



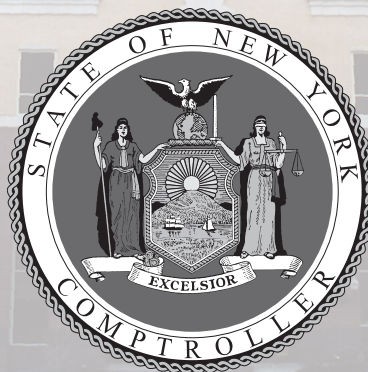
Sackets Harbor Central School District Financial Condition

Report of Examination

Period Covered:

July 1, 2014 – November 30, 2015

2016M-89



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 Sackets Harbor 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 Sackets Harbor Central School District (District) is located in the Towns of Adams, Henderson and Hounsfield 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 day-to-day District management under the Board's direction. The Board appoints the Business Manager, who also serves as District Treasurer and is actively involved with business operations.

The District operates one school with approximately 450 students and 90 employees. The District's budgeted appropriations for the 2015-16 fiscal year are \$8.3 million, 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 adopt reasonable budgets and effectively manage the District's financial condition?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2014 through November 30, 2015. We extended our audit scope back to 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 B 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 agreed with the findings in the report and indicated they plan to initiate corrective action.

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 has consistently overestimated appropriations in its adopted budgets by about 9 percent over the past three years. As a result, a significant portion of the fund balance appropriated in the general fund was not needed to finance operations and unassigned fund balance has exceeded the 4 percent legal limit from fiscal years 2012-13 through 2014-15. The District has reduced the reported level of year-end unassigned fund balance from 12 percent of the ensuing year's budget at the end of 2012-13 to 8.6 percent at the end of 2014-15. However, when the unused appropriated fund balance was added back, the recalculated unassigned fund balance exceeded 15 percent of the next year's appropriations in all three years.¹

Budgeting and Fund Balance

Sound budgeting practices based on accurate estimates, along with prudent fund balance management, can help 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 school district may retain a portion of fund balance within the limits established by 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 prepared and adopted budgets for the last three fiscal years (2012-13 through 2014-15). We compared the District's general fund budgeted revenues and appropriations with actual results of operations for this period. The District's revenue estimates were generally close to the actual revenues received; however, officials consistently presented, and the Board approved, budgets that overestimated appropriations for this

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

period. As a result, the District spent an average of approximately \$686,000 less than planned each year and consistently budgeted for the use of about \$1.9 million of fund balance and reserves each year, most of which was not needed. The District’s budget variances for expenditures are shown in Figure 1.

Fiscal Year	Appropriations	Expenditures	Difference	Percentage Difference
2012-13	\$7,900,835	\$7,129,998	\$770,837	9.8%
2013-14	\$7,994,595	\$7,412,138	\$582,457	7.3%
2014-15	\$8,230,255	\$7,525,915	\$704,340	8.6%
Total	\$24,125,685	\$22,068,051	\$2,057,634	8.5%

The overestimated appropriations generally were spread throughout budget line items in the general fund. However, the largest variances between budgeted appropriations and actual expenditures during the three-year period were in the following line items: plant operation – natural gas (\$145,834, or 56 percent), plant operation – electric (\$136,536, or 49 percent), special education – Board of Cooperative Educational Services (BOCES) (\$280,129, or 42 percent) and occupational education – BOCES (\$171,219, or 31 percent).

District officials told us the cost of natural gas and electricity has been unusually low the past several years. They expect these costs to increase and want to ensure the budget takes these expected increases into account when they occur. District officials told us that the special education students they budget for can leave the District either prior to the start of the school year or during the school year, and these costs can vary significantly due to student needs. District officials explained that the students will often sign up for occupational education classes through BOCES and then decide not to attend when the school year begins. District officials try to address this by budgeting slightly lower numbers than provided. However, they still end up with higher budgets than necessary. District officials explained that there needs to be some flexibility within the budget because the District is not allowed to spend more than budgeted.

Because the Board did not adopt budgets with more accurate expenditure estimates, 95 percent of the appropriated fund balance was not needed to fund operations as planned. As shown in Figure 2, the District used approximately \$92,000 of the \$1.9 million in appropriated fund balance because actual revenues exceeded expenditures in two of the last three years.

Figure 2: Unassigned Fund Balance at Year-End			
	2012-13	2013-14	2014-15
Total Beginning Fund Balance	\$1,903,604	\$2,015,114	\$1,923,149
Plus: Operating Surplus/(Deficit) ^a	\$111,510	(\$91,965)	\$90,378
Total Ending Fund Balance	\$2,015,114	\$1,923,149	\$2,013,527
Less: Restricted Fund Balance (Reserves)	\$408,680	\$518,002	\$743,750
Less: Appropriated Fund Balance for the Ensuuing Year	\$650,000	\$650,000	\$550,000
Unassigned Fund Balance at Year-End	\$956,434	\$755,147	\$719,777
Ensuuing Year's Budgeted Appropriations	\$7,994,595	\$8,230,255	\$8,337,098
Reported Unassigned Fund Balance as a Percentage of Ensuuing Year's Budgets	12.0%	9.2%	8.6%
^a Includes interfund transfers			

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 significantly exceeded the statutory limit, are 18.9 and 17.1 percent of the ensuing year's appropriations at the end of the 2012-13 and 2013-14 fiscal years, respectively. During 2014-15, the District appropriated \$550,000 for the 2015-16 budget. However, the District estimates that it will have a small operating surplus and will not use any of the appropriated fund balance. As such, we project the District's recalculated unassigned fund balance will be about 15 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	\$956,434	\$755,147	\$719,777
Add: Appropriated Fund Balance Not Used to Fund Ensuuing Year's Budget	\$558,022	\$650,000	\$550,000 ^a
Total Recalculated Unassigned Funds	\$1,514,456	\$1,405,147	\$1,269,777
Recalculated Unassigned Funds as Percentage of Ensuuing Year's Budget	18.9%	17.1%	15.2%
^a Estimated			

The result 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 and a negligible operating deficit in the other year. The District increased the tax levy from \$3,714,974 in 2012-13 to \$3,929,264 in 2015-16, an increase

of about 5.8 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 District officials 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 can help District officials identify developing revenue and expenditure trends, set long-term priorities and goals and avoid large fluctuations in tax rates. Multiyear plans can also help District officials assess the effects and merits of alternative approaches to address financial issues, such as using unrestricted 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 set by District officials. 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.

While the District does not have a formal capital plan, District officials have had routine Board discussions regarding general long-term plans for specific District projects and other long-term priorities. District officials also use the District's building condition survey as the basis for their capital planning efforts. However, District officials have not created a multiyear financial plan. It is important for the Board and District officials to develop an effective multiyear financial plan so they can better manage the use of the District's unassigned fund balance and reserve funds and establish practical goals to help 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 that provides the District with an adequate financial cushion in case of unforeseen circumstances. However, the District's reported unassigned fund balance as of June 30, 2015 was more than twice the statutory limit. If current budgeting practices continue, the District's excessive fund balance will continue to grow.

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 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, reducing property taxes, paying off debt, establishing necessary reserves or financing one-time expenditures.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Frederick E. Hall, Jr., Superintendent
Jennifer Gaffney, Principal
Julie Gayne, Treasurer
Sheri Rose, District Clerk



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May 6, 2016

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

Dear Ms. Wilcox:

Please accept this letter as the Sackets Harbor Central's District Response and Corrective Action Plan as a result of the School District's recent Comptroller's Audit. This letter shall also serve as notice that we are in receipt of the Draft Financial Condition Report of Examination for the period covered: July 1, 2014 – November 30, 2015. The District is pleased that this extensive examination confirmed no findings of material weakness, operational improprieties, fraud, waste, or abuse.

After close review of the financial examination, the Sackets Harbor Central School District does not dispute the findings of the report. However, it also wishes to note that it is important to respond to these findings so that an accurate context is provided, as well as the District's corrective action plan going forward. We do recognize that the District must strive to meet the provisions established by law, all while being impacted by the economic conditions facing school districts across the State in the formation of their budgets.

The economic conditions during the "Great Recession" created difficult and unintended affects that have had short and long term impacts to how revenues are relied upon in our School District's budgets. Beginning in the 2010-2011 school year, New York State imposed a "Gap Elimination Adjustment (GEA)" on the Sackets Harbor Central School District resulting in a total of \$2,580,380 of withheld revenue. Near stagnate Foundation Aid increases in the amount of \$9,506 over eight budget cycles (annual average dollar increase of \$1,188) has made for a difficult balance between revenue and expenditures in creating our District's budgets. During this same period, Tax Cap Levy legislation was approved changing the manner in which local school districts could potentially increase local property taxes. Additionally, the coupling of any state aid increases to school districts' approved negotiated Annual Professional Performance Review (APPR) evaluation documents, created a precarious financial environment in which to build reliable and responsible budgets.

The Board of Education and Administration have taken their fiduciary responsibility in formulating spending plans and day to day financial operations very seriously. We have employed a balance to ensure that as revenues were decreased, the offset did not disproportionately impact any other revenue source. Since 2009, the District has had an average tax levy increase of 1.8% and an annual budget

increase over the same period of 1.25%. All the while enduring unprecedented financial turbulence and negligible mandate relief promised to assist school districts and municipalities throughout New York State.

Important to note, the District has established tax certiorari accounts, a Capital Reserve account to offset the local share of any building or capital expenditures, and decreased the debt service liability of the District, which results in significant relief to the School District's taxpayers. All of which occurred prior to the Office of the State Comptroller's Audit and are in compliance with Recommendation # 3.

Corrective Action Plan:

Recommendation #1:

The Board of Education's Budget development includes an extensive review of prior year expenditures, in addition to known increases in ongoing fixed and legacy costs, all the while projecting fluctuating costs such as Special Education placements, Jefferson-Lewis BOCES Services, and new mandated regulations. The Board of Education and Administration will continue this process to conservatively formulate a taxpayer voter approved budget that sustains mandated and high quality educational programming for long-term student achievement, while minimizing tax levy volatility for our taxpaying community.

Recommendation #2:

The Sackets Harbor Central School District acknowledges that General Fund unassigned fund balance exceeds the State statutory limit and the Board of Education and Administration has been strategically trending the balance downward towards compliance. As the District strives to contain costs, any "potential/possible/probable" expenses that may not materialize in the actual spending year, become part of the District's fund balance. The District's plan to utilize fund balance includes maintaining stable property tax levies, the continual funding of the voter approved Capital Reserve which will mitigate the local taxpayer portion, potential tax certiorari claims, and minimizing and reducing potential debt service. These are shared and discussed at Board of Education budget development meetings.

Recommendation #3:

As noted in the Comptroller's Report, the School District has been working on a long term Capital Plan beginning in 2013 that ensures the timely coordination of current debt service final payment with that of any future potential capital project payment. By utilizing Capital Reserve funds, the Board of Education anticipates reducing/minimizing the impact to the local property owner. The Board of Education will continue to formalize operational and capital plans to maximize the benefit to District residents with a tactical approach to meeting fund balance compliance.

The Sackets Harbor Central School District wishes to express our gratitude for the insight that was provided by the Office of the State Comptroller's Office during this audit process. The staff were most professional and willing to work with the School District staff to complete this audit in an efficient and effective manner.

Sincerely,

Frederick E. Hall, Jr.
Superintendent

APPENDIX B

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 November 30, 2015. We extended our audit scope back to 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 and reviewed Board meeting minutes, resolutions and the policy manual to gain an understanding of the process and procedures for financial management.
- We reviewed the results of operations in the general fund for 2012-13 through 2014-15.
- We calculated the unassigned fund balance in the general fund as a percentage of the ensuing year's appropriations to determine if the District was within the statutory limit at the end of the 2012-13 through 2014-15 fiscal years.
- We analyzed the trend in total fund balance, including the use of appropriated fund balance, in the general fund for 2012-13 through 2014-15. We compared the appropriated fund balance to the same year's operating results to determine if the appropriated fund balance was actually used.
- We compared the revenues and appropriations to the actual revenues and expenditures for the general fund for 2012-13 through 2014-15 to determine if the District's budgets were reasonable.
- We reviewed the trend of real property tax rates, levies and assessments for 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.

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