



# Sharon Springs Central School District Financial Condition

## Report of Examination

Period Covered:

July 1, 2014 – November 30, 2015

2016M-39



Thomas P. DiNapoli

# Table of Contents

	Page
<b>AUTHORITY LETTER</b>	1
<b>INTRODUCTION</b>	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	3
<b>FINANCIAL CONDITION</b>	4
Recommendations	7
<b>APPENDIX A</b> Response From District Officials	8
<b>APPENDIX B</b> Audit Methodology and Standards	12
<b>APPENDIX C</b> How to Obtain Additional Copies of the Report	13
<b>APPENDIX D</b> Local Regional Office Listing	14

# 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 Sharon Springs 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 Sharon Springs Central School District (District) is located in the Towns of Carlisle, Seward and Sharon in Schoharie County; the Towns of Cherry Valley and Roseboom in Otsego County; and the Towns of Canajoharie and Root in Montgomery 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 Business Official is responsible for managing the District's financial operations and overseeing the work of the Business Office staff.

The District operates one school with approximately 300 students and 80 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$9.3 million, which were funded primarily with State aid, real property taxes and grants.

Since 1994, the District has been receiving annual revenues of \$36,400 in payments in lieu of taxes (PILOT) from an agreement with a national retailer for a distribution center in the Town of Sharon. This PILOT agreement expired in May 2015 and was renegotiated effective June 2015 with the District receiving \$390,000 per year for 10 years. The renegotiated agreement increased the total revenue the District receives and increased the percentage share<sup>1</sup> the District receives from the agreement.

## Objective

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

- Did the Board appropriately 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. To analyze the District's budgeting and financial trends, we extended our scope period back to July 1, 2012 as well as forward to June 30, 2016 to project results of operations.

---

<sup>1</sup> The District's share increased from 30.3 percent to 40 percent. The PILOT agreement, which is between the national retailer and the Schoharie County Industrial Development Agency, increased the annual payment from \$120,000 to \$975,000 and is shared by the District, the Town of Sharon, the Village of Sharon Springs and Schoharie County.

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 planned 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 accountable to District residents for the use of financial resources including effectively planning and managing the financial operations and fund balance. Accurate budget development, along with proper monitoring and control, is an effective way to ensure fund balances are reasonable. It is essential that District officials develop reasonable, structurally balanced budgets to balance recurring expenditure needs with recurring revenue sources while providing desired services on a continuing basis and to manage fund balance responsibly and stay within statutory limits.<sup>2</sup> Prudent management includes establishing reserves to address long-term obligations or planned future expenditures and using remaining fund balance, exclusive of that allowed by law to be retained to address cash flow and unexpected occurrences, in a manner that benefits District residents, such as to reduce the local tax levy or pay down debt.

Over the three-year period ending June 30, 2015, the Board ensured that unrestricted fund balance was within the 4 percent statutory limit of the ensuing year's appropriations, and the District's six reserves were reasonably funded. However, each year, the Board appropriated more fund balance than needed, which artificially lowered the percentage to within the 4 percent statutory limit. Instead of having operating deficits totaling \$2.9 million, as planned based on the appropriation of fund balance, the District's net result of operations for the three-year period was a surplus of approximately \$19,000. With the inclusion of the unused appropriated fund balance, the fund balance ranged from 13 percent to 15.8 percent of the ensuing year's appropriations, resulting in higher than necessary real property tax levies.

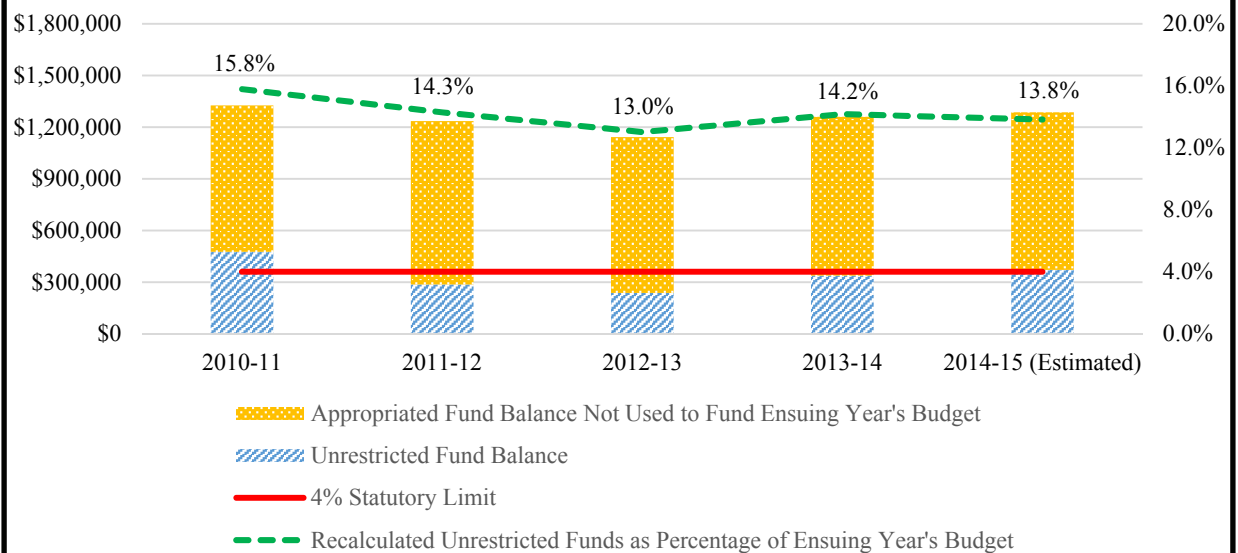
With the significant increase in PILOT revenue received in 2015-16, the Board and District officials elected to lower the real property tax levy 9 percent and increase educational services and support; however, we project that the 2015-16 results of operations will result in a favorable budget variance of approximately \$915,000. As a result, the majority of the \$1 million appropriated in fund balance for 2015-16 likely will not be used, and the District's recalculated fund balance will likely continue to exceed the statutory limit.

<sup>2</sup> New York State Real Property Tax Law limits the amount of unrestricted surplus funds that can be legally retained by school districts to no more than 4 percent of the next fiscal year's budgeted appropriations.

Over the past three years, the District's general fund unrestricted fund balance has generally remained consistent and was within the 4 percent statutory limit.

However, in each of the past three years, the Board has appropriated more fund balance than was needed. After adding back the ensuing year's unused appropriated fund balance to the unrestricted fund balance, the 4 percent limit was exceeded in each of these years, ranging from 13 percent to 15.8 percent.<sup>3</sup>

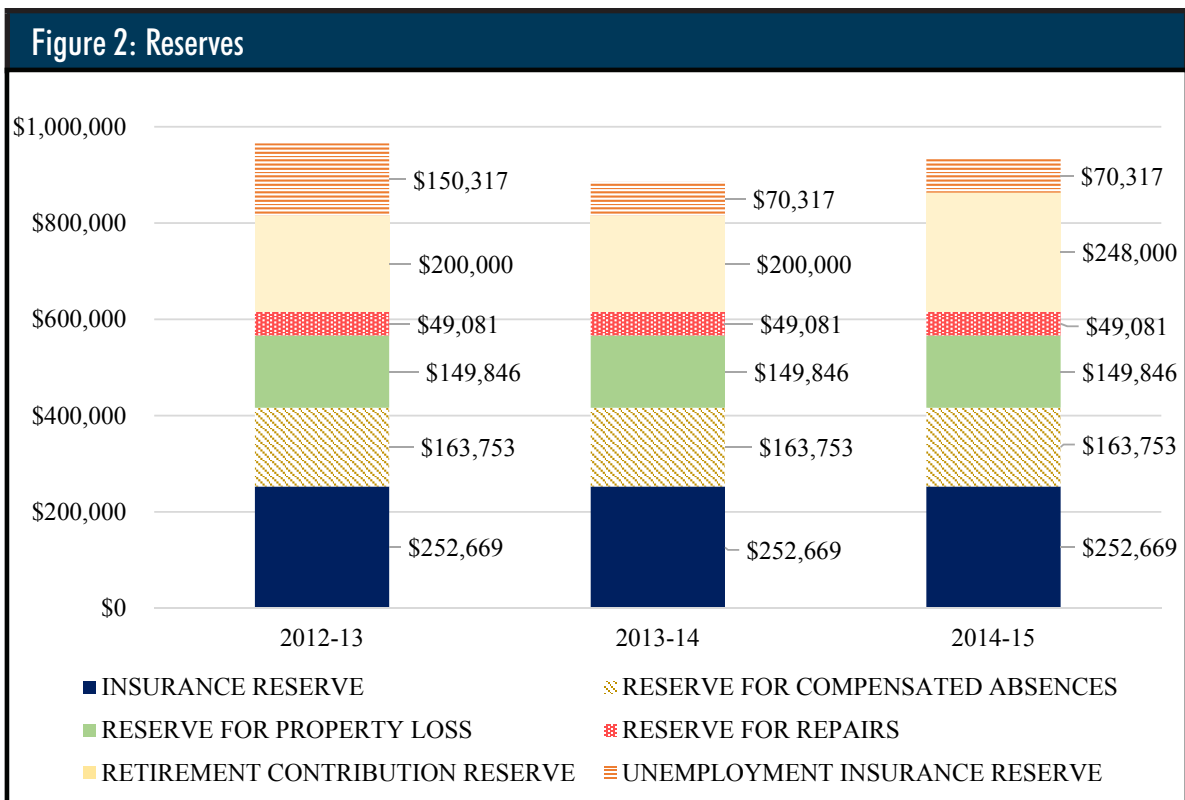
**Figure 1: Unused Fund Balance**



District officials have effectively managed reserves by maintaining them at consistent and reasonable<sup>4</sup> levels, with approximately \$934,000 in reserves as of June 30, 2015.

<sup>3</sup> The 2014-15 unused portion of ensuing year's (2015-16) appropriated fund balance and the resulting recalculated unrestricted fund balance was estimated based on the previous four-year average of unused appropriated fund balance as a percentage of budgeted appropriated fund balance.

<sup>4</sup> To determine reasonableness, we compared reserve balances to average expenditures, liabilities and statutory limits.



Moreover, District officials ensured revenues have kept pace with expenditures.

**Figure 3: Results of Operations**

	2012-13	2013-14	2014-15	Total
Revenues	\$7,759,974	\$8,214,565	\$8,414,658	<b>\$24,389,197</b>
Expenditures	\$7,871,554	\$8,272,421	\$8,226,524	<b>\$24,370,499</b>
Results of Operations <sup>a</sup>	(\$111,580)	(\$57,856)	\$188,134	<b>\$18,698</b>

<sup>a</sup> Operating deficits in 2012-13 and 2013-14 were planned, and the operating surplus in 2014-15 offset the previous years' deficits.

Although budgeted revenues and appropriations have varied from actual revenues and expenditures by less than 9 percent over the past three years, these variances<sup>5</sup> have resulted in an increase in fund balance significantly above the amounts budgeted. For example, from 2012-13 through 2014-15, District officials budgeted for operating deficits totaling over \$2.9 million, but the District's operations generated a surplus of \$18,698. Although District officials have adequate budget management procedures, consistent variances in revenues and expenditures and overly conservative budgeting

<sup>5</sup> Budget variances included underestimating "other unclassified revenues" by \$280,000, or 295 percent, and overestimating "plant operations and maintenance" expenditures by \$275,000, or 30 percent.

practices can result in operating surpluses. As a result, even though District officials lowered the real property tax levy by approximately \$226,000 (9 percent)<sup>6</sup> and increased educational services and support due to the increase in PILOT revenue for 2015-16, taxes have been higher than needed to fund operations.

## **Recommendations**

The Board and District officials should:

1. Adopt more accurate budget estimates for revenues and expenditures, thus discontinuing the practice of adopting budgets that appropriate unrestricted surplus funds that will not be used.
2. Develop a plan to use the surplus fund balance identified in this report 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.

---

<sup>6</sup> The average school real property tax savings per parcel from the lowered levy was \$146. See Appendix B for methodology.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



# Sharon Springs Central School

PO Box 218, Route 20  
Sharon Springs, NY 13459



District Office 518-284-2266 - Fax 518-284-9033  
Principal - Guidance Office 518-284-2267 - Fax 518-284-9075

Bus Garage 518-284-9047  
Fax 518-284-9073

May 13, 2016

Office of the State Comptroller  
Division of Local Government & School Accountability  
PSU – CAP Submission  
110 State Street, 12<sup>th</sup> Floor  
Albany, NY 12236  
[cap@osc.state.ny.us](mailto:cap@osc.state.ny.us)

New York State Education Department  
Office of Audit Services, Room 524 EB  
89 Washington Avenue  
Albany, NY 12234  
[OAS@mail.nysed.gov](mailto:OAS@mail.nysed.gov)

**RE: Sharon Springs Central School District Response to Financial Condition Report of Examination July 1, 2014 to November 30, 2015; and Corrective Action Plan (CAP)**

Ladies and Gentlemen,

Sharon Springs Central School is in receipt of the Draft Financial Condition Report of Examination for the period of July 1, 2014 to November 30, 2015. Please consider this letter as both the response to the audit and the required Corrective Action Plan pursuant to Section 35 of General Municipal Law, Section 21116-a(3)(c) of New York State Education Law and Sections 170.12 of the Regulations of the Commissioner of Education.

On behalf of the Board of Education and Administration, we would like to thank the local field staff of the Comptroller's Office. They were professional and courteous in conducting the audit and were very helpful throughout.

The District is very pleased that the examination has resulted in no findings of a material weakness, operational improprieties, fraud, waste, or abuse. As such, the primary focus of the audit was our Financial Condition, which resulted in recommendations regarding budget estimates for revenues and expenditures; and use of surplus fund balance. We respond to these recommendations as follows:

- 1. Adopt more accurate budget estimates for revenues and expenditures, thus discontinuing the practice of adopting appropriate unexpended surplus funds that will not be used.**

*District Response and Corrective Action Plan:*

The District believes that responsible budgeting requires contingencies for unexpected expenditures. It has always been the practice of the District to be conservative when estimating certain expenditure over which the district has little control such as fuel and utility costs, Special Education placements and

transportation requirements. During the period of this examination, the district experienced flood damage in which over \$100 thousand dollars in unanticipated overtime salary, repairs and maintenance costs were incurred. Additionally, given the size of our District, enrollment per grade ranges in size from 18 to 25 students, causing the district to constantly determine whether one or two sections are necessary in certain grades and maintaining the appropriate budgeted expenditures to react to any changes.

Likewise, the District has always believed that conservative Revenue forecasting is necessary. In 2011, the first year the State imposed the "Gap Elimination Adjustment", the first reduction in aid to the District was \$410,533. The current Cap for unassigned fund balance for the district is \$371,466 which by itself would not have been sufficient to cover the loss in aid. Cumulatively, the State withheld \$1,776,510. Absent of conservative budgeting, the District would not have been able to react to the "Gap Elimination Adjustment."

While the District does not dispute the findings of the field staff of the Comptroller's Office, we believe a cautious approach should be taken to reduce budgeted contingencies for unexpected expenditures and revenue forecasting. We will continue to implement a thorough budget process whereby expenditures can be identified and appropriate budget allocations can be made. The implementation of this plan is immediate and will be continuous with each budget process.

**2. Develop a plan to use the surplus fund balance identified in this report 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**
- **Reducing District property taxes**

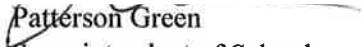
*District Response and Corrective Action Plan:*

The District has been addressing the tax levy over the past several years by consistently adopting tax levies that are below the Property Tax Cap limits required by the State. In 2013 the District implemented a 0% tax levy change; 2014 instituted 1% tax levy increase; and in 2015 decreased the tax levy by -9%. The Property Tax Cap limitations severely restricts the District's ability to correct year-to-year financial imbalances through taxation. Any significant cut to taxes in order to reduce surplus fund balance could not be corrected in any proceeding year given the limitations imposed by Property Tax Cap laws. In fact without tax payer approval, the District taxing authority is limited to the previous year's levy. A one-time reduction in taxes could lock the district into a flat levy that would deplete fund balance and completely deplete operating reserves.

Again, the District does not dispute the finding of the field staff of the Comptroller's Office. However, we believe a conservative approach of adopting budgets with less built in contingencies along with tax levies that are below the Property Tax Cap will result in a slow correction of excess surplus balances. The implementation of this Plan is immediate and will be continuous with each budget process.

In closing, I would like to once again thank the field staff of the Comptroller's Office for their kind assistance throughout the examination process. If you should have any questions or problems with our response, please feel free to contact me any time.

Very truly yours,

  
Patterson Green  
Superintendent of Schools

## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

Our audit objective was to evaluate District officials' fund balance management. To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials and reviewed Board meeting minutes, resolutions and policies to gain an understanding of the District's financial strategies and its policies and procedures over fund balance management.
- We analyzed the District's use and funding of reserves from 2012-13 through 2014-15 to determine if the funds were properly established, planned for and maintained. We reviewed reserve balances and compared them to average expenditures, related liabilities and statutory requirements to evaluate the reasonableness of reserved amounts.
- We assessed the District's financial condition by examining trends in budgeting, revenues, expenditures, results of operations, fund balance (including compliance with statutory requirements) and cash position.
- We projected the results of operations for 2015-16 by applying the previous four-year average of unused appropriated fund balance as a percentage of budgeted appropriated fund balance to the amount of appropriated fund balance for 2015-16.
- We interviewed District officials, reviewed the expired and renewed PILOT agreements and analyzed the District's real property tax levy to determine its effect on the District's budget and the savings realized by residents in 2015-16. Tax savings do not apply equally to all residents because the seven towns in the District have various equalization rates. The savings calculated are based on the true rate, which is a weighted average of the tax rate based on the full assessments (as calculated with the appropriate equalization rate). The average parcel was calculated by dividing the total actual assessment by the total number of parcels in the District.

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**

### **HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT**

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller  
Public Information Office  
110 State Street, 15th Floor  
Albany, New York 12236  
(518) 474-4015  
<http://www.osc.state.ny.us/localgov/>

**APPENDIX D**  
**OFFICE OF THE STATE COMPTROLLER**  
**DIVISION OF LOCAL GOVERNMENT**  
**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Gabriel F. Deyo, Deputy Comptroller  
Tracey Hitchen Boyd, Assistant Comptroller

**LOCAL REGIONAL OFFICE LISTING**

---

**BINGHAMTON REGIONAL OFFICE**

H. Todd Eames, Chief Examiner  
Office of the State Comptroller  
State Office Building, Suite 1702  
44 Hawley Street  
Binghamton, New York 13901-4417  
(607) 721-8306 Fax (607) 721-8313  
Email: [Muni-Binghamton@osc.state.ny.us](mailto:Muni-Binghamton@osc.state.ny.us)

Serving: Broome, Chenango, Cortland, Delaware,  
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

**BUFFALO REGIONAL OFFICE**

Jeffrey D. Mazula, Chief Examiner  
Office of the State Comptroller  
295 Main Street, Suite 1032  
Buffalo, New York 14203-2510  
(716) 847-3647 Fax (716) 847-3643  
Email: [Muni-Buffalo@osc.state.ny.us](mailto:Muni-Buffalo@osc.state.ny.us)

Serving: Allegany, Cattaraugus, Chautauqua, Erie,  
Genesee, Niagara, Orleans, Wyoming Counties

**GLENS FALLS REGIONAL OFFICE**

Jeffrey P. Leonard, Chief Examiner  
Office of the State Comptroller  
One Broad Street Plaza  
Glens Falls, New York 12801-4396  
(518) 793-0057 Fax (518) 793-5797  
Email: [Muni-GlensFalls@osc.state.ny.us](mailto:Muni-GlensFalls@osc.state.ny.us)

Serving: Albany, Clinton, Essex, Franklin,  
Fulton, Hamilton, Montgomery, Rensselaer,  
Saratoga, Schenectady, Warren, Washington Counties

**HAUPPAUGE REGIONAL OFFICE**

Ira McCracken, Chief Examiner  
Office of the State Comptroller  
NYS Office Building, Room 3A10  
250 Veterans Memorial Highway  
Hauppauge, New York 11788-5533  
(631) 952-6534 Fax (631) 952-6530  
Email: [Muni-Hauppauge@osc.state.ny.us](mailto:Muni-Hauppauge@osc.state.ny.us)

Serving: Nassau and Suffolk Counties

**NEWBURGH REGIONAL OFFICE**

Tenneh Blamah, Chief Examiner  
Office of the State Comptroller  
33 Airport Center Drive, Suite 103  
New Windsor, New York 12553-4725  
(845) 567-0858 Fax (845) 567-0080  
Email: [Muni-Newburgh@osc.state.ny.us](mailto:Muni-Newburgh@osc.state.ny.us)

Serving: Columbia, Dutchess, Greene, Orange,  
Putnam, Rockland, Ulster, Westchester Counties

**ROCHESTER REGIONAL OFFICE**

Edward V. Grant, Jr., Chief Examiner  
Office of the State Comptroller  
The Powers Building  
16 West Main Street, Suite 522  
Rochester, New York 14614-1608  
(585) 454-2460 Fax (585) 454-3545  
Email: [Muni-Rochester@osc.state.ny.us](mailto:Muni-Rochester@osc.state.ny.us)

Serving: Cayuga, Chemung, Livingston, Monroe,  
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

**SYRACUSE REGIONAL OFFICE**

Rebecca Wilcox, Chief Examiner  
Office of the State Comptroller  
State Office Building, Room 409  
333 E. Washington Street  
Syracuse, New York 13202-1428  
(315) 428-4192 Fax (315) 426-2119  
Email: [Muni-Syracuse@osc.state.ny.us](mailto:Muni-Syracuse@osc.state.ny.us)

Serving: Herkimer, Jefferson, Lewis, Madison,  
Oneida, Onondaga, Oswego, St. Lawrence Counties

**STATEWIDE AUDITS**

Ann C. Singer, Chief Examiner  
State Office Building, Suite 1702  
44 Hawley Street  
Binghamton, New York 13901-4417  
(607) 721-8306 Fax (607) 721-8313