Office of the New York State Comptroller

Division of Local Government
& School Accountability

LaFargeville Central School District

Financial Condition

Report of Examination

Period Covered:

July 1, 2014 – April 30, 2016

2016M-216

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

September 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 LaFargeville 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 LaFargeville Central School District (District) is located in the Towns of Alexandria, Clayton, Le Ray, Orleans, Pamelia and Theresa in Jefferson County. The District is governed by the Board of Education (Board), which is composed of five 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 560 students and 90 employees. The District's budgeted appropriations for the 2015-16 fiscal year were approximately $11 million, which were 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 officials adopt reasonable 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 April 30, 2016. We extended our audit scope back to July 1, 2012 to analyze financial trends in prior years.

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 indicated in Appendix A, District officials generally agreed with our recommendations and indicated they plan to initiate 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 should adopt structurally balanced budgets in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. The Board is responsible for estimating what the District will spend and what it will receive in revenue, estimating how much fund balance will be available at fiscal year-end and determining what the expected tax levy will be. Accurate budget estimates help ensure the tax levy is not greater than necessary. Budgets should be based on prior years' operating results, past expenditure trends and anticipated future needs.

Fund balance represents resources remaining from prior fiscal years that can be used to finance the next year's budget or set aside in reserve funds for specific purposes. The Board may retain a portion of fund balance for unexpected events and maintaining cash flow. Currently, New York State Real Property Tax Law (RPTL) limits the amount of unrestricted fund balance that a school district can retain to no more than 4 percent of the subsequent year's budget. When fund balance is appropriated, the expectation is that there will be an operating deficit (budgeted expenditures exceeding budgeted revenues), financed by the appropriated fund balance. Sound budgeting practices provide that adopted annual budgets should not routinely appropriate fund balance that will not be used.

Finally, it is important for the Board to develop 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. Planning on a multiyear basis allows District officials to identify developing revenue and expenditure trends and set long-term priorities and goals. It also allows them to assess the impact and merits of alternative approaches (such as using unassigned fund balance or establishing and using reserves) to finance operations and capital needs.

From fiscal years 2012-13 through 2014-15, the Board overestimated appropriations by an average of $1.4 million or 15.2 percent and appropriated an average of $1 million in fund balance annually in its adopted budget. These practices made it appear that the District was in compliance with the RPTL limit on unrestricted fund balance. However, because the Board overestimated appropriations in each of these years, the District generated operating surpluses and, therefore, none of the appropriated fund balance was actually used. After factoring in the unused appropriated fund balance, the recalculated unrestricted fund balance over the three-year period averaged 13.5 percent of the ensuing years' appropriations. Lastly, District officials did not adopt a multiyear financial or capital plan.

Budgeting and Fund Balance – The Board and District officials overestimated appropriations when developing 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. While revenue estimates appeared reasonable and generally close to the actual revenues received, expenditure estimates exceeded actual expenditures by an average of nearly $1.4 million or 15.2 percent over the three-year period, as shown in Figure 1.

Figure 1: Expenditure Variances

Fiscal Year	Appropriations	Expenditures	Difference	Percentage Difference
2012-13	$10,163,046	$8,770,614	$1,392,432	15.9%
2013-14	$10,528,501	$9,182,921	$1,345,580	14.7%
2014-15	$10,700,812	$9,304,137	$1,396,675	15.0%
Average	**$10,464,120**	**$9,085,891**	**$1,378,229**	**15.2%**

The majority of the average annual overestimated expenditures during this three-year period were for health insurance ($320,000 or 26 percent), regular school teaching salaries ($282,000 or 12 percent), special and occupational education ($260,000 or 27 percent) and transportation[1] ($196,000 or 194 percent). District officials told us they routinely overestimate some expenditures due to factors that make it difficult to budget accurately. For example, the Business Manager and Board President told us that the health insurance variance is due to the uncertainty at budget time regarding whether an employee participating in the District's health insurance buyout[2] option may need insurance coverage due to a life-changing event.

The District has reported year-end unrestricted fund balance at levels that were close to or at the 4 percent statutory limit for fiscal years 2012-13 through 2014-15. This was accomplished, in part, by appropriating fund balance each year. District officials appropriated about $1 million of fund balance in each of the past three fiscal years, which should have resulted in operating deficits each year and reduced the year-end fund balance. However, the District experienced operating surpluses each year that averaged about $225,000 annually. As a result, the District did not use any of the appropriated fund balance. Fund balance has increased each year from $2.5 million as of July 1, 2012 to $3.2 million as of June 30, 2015, as illustrated in Figure 2.

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1 We included the transportation materials and supplies and diesel fuel and gas budget accounts.

2 The District pays a stipend to employees who receive health insurance from a source other than the District. The open enrollment period for this is in June of each school year (June 1 through June 30).

Figure 2: Unrestricted Fund Balance at Year-End			
	2012-13	2013-14	2014-15
Total Beginning Fund Balance[a]	$2,528,443	$2,867,243	$2,996,478
Plus: Operating Surplus/(Deficit)[b]	$338,779	$129,235	$206,874
Total Ending Fund Balance	$2,867,222	$2,996,478	$3,203,352
Less: Restricted Fund Balance [c]	$1,168,246	$1,467,680	$1,654,220
Less: Appropriated Fund Balance for the Ensuing Year	$1,065,000	$995,000	$995,000
Less: Encumbrances	$212,726	$100,301	$111,450
Unrestricted Fund Balance at Year-End	$421,250	$433,497	$442,682
Ensuing Year's Budgets	$10,528,501	$10,700,812	$10,882,981
Unrestricted Fund Balance as a Percentage of Ensuing Year's Budgets	4.0%	4.1%	4.1%

[a] Includes prior period adjustments and other minor adjustments
[b] Includes interfund transfers
[c] Consists of the following reserves: Unemployment Insurance, Retirement Contribution, Property Loss, Tax Certiorari, EBALR and Capital

The Board's practice of consistently planning operating deficits by appropriating fund balance that was not needed to finance operations resulted in the District exceeding the fund balance statutory limit, as indicated in Figure 3. When unused appropriated fund balance was added back, the District's recalculated unrestricted fund balance exceeded the statutory limit, ranging between 13.3 and 14.1 percent of the ensuing year's appropriations at the end of the 2012-13 and 2013-14 fiscal years. During 2014-15, the District appropriated $995,000 for the 2015-16 budget. Based on 2015-16 projected year-end operating results, we estimate that the District will generate another operating surplus and again not use any of its appropriated fund balance. As such, we expect the District's recalculated unrestricted fund balance will continue to exceed the statutory limit.

Figure 3: Unused Fund Balance			
	2012-13	2013-14	2014-15
Total Unrestricted Funds at Year-End	$421,250	$433,497	$442,682
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	$1,065,000	$995,000	$995,000
Total Recalculated Unrestricted Funds	$1,486,250	$1,428,497	$1,437,682
Recalculated Unrestricted Funds as Percentage of Ensuing Year's Budget	14.1%	13.3%	13.2%

The District increased the tax levy from $3.4 million in 2012-13 to $3.7 million in 2015-16, an increase of about 8.8 percent. The District's accumulation of fund balance may have resulted in the tax levy being higher than necessary. For 2016-17, the Board appropriated $995,000 of fund balance. Based on our review of the budgeted appropriations, the Board has not reduced three of the overestimated budget codes from prior years, as discussed earlier in this report. However, the Board did reduce transportation appropriations by approximately $70,000 for 2016-17. We believe it is likely the District will generate another operating surplus in 2016-17.

Multiyear Planning – The Business Manager has developed a long-term planning model that is used when preparing the District's annual budget. However, the Board has not officially adopted this or any other multiyear plan to address the District's use of its excess fund balance. The Board President told us that the Board will develop a formal multiyear financial plan once it receives the results of the District's building condition survey, which all school districts are required to develop every five years. Without a long-term plan, the Board may not be able to adequately assess its future capital and operational costs and financing sources or adequately address the District's excessive fund balance.

Recommendations

The Board should:

1. Adopt budgets that represent the District's actual needs, based on current information and historical data.

2. Discontinue the practice of adopting budgets that result in the appropriation of fund balance that will not be used.

The Board and District officials should:

3. Formulate a long-term multiyear capital and operational plan that addresses the use of excess unrestricted fund balance in the general fund in a manner that benefits District residents. Such uses could be a financing source for:

   - Funding one-time expenditures;
   - Establishing necessary 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 page.

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Central School District

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September 13, 2016

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

Dear Ms. Wilcox:

The LaFargeville Central School District is in receipt of the draft Report of Examination on the District's financial condition for the period of July 1, 2014 – April 30, 2016. On behalf of the Board of Education and District Administration, we appreciate the opportunity to respond to the findings of this report.

We acknowledge that during the period reviewed in the audit the appropriated fund balance was not fully utilized, however we continue to stand by our budgeting practices and cannot commit to the use of appropriated fund balance in its entirety. Future budgets will continue to be planned to utilize a portion of the appropriated fund balance, however the District must look forward when developing the budget and cannot always anticipate when key elements of the budget will increase or decrease. The District may budget on trends, but must be prepared to cover any and all expenses.

See Note 1 Page 10

The LaFargeville Central School District officials and Board of Education are always mindful of student needs and fiscal responsibilities. We stand behind all budget decisions made over the audit period as being educationally sound for our students and fiscally responsible to our taxpayers.

Sincerely,

Travis Hoover
Superintendent

APPENDIX B

OSC COMMENT ON THE DISTRICT'S RESPONSE

Note 1

The District appropriated an average of $1 million in the 2012-13 through 2014-15 budgets, but it did not actually use any of it. Instead, the District generated annual operating surpluses, which increased fund balance by about $675,000 over the three-year period. Our report does not recommend that the District use all of its appropriated fund balance each year. We do recommend that District officials adopt realistic budgets to avoid the further accumulation of fund balance.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to evaluate the District's financial condition for the period July 1, 2014 through April 30, 2016. We extended our audit scope back to July 1, 2012 to analyze financial trends in prior years. To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials to gain an understanding of their budget development process and budget monitoring procedures and to determine whether the District adopted long-term financial and capital plans.

- We reviewed the results of operations and analyzed changes in fund balance for the general fund from July 1, 2012 through June 30, 2015.

- We compared the adopted budgets to operating results from July 1, 2012 through April 30, 2016 to determine if the budget assumptions for revenues and expenditures were reasonable. We interviewed District officials to identify reasons for significant budget variances.

- We reviewed the appropriation of fund balance from July 1, 2012 through June 30, 2015. We also compared the unrestricted fund balance to the next year's budgeted appropriations to determine if the District was within the statutory 4 percent limitation.

- We reviewed adopted budgets to identify the trend in real property tax levies from 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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