



Sauquoit Valley Central School District Financial Condition

Report of Examination

Period Covered:

July 1, 2014 – January 31, 2016

2016M-88



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 Sauquoit Valley 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 Sauquoit Valley Central School District (District) is located in the Towns of Bridgewater, Kirkland, Marshall, New Hartford and Paris in Oneida County and the Towns of Frankfort and Litchfield in Herkimer County. The District is governed by an elected seven-member Board of Education (Board). 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 day-to-day management of the District under the Board's direction.

The District operates three schools with approximately 1,000 students and 165 employees. The District's budgeted appropriations for the 2015-16 fiscal year are \$20 million, which are funded primarily with State aid and real property taxes.

The District is a component unit of the Questar III Board of Cooperative Educational Services (BOCES). The District contracts with this BOCES for a Business Manager, who is responsible for the District's day-to-day financial operations.

Objective

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

- Did District officials develop a long-term plan to maintain financial stability?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2014 through January 31, 2016. We expanded our scope back to July 1, 2012 to review trends in the District's financial condition.

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 generally agreed with our recommendations 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

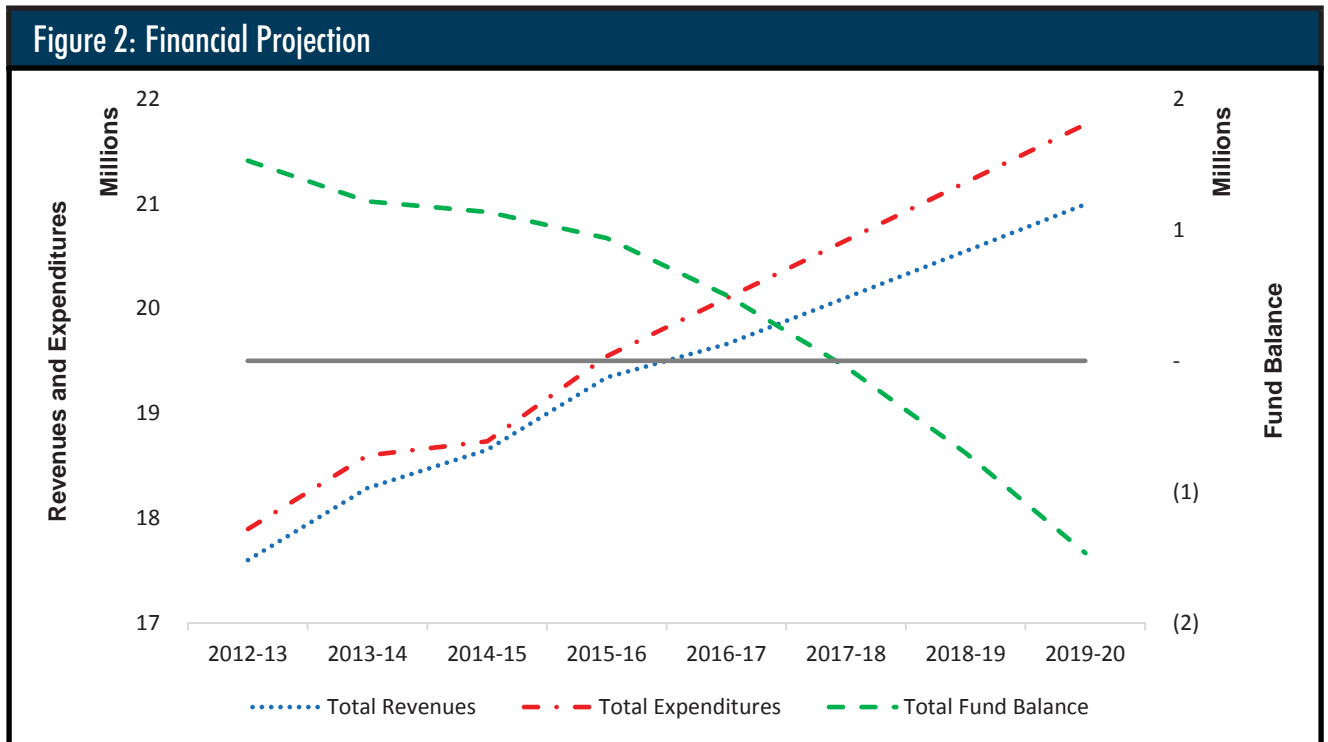
Financial stability may be defined as a school district’s ability to balance recurring expenditure needs with recurring revenue sources, while providing desired services on a continuing basis. It is essential that District officials develop reasonable, structurally balanced budgets and manage fund balance responsibly to ensure that sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future expenditures. To accomplish these financial goals, District officials should develop a long-term plan to ensure desired services can continue to be funded with available revenue sources, including real property taxes and fund balance.

District officials have not developed a long-term financial plan to maintain financial stability. The District has experienced operating deficits totaling \$686,600 from the 2012-13 through the 2014-15 fiscal years. While the District did not use as much fund balance as planned in these years, the continued use of fund balance to finance operations is not a long-term solution. Furthermore, the District has one reserve with less than \$5,000 and unrestricted fund balance is less than 2 percent of the 2015-16 budgeted appropriations. We project that the District will experience an operating deficit of approximately \$200,000 for the 2015-16 fiscal year, as indicated in Figure 1.

Figure 1: Operations and Fund Balance				
	2012-13	2013-14	2014-15	2015-16 ^a
Beginning Fund Balance	\$1,825,169	\$1,529,491	\$1,218,748	\$1,138,569
Revenues	\$17,599,051	\$18,286,980	\$18,651,875	\$19,343,868
Expenditures	\$17,894,729	\$18,597,723	\$18,732,054	\$19,544,290
Operating Deficit	(\$295,678)	(\$310,743)	(\$80,179)	(\$200,422)
Ending Fund Balance	\$1,529,491	\$1,218,748	\$1,138,569	\$938,147
Less: Appropriated Fund Balance	\$817,183	\$817,183	\$727,683	
Less: Restricted Fund Balance	\$25,697	\$17,014	\$32,139	
Unrestricted Fund Balance	\$686,611	\$384,551	\$378,747	
Percentage of Ensuing Year's Budgeted Appropriations	3.64%	1.97%	1.89%	
^a Results are projected as of January 2016 operating results.				

Since the 2012-13 fiscal year, expenditures have grown at an average annual rate of 3.1 percent, while revenues have increased at an average annual rate of 2.6 percent. The District has levied taxes to the

maximum without exceeding the real property tax cap.¹ However, during these years, revenues – including real property taxes – have not been sufficient to fully fund expenditure growth. This gap has been filled by appropriating fund balance. District officials have expressed a desire to maintain their current programs, but have not had a long-term plan in place to fund these programs with recurring revenue sources. Based on our projections of operating results and fund balance, if District finances continue on this trend, we estimate the District will exhaust fund balance in the 2017-18 fiscal year, as indicated in Figure 2.



Since fund balance is a finite resource, consistently relying on it as a budgetary financing source could be detrimental to the District’s financial stability. Without a long-term financial plan to decrease expenditures or increase revenues, District officials may need to consider other options to fund the financing gap.

Recommendations

District officials should:

1. Develop a long-term financial plan to decrease expenditures, increase revenues or both.

¹ By law, the District’s real property taxes levied annually generally cannot increase more than 2 percent, or the rate of inflation, whichever is lower, with some exceptions. Districts may override the tax levy limit by presenting the voters with a budget that exceeds the statutory limit. However, that budget must be approved by 60 percent of District voters.

2. Reduce the reliance on fund balance and adopt budgets where recurring expenditures are funded by recurring revenues.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Sauquoit Valley Central School District

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May 13, 2016

H. Todd Eames, Chief Examiner
Office of the State Comptroller
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State Office Building, Suite 1702
44 Hawley Street
Binghamton, NY 13901-4417

Dear Mr. Eames:

We are in receipt of the audit report for Sauquoit Valley Central School District and have reviewed the draft report with the staff that completed the fieldwork. First, let us express our appreciation for the professionalism of the staff and extend our thanks for their efforts to make the process as minimally disruptive as possible as they performed their fieldwork.

The objective of the audit was to review the District's financial condition with a related question; Did the district officials develop a long-term plan to maintain financial stability?

Recommendations from the audit included two items:

1. Develop a long-term financial plan to decrease expenditures and/or increase revenues.
2. Reduce the reliance on fund balance and adopt budgets where recurring expenditures are funded by recurring revenues.

Generally, we agree with the recommendations and recognize the need to develop a plan to bring recurring expenditures in line with available recurring revenues. We submit this letter as our response to the audit report and also as the Corrective Action Plan to the recommendations in the report.

Before providing our corrective actions we would like to take a moment to express our concern regarding two actions from our State government that have impeded our district's ability to maintain fiscal health and offer the educational programming we believe is necessary for our students.

Our mission is to ensure that each student will become a life-long learner and a responsible citizen in an ever-changing world.

May 13, 2016
H. Todd Eames, Chief Examiner
Office of the State Comptroller
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1. Stagnant assistance from NYS (demonstrated by our Foundation Aid being \$7,720,475 in 2009-10 and our Foundation Aid minus GEA equaling \$7,557,356 in 2015-16).
2. A tax cap that as designed does not foster sound fiscal decision making, unfairly penalizes school districts for taking actions beneficial to its taxpayers, and has legislated financial penalties to taxpayers of a district should they decide to override the tax cap.

This is not the forum to review these issues in detail but we thought it necessary to at least point out that the playing field for school districts to maintain what they have had is clearly not favorable. One may argue that this was necessary to reign in uncontrolled spending by school districts. Even if that were the case, when does the constriction stop? Perhaps not until after the most vulnerable schools can exist no longer. Sauquoit has experienced the ill effects of these actions over the past several years.

Corrective Action Plan

Item #1: District officials should develop a long-term financial plan to decrease expenditures and/or increase revenues.

Response: As the district developed and adopted the 2016-17 budget considerable discussion ensued regarding how to better address the annual exercise of identifying what cuts will need to be made. As a result, the Board is committed to taking a more long-term approach to the district's financial planning. Preliminarily, administration and the Board will work with a committee of residents to better educate everyone on the fiscal constraints the district faces. We will project future financial estimates and in the end make some conclusions as to what is most important to the community. Going with the assumption that sufficient financial assistance will not be available from the State for the foreseeable future the conclusions will focus on reductions in programming of the district or exceeding the tax cap to raise additional funds locally. We expect the work with the committee to begin this summer with recommendations developed prior to the conclusion of the budget process for 2017-18 in the spring of 2017.

Item #2: District officials should reduce the reliance on fund balance and adopt budgets where recurring expenditures are funded by recurring revenues.

Response: The district began to address the reliance on fund balance with the 2014-15 budget as is evident by the loss of \$80,179 in that year compared to an average of over \$300,000 in the two years prior. It was expected that the 2015-16 budget would generate a positive net result for the year when adopted last Spring. However, extraordinary increases in our special education programs as the year has progressed will result in a financial loss for 2015-16 as well.

May 13, 2016
H. Todd Eames, Chief Examiner
Office of the State Comptroller
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In 2012-13 and 2013-14 budgets were developed with an understanding that use of fund balance would be necessary to maintain the programs of the district. Since that time the budgets that have been developed start with the expectation that a minimal amount or no fund balance will be needed to fund the operations. In these difficult financial times however, budgets are built with such a thin margin that nearly everything has to go exactly as planned otherwise losses will occur and fund balance will be utilized.

In future years the district will continue to prepare budgets that do not rely on fund balance to fund operations. Appropriated fund balance will be utilized as a contingency for unplanned expenses and will not be relied upon to fund the expected cost of operations each year.

Thank you for allowing us to respond to the audit findings. We will make every effort to improve the fiscal sustainability of the Sauquoit Valley Central School District.

Sincerely,

Ronald Wheelock
Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review the District's financial condition for the period July 1, 2014 through January 31, 2016. We expanded our scope back to July 1, 2012 to review trends in the District's financial condition. To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials to identify cost saving and revenue enhancement measures the District has taken and to identify if the District has a long-term financial plan.
- We analyzed the District's financial condition by reviewing historical trends in budgets, revenues, expenditures and fund balance.
- We used January 2015, June 2015 and January 2016 financial records to project the results of operations and ending fund balance for the 2015-16 fiscal year. Based on historical operating trends and the 2015-16 estimated results, and assuming a 2 percent increase in property taxes, we calculated when the District would exhaust fund balance.

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 C

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