



Copenhagen Central School District Financial Condition

Report of Examination

Period Covered:

July 1, 2014 – December 31, 2015

2016M-142



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2016

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 Copenhagen 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 Copenhagen Central School District (District) is located in the Towns of Champion, Rutland and Watertown in Jefferson County and the Towns of Denmark, Harrisburg and Pinckney in Lewis County. The District is governed by the Board of Education (Board), which is composed of seven 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 District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates one school with approximately 460 students and 100 employees. The District's 2015-16 budgeted general fund appropriations are approximately \$10.5 million, which are funded primarily with State aid and real property taxes.

Objective

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

- Did the Board and District management develop realistic budgets and adequately manage the District's financial condition?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2014 through December 31, 2015. We extended our audit scope back through the 2012-13 fiscal year to analyze historical fund balance, budget estimates and financial trends.

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 take corrective action. Appendix B includes our comment on an issue raised in the District's response.

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, Superintendent and Business Official are responsible for making sound financial decisions in the best interest of the District, the students it serves and the residents who fund the District's programs and operations. This includes adopting budgets based on accurate estimates of revenues, expenditures and fund balance. In addition, it is important for the Board to develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and needs and financing sources over a three- to five-year period.

The Board overestimated appropriations in the adopted budgets by an average of about \$947,000 or 9 percent over the past three years. As a result, \$724,000 or almost 90 percent of the appropriated fund balance was not actually needed to finance operations, and unassigned fund balance was more than twice the statutory limit from fiscal years 2012-13 through 2014-15. The District has reduced the reported level of year-end unassigned fund balance from 10.9 percent of the ensuing year's budget at the end of 2012-13 to 9.7 percent at the end of 2014-15. However, when the unused appropriated fund balance was added back, the recalculated unassigned fund balance exceeded 17 percent of the next year's appropriations in all three years.¹ The Board has not developed multiyear operational or capital plans to address excess fund balance and future needs.

Budgeting and Fund Balance

Sound budgeting practices based on accurate estimates, along with prudent fund balance management, ensure that sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations and future expenditures. Fund balance represents resources remaining from prior fiscal years. A district may retain a portion of fund balance within the limits established by the New York State Real Property Tax Law (RPTL). Currently, RPTL limits the amount of fund balance a school district can retain to no more than 4 percent of the next year's budget appropriations.

District officials overestimated appropriations when they developed the budgets for the three fiscal years 2012-13 through 2014-15. We compared the District's general fund budgeted revenues and expenditures with actual results of operations for this period. Revenue estimates appeared reasonable and generally close to the actual revenues received. However, District officials annually presented,

¹ The recalculated fund balance at the end of 2014-15 is an estimate because the amount of fund balance actually needed for the current 2015-16 fiscal year is unknown at this time.

and the Board approved, budgets that overestimated expenditures. As a result, the District spent an average of approximately \$947,000 (9.2 percent) less than planned each year. The District appropriated on average \$812,000² in fund balance for use in 2012-13 through 2014-15 but did not use about \$724,000, or almost 90 percent, because appropriations were higher than necessary. The District's budget variances for expenditures are shown in Figure 1.

Figure 1: Expenditure Variances

Fiscal Year	Appropriations	Expenditures	Difference	Percentage Difference
2012-13	\$10,166,561	\$9,223,417	\$943,144	9.3%
2013-14	\$10,233,606	\$9,385,621	\$847,985	8.3%
2014-15	\$10,474,715	\$9,424,122	\$1,050,593	10.0%
Total	\$30,874,882	\$28,033,160	\$2,841,722	9.2%

The overestimated expenditures generally were spread throughout budget line items in the general fund. However, the largest variances between budgeted and actual expenditures during the three-year period were for the following line items: special education (\$597,689 or 40 percent), health insurance (\$443,574 or 11 percent), instructional materials (\$297,747 or 30 percent), transportation salaries (\$226,185 or 19 percent) and plant operation (\$120,490 or 22 percent).

District officials told us that they routinely anticipated more students with disabilities than what they actually had, which resulted in the special education variance. District officials also told us that they estimate health insurance costs by assuming new employees will select the higher premium amounts relative to a family plan instead of an individual plan. They also said they prefer to budget higher for instructional materials and transportation salaries to allow additional appropriations for other budget accounts that may be overexpended during the year. Lastly, they budget conservatively for plant operation, primarily for electricity and propane costs, because they do not yet know the costs savings resulting from transitioning to a new heating system.

Because the Board did not adopt budgets with more accurate expenditure estimates, almost 90 percent of the appropriated fund balance was not needed to fund operations as planned. As shown in Figure 2, the District used only about \$263,000 in appropriated fund balance because actual revenues exceeded expenditures in two of the last three years.

² The District appropriated \$710,465 in fund balance for use in 2012-13, \$912,506 for 2013-14 and \$812,965 for 2014-15.

Figure 2: Unassigned Fund Balance at Year-End			
	2012-13	2013-14	2014-15
Total Beginning Fund Balance ^a	\$2,081,220	\$2,270,303	\$2,004,811
Plus: Operating Surplus/(Deficit) ^b	\$180,653	(\$263,444)	\$160,159
Total Ending Fund Balance	\$2,261,873	\$2,006,859	\$2,164,970
Less: Restricted Fund Balance	\$223,448	\$107,164	\$102,504
Less: Appropriated Fund Balance for the Ensuing Year ^c	\$912,506	\$812,965	\$1,047,380
Less: Encumbrances	\$15,021	\$12,217	\$0
Unassigned Fund Balance at Year-End	\$1,110,898	\$1,074,513	\$1,015,086
Ensuing Year's Budgets	10,233,606	\$10,474,715	\$10,485,425
Unassigned Fund Balance as a Percentage of Ensuing Year's Budgets	10.9%	10.3%	9.7%
^a Includes prior period adjustments and other minor adjustments. ^b Includes interfund transfers ^c Per adopted budgets, the District had appropriated \$112,250 more in fund balance at the end of the 2012-13 year, and \$112,300 more at the end of 2013-14, than it reported in its year-end financial statements. We adjusted the appropriated fund balance to show the correct amounts in this analysis.			

Over the past three years, the District's reported unassigned fund balance at year-end exceeded the 4 percent statutory limit. When unused appropriated fund balance was added back, the District's recalculated unassigned fund balance exceeded the statutory limit by 17.2 and 18 percent of the ensuing year's appropriations at the end of 2012-13 and 2013-14. During 2014-15, the Board appropriated over \$1 million for the 2015-16 budget. However, based on the 2015-16 projected year-end operating results, we estimate that the District will not use the appropriated funds. As such, we project the District's recalculated unassigned fund balance will be about 19.7 percent of the next year's appropriations, as shown in Figure 3.

Figure 3: Unused Fund Balance			
	2012-13	2013-14	2014-15
Total Unassigned Funds at Year-End	\$1,110,898	\$1,074,513	\$1,015,086
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	\$649,062	\$812,965	\$1,047,380
Total Recalculated Unassigned Funds	\$1,759,960	\$1,887,478	\$2,062,466
Recalculated Unassigned Funds as Percentage of Ensuing Year's Budget	17.2%	18.0%	19.7%

The results of these budgeting practices made it appear that the District needed to both raise taxes and use fund balance to close projected budget gaps. However, the District's budgets resulted in operating surpluses in two of the three years reviewed. The District increased the tax levy from \$1.5 million in 2012-13 to \$1.7 million in 2015-16, an increase of about 8 percent. Had District officials used more realistic budget estimates, they could have avoided the accumulation of excess fund balance and possibly reduced the tax levy.

Multiyear Planning

It is important for the Board to develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and capital needs. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Such plans allow District officials to identify developing revenue and expenditure trends, set long-term priorities and goals and avoid large fluctuations in tax rates.

Multiyear plans also help District officials assess the effects and merits of alternative approaches to address financial issues, such as using unassigned fund balance to finance operations and accumulating money in reserve funds. Long-term financial plans work in conjunction with Board adopted policies and procedures to provide necessary guidance to employees on the financial priorities and goals. Additionally, District officials should monitor and update long-term financial plans on an ongoing basis to ensure that their decisions are guided by the most accurate information available.

The Board has not adopted a multiyear capital or operational plan to outline the use of surplus fund balance. The Treasurer and Board President told us the Board does not have a written long-term plan although the Board discusses general long-term plans for specific projects and other long-term priorities throughout the year. The Superintendent and Treasurer told us that the District expects to enter into a payment in lieu of tax agreement with a new windfarm company in which the District may receive additional annual revenues of approximately \$200,000 beginning sometime in 2017. It is important for the Board and District officials to develop an effective multiyear financial plan that incorporates this potential new revenue source. Such a plan will help District officials better manage the use of the District's unassigned fund balance and reserve funds and establish practical goals to ensure that such use is in the best interest of District residents.

By maintaining an excessive unassigned fund balance and not using the fund balance appropriated in adopted budgets, District officials are withholding significant funds from productive use and may be levying more taxes than necessary to sustain District operations. District officials told us they prefer to maintain enough fund balance to provide the District with an adequate financial cushion in case of unforeseen circumstances. However, the reported unassigned fund balance as of June 30, 2015 was more than twice the statutory limit.

Recommendations

The Board and District officials should:

1. Develop realistic estimates of appropriations and the use of fund balance in the annual budget.

2. Ensure that the amount of the District's unassigned fund balance is in compliance with statutory limits.
3. Formulate long-term multiyear operational and capital plans for the use of excess unassigned fund balance in the general fund in a manner that benefits District residents. Such uses include, but are not limited to:
 - Using surplus funds as a financing source to reduce property taxes;
 - Paying off debt;
 - Establishing necessary reserves; and
 - Financing one-time expenditures.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

COPENHAGEN CENTRAL SCHOOL DISTRICT

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Pamela L. Ratliff
Assistant K-12 Principal
Dale R. Munn, Jr.
Director of Student Services
and District Treasurer
Scott Connell
Athletic Director
Mary H. Jones
District Clerk

May 20, 2016

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building
Room 409
333 E. Washington Street
Syracuse, New York 13202-1428

Dear Ms. Wilcox:

The Copenhagen Central School District is in receipt of the Draft Financial Condition Report of Examination for the period of July 1, 2014 to June 31, 2015. We would like to commend the audit personnel for their professionalism and courtesy in the undertaking of their responsibilities and interactions with District staff. The District is pleased that the extensive work of the auditors from your office resulted in no finding of fraud, waste or abuse. Please allow this letter to serve as the District's response to the audit findings.

While the District does not dispute the findings of the report, we feel that any report that fails to cite the volatile climate in which the District has been forced to operate is incomplete at best. Since the State imposed the "Gap Elimination Adjustment" the resulting cumulative loss of revenue to our District amounted to \$1,690,376. In addition the imposed Tax Levy Cap and legislated intimidation of loss of State Aid linked to negotiations of APPR agreements, created an unprecedented hostile financial environment in which to build responsible budgets.

See
Note 1
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The District has prepared budgets in these times guided by two fundamental principles. The first is the sustainment of educational programs for our District's children. The second is to be fiscally responsible to our community by providing budget and tax rate stability over time. We agree that sound budgeting, along with managing of fund balance and reserves, supports the District goals to maintain high quality programs, manage emergencies, address unexpected factors when projecting expenditures at the time of budget development. While it is true that during this time our unassigned fund balance has been over statutory limits, we believe that it should be noted that it has decreased by \$76,409 over the same period of time and that the district has taken steps to fund onetime expenditures and pay off debt in accordance with the spirit of the statute. These onetime expenses included the purchase of a bus and a plow truck, payments toward previous capital expenses and the paying off of a bus BAN totaled \$619,929 this fiscal year. Additionally, during this current budgetary process we have established a Capital reserve that will continue to allow us to progress towards compliance with this statute and plan for the long-term operational and capital plans of the District and bring our unassigned fund balance closer to statutory limits.

As cited in your report, the District has expended less than budgeted in such areas as special education, health care insurance, utilities and transportation salaries in an attempt to be prepared for unanticipated situations. While the District continues to budget for a certain level of unanticipated situations in the 2016-17 budget, it should be noted that we are working towards meeting the recommendations of the audit as evidenced by the overall decrease in projected expenditures of \$251,261 in the 2016-17 budget. However, a recent increase in students with disabilities and with a need of English as a Second Language support has decreased our desire to further decrease budgeting for unanticipated situations in regards to our program for children.

As always, we thank the Office of the State Comptroller for their insight and expertise. It has been extremely helpful to have a critical lens focused on our work.

Sincerely,

Scott Connell

"Equal Opportunity/Affirmative Action Employer"

APPENDIX B

OSC COMMENT ON THE DISTRICT'S RESPONSE

Note 1

Our audit assessed whether the Board adopted reasonable budgets and adequately managed the District's financial condition. Although budgetary decisions may have been influenced by the economic climate, the Board should ensure that fund balance remains within the provisions established by law.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed District officials and employees, tested records and examined documents for the period July 1, 2014 through December 31, 2015. We extended our audit scope back through the 2012-13 fiscal year to analyze historical fund balance, budget estimates and financial trends. Our examination included the following procedures:

- We interviewed District officials to gain an understanding of their budget development process and monitoring procedures and to determine whether the District adopted long-term financial and capital plans.
- We compared the general fund's revenues and appropriations in the original adopted budgets to the actual revenues and expenditures for fiscal years 2012-13 through 2014-15 to determine if total budgeted revenues and appropriations were realistic.
- We reviewed actual expenditures for fiscal years 2012-13 through 2014-15 to determine which expenditure types contributed the most to the District's budget-to-actual variances. We interviewed District officials to identify reasons for significant budget variances.
- We analyzed the use of appropriated fund balance in the general fund for fiscal years 2012-13 through 2014-15. We also compared the unassigned fund balance to the next year's budgeted appropriations to determine if the District was within the statutory 4 percent limitation.
- We reviewed tax warrants to identify the trend in the real property tax levy for the fiscal years 2012-13 through 2015-16.

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 D

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