and District policies to gain an understanding of the District's budget development including the fund balance process.

- We compared the budgeted revenues and expenditures to the actual revenues and expenditures for the general fund for 2007-08 through 2011-12 to determine if the District was budgeting reasonably.

- We reviewed the results of operations in comparison to amounts appropriated in the adopted budgets for the 2007-08 to 2011-12 fiscal years.

- We reviewed the District's tax levies, taxable assessments, and tax rates for 2007-08 to 2012-13 to determine if the tax levies and rates had been increasing.

- We analyzed reserves to determine if they were properly established, supported, and reasonably funded.

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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Andrew A. SanFilippo, Executive Deputy Comptroller
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