



Granville Central School District Fund Balance

Report of Examination

Period Covered:

July 1, 2011 – December 31, 2015

2016M-114



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 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 Granville Central School District, entitled Fund Balance. 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 Granville Central School District (District) is located in the Towns of Granville, Hebron and Hampton and a portion of the Town of Whitehall in Washington 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 is the District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction.

The District operates three schools with approximately 1,100 students and 229 employees. The District's budgeted appropriations for the 2015-16 fiscal year were approximately \$26.7 million and were funded primarily with State aid and real property taxes.

Objective

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

- Did District officials ensure that the general fund balance was within statutory limits?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2011 through December 31, 2015.

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 recommendation 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 recommendation and indicated they planned 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 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.

Fund Balance

The Board is responsible for making sound financial decisions that are in the best interests of the District, the students it serves and the residents who fund the District’s programs and operations. Officials should develop long-term plans and manage fund balance responsibly to ensure that sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future expenditures. Fund balance represents moneys remaining from prior fiscal years that can be used to finance the next year’s budget, set aside in reserve funds for specific purposes, or both. According to New York State Real Property Tax Law (law), the Board may retain up to 4 percent of the ensuing year’s appropriations as unrestricted fund balance¹ as a financial cushion for unexpected events and for maintaining cash flow.

The Board has established a fund balance policy stating that the Board will keep unrestricted fund balance between a minimum of 2 percent of the ensuing year’s appropriations and the 4 percent maximum allowed by law. However, for the past four years the District did not comply with its policy and the law, retaining unrestricted fund balance of 20.2 to 22.6 percent of the ensuing year’s appropriations. These levels exceeded the statutory limit by more than \$4 million, or at least 16 percentage points, each year.

Figure 1: Unrestricted Fund Balance at Year-End

	2011-12	2012-13	2013-14	2014-15
Total Beginning Fund Balance	\$6,129,463	\$7,187,546	\$6,510,114 ^a	\$6,324,458
Add: Operating Surplus/(Deficit)	\$1,058,083	(\$549,837)	(\$185,656)	\$41,026
Total Ending Fund Balance	\$7,187,546	\$6,637,709	\$6,324,458	\$6,365,484
Less: Restricted Funds	\$277,597	\$277,906	\$150,612	\$300,914
Less: Encumbrances	\$20,957	\$27,010	\$2,672	\$76,945
Less: Appropriated Fund Balance for the Ensuing Year	\$1,330,000	\$1,094,600	\$934,000	\$561,971
Total Unrestricted Funds at Year-End	\$5,558,992	\$5,238,193	\$5,237,174	\$5,425,654
Ensuing Year’s Budgeted Appropriations	\$24,585,875	\$25,071,050	\$25,959,486	\$26,665,349
Unrestricted Funds as a Percentage of Ensuing Year’s Budget	22.6%	20.9%	20.2%	20.3%

^a The difference between the beginning fund balance and the prior year’s ending fund balance is due to a prior-year adjustment.

The District continued to retain excessive unrestricted fund balance even though its last three independent audit reports found the unrestricted fund balance to be in excess of the statutory limit. District officials have not implemented a corrective action plan to reduce the unrestricted fund balance to the statutory limit. The Business Manager

¹ For purposes of computing fund balance subject to law, unrestricted fund balance excludes reserves, appropriated fund balance and encumbrances.

said the District has not implemented a corrective action plan due to the uncertainty of potential State aid reductions and that, without the excess levels of unrestricted fund balance, the District would have had to cut programs and positions. Nonetheless, school districts must comply with the law governing the level of fund balance they are permitted to maintain.

Recommendation

1. The Board and District officials should ensure that the amount of the District's unrestricted fund balance is in compliance with statutory limits and the District's fund balance policy and reduce the amount of unrestricted fund balance in a manner that benefits District residents. Such uses could include, but are not limited to:
 - Using surplus funds as a financing source;
 - Funding one-time expenditures;
 - Funding needed reserves; and
 - Reducing District property taxes.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

GRANVILLE CENTRAL SCHOOL DISTRICT

Catherine Somich
Business Manager

58 Quaker Street
Granville, NY 12832
Phone: 518-642-1051

Mark Bessen
Superintendent of Schools

Connie Resetar
District Clerk

Audrey Hicks
BOE President

June 3, 2016

████████████████████
NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, N.Y. 12801

Dear ██████████:

The Board of Education and the Superintendent of Schools of the Granville Central School District are in receipt of the draft copy of your Report of Examination entitled *Fund Balance* for the period of July 1, 2011 through December 31, 2015, and the recommendations contained herein. Please allow this letter to serve as our written response.

We have reviewed the findings and recommendations reported in the Draft Audit Report and agree and accept the findings and recommendations listed within the Report.

The Granville Central School District has been transparent with the public in disclosing the amount of fund balance over the statutory limit of 4% and has used unassigned fund balance appropriations to balance the budget and keep the tax levy low due to declining state aid over the last five years. Starting in 2010-2011 and ending in 2015-2016, Granville Central School District was faced with a state withhold of over \$4.5 million dollars through legislation imposed by the "Gap Elimination Adjustment", GEA (See chart below) The District during these years

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	PROPOSED 2016-2017
STATE AID FOUNDATION AID	\$11,181,323	\$11,181,323	\$11,268,520	\$11,302,325	\$11,410,655	\$11,460,708	\$11,606,258
INCREASE IN FOUNDATION AID		0 0.00%	\$87,197 0.78%	\$33,805 0.30%	\$108,330 0.96%	\$50,053 0.44%	\$145,550 1.27%
GAP ELIMINATION ADJUSTMENT	(\$765,536)	(\$1,564,863)	(\$1,173,648)	(\$780,460)	(\$285,890)	(\$18,379)	(\$4,588,776)

appropriated and used unassigned fund balance in fiscal years 2012-2013, 2013-2014 and 2014-2015 to fund expenditures and keep the tax levy below the Property Tax Cap Maximum Allowable Levy. The District, had it complied with a 4% statutory limit in 2011-2012 would have reported \$983,435 in unassigned fund balance. However, the amount withheld that year in state aid under the Gap Elimination Adjustment (GEA) legislation was (\$1,564,863) (see chart). If the District had only 4 % in unassigned fund balance, the state aid decrease/ (GEA) would have put the district in a deficit spending position, forcing the district to eliminate many necessary programs and services beneficial to the student population. The deficit would have also necessitated a larger tax levy increase to the taxpayers. In 2011-2012, the tax levy increase was 1.5 %. In 2012-2013, the amount withheld by GEA legislation was (\$1,173,648). This additional decrease in state aid would have plunged the district into fiscal distress. That year, using fund balance, the district was able to implement a -0- percent increase to the tax levy.

See
Note 1
Page 9

See
Note 2
Page 9

We recognize the last six years have been exceptionally difficult years for school districts due to fiscal constraints imposed by the Gap Elimination Adjustment, Property Tax Cap and inequitable State Aid funding. We are encouraged that the Gap Elimination Adjustment has been eliminated by the legislature as of the 2016-17 funding year and feel that we can now plan to use our unassigned fund balance to move forward with capital building projects and funding one time expenditures while continuing to use funds to keep the tax levy low to our taxpayers.

We believe this audit report is an important tool to use in our strategic planning efforts and sincerely appreciate the work of your examiners in helping us plan for the future. The Administration will develop a Corrective Action Plan based upon the recommendations made by your office and submit it to you within the next sixty (60) days.

Thank you for the professionalism exhibited by your auditors throughout the audit review period. We look forward to working with you on accomplishing the recommendations in this report.

Respectfully,

Mark Bessen
Superintendent of Schools

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

In 2011-12, despite the decrease in State aid, the District ended the fiscal year with an operating surplus totaling \$1,058,083 which increased fund balance rather than requiring the use of excess funds.

Note 2

From 2011-12 to 2014-15 the District's unrestricted fund balance decreased by \$133,338 while the year-end total remained at over 20 percent of the following year's budgeted appropriations, which would not have resulted in fiscal distress.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and reviewed Board meeting minutes to gain an understanding of the budgeting process for the general fund, including the rationale for determining the amount of unrestricted fund balance available for appropriation and the procedures for monitoring and controlling the budget.
- We calculated the general fund's unrestricted fund balance as a percentage of the ensuing year's appropriations to determine if the District was within the statutory limitation during fiscal years 2011-12 through 2014-15.

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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