



St. Regis Falls Central School District Fund Balance

Report of Examination

Period Covered:

July 1, 2012 – January 31, 2016

2016M-141



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 St. Regis Falls 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 recommendation 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 St. Regis Falls Central School District (District) is located in the Towns of Dickinson, Santa Clara and Waverly in Franklin County and the Towns of Hopkinton and Lawrence in St. Lawrence County. The District is governed by the Board of Education (Board), which is composed of seven 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 one school with approximately 285 students and 65 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$8.1 million which were funded primarily with State aid and real property taxes.

Objective

The objective of our audit was to review the District's financial condition. 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, 2012 through January 31, 2016.

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 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 have 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.

Fund Balance

Fund balance represents resources remaining from prior fiscal years that can be used to finance the next year's budget. According to New York State Real Property Tax Law (RPTL), the Board may retain up to 4 percent of the ensuing year's appropriations as unrestricted fund balance¹ to serve as a financial cushion for unexpected events and maintaining cash flow. Additionally, districts are legally allowed to establish reserve funds and accumulate funds for certain future purposes (e.g., capital projects, retirement expenditures). Fund balance in excess of the statutory limit must be used to fund a portion of the next year's appropriations, thereby reducing the tax levy, or used to pay down existing debt or fund legally established and necessary reserves.

The District did not comply with RPTL and retained unrestricted fund balance in amounts at the end of the 2012-13 through 2014-15 fiscal years that ranged from 20.1 to 27.8 percent of the ensuing year's appropriations as depicted in Figure 1. As of June 30, 2015, the unrestricted fund balance exceeded the statutory limit by more than \$1.9 million.

Figure 1: Unrestricted Fund Balance at Year-End

	2012-13	2013-14	2014-15
Total Beginning Fund Balance	\$2,226,405	\$2,613,329	\$2,772,947 ^a
Add: Operating Surplus	\$386,924	\$108,753	\$96,337
Total Ending Fund Balance	\$2,613,329	\$2,722,082	\$2,869,284
Less: Restricted Funds	\$252,238	\$252,386	\$252,424
Less: Appropriated Fund Balance for the Ensuing Year	\$284,351	\$789,687	\$350,000
Less: Assigned Unappropriated Fund Balance	\$63,136	\$4,664	\$13,065
Total Unrestricted Fund Balance at Year-End	\$2,013,604	\$1,675,345	\$2,253,795
Ensuing Year's Budgeted Appropriations	\$7,760,909	\$8,348,207	\$8,109,651
Unrestricted Funds as a Percentage of Ensuing Year's Budget	25.9%	20.1%	27.8%
^a The difference between the beginning fund balance and prior year ending fund balance is due to a prior year adjustment made during the annual independent audit.			

The District has retained excessive levels of unrestricted fund balance even though each of the District's last six independent audit reports² contained a finding related to the unrestricted fund balance being in

¹ For purposes of computing fund balance subject to the RPTL, unrestricted fund balance is committed, assigned and unassigned fund balance minus appropriated fund balance and encumbrances included in committed and assigned fund balance.

² Independent audit reports for the 2009-10 through 2014-15 fiscal years

excess of the statutory limit. The Business Manager said the District had not implemented corrective action 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. The District would have to realize a 40 percent reduction in the \$4.9 million in State aid received in fiscal year 2014-15 in order to reduce the District's unrestricted fund balance to the statutory limit, which is unlikely. Additionally, the District must comply with the law governing the level of fund balance it is permitted to maintain.

In December 2015, District officials created a multiyear plan to reduce the fund balance to levels within the statutory limit by funding a capital reserve and appropriating fund balance to finance budgetary expenditures.

Recommendation

1. District officials should ensure that the amount of the District's unrestricted fund balance is in compliance with RPTL statutory limits and reduce the amount of unrestricted fund balance in a manner that benefits District taxpayers. Such uses could include:
 - 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.

St. Regis Falls Central School

PO Box 309, 92 North Main Street
St. Regis Falls, New York 12980-0309

May 24, 2016

Jeffrey Leonard
Chief Examiner
NYS Office of the State Comptroller
One Broad Street Plaza
Glens Falls, NY 12801

Dear Mr. Leonard:

The following is in response to the draft audit report provided by your office on May 24, 2016. The District is also providing a corrective action plan (CAP) at this time.

It has been and will continue to be the primary goal of the St. Regis Falls CSD to deliver the best possible education to every student in our community by offering a rigorous course of study delivered by a highly competent staff. We are in the midst of a major Regents Reform Agenda developed by the New York State Education Department. The District is placing resources in the areas of most need in order to meet these new demands. In doing so, the district leadership carefully considers our community's ability to fund the education program that we offer our students. In recognizing our role and fiduciary responsibility when dealing with public taxpayer dollars, district leadership has always taken a conservative approach to budgeting and financial management. This conservative approach has allowed our district to consistently meet our primary goal of a world class education for our students in a cost effective manner.

Audit Recommendation to Board of Education: District officials should ensure that the amount of the District's unrestricted fund balance is in compliance with RPTL statutory limits and reduce the amount of unrestricted fund balance in a manner that benefits District taxpayers. Such uses include: 1)use of surplus funds as a financing source, 2)funding one-time expenditures, 3)funding needed reserves, and 4)reducing District property taxes.

Implementation Plan of Action: Looking towards the future, St. Regis Falls CSD will continue to be conservative in regards to finances.

The District roof has been identified as an item for replacement. The estimated cost for replacement is approximately \$3,000,000. The district is establishing a Bus Acquisition and Capital Construction/Reconstruction Reserve up to an amount not to exceed \$2,175,000. With a successful vote on May 17, 2016, the District is able to establish this reserve and transfer \$810,000 from unrestricted fund balance in 2015-16. With this action, the unrestricted fund balance will be reduced by 9%, 27.8% to 18.8%.

In December 2015, the District did create a multi-year plan to reduce the fund balance to levels within the statutory limit by establishing the capital reserve and appropriating fund balance to finance budgetary expenditures.

Implementation Date: The planned implementation date is June 30, 2017, end of the next fiscal year.

Person(s) Responsible for Implementation: Alan Tessier, Superintendent, and Board of Education

In summary, the report states that the district has a fund balance that exceeds the amount stated in the Real Property Tax Law 1318. By maintaining the fund balance, the Board of Education and the district's administration have been able to lead the district through the worst financial crisis in State history without cutting services to students. As auditors focus on short-term management objectives, leaders must address long-term goals. Money in reserve accounts and fund balances will continue to be used to fund anticipated expenses in order to protect the fiscal and academic integrity of the district.

Sincerely,

Alan M. Tessier
Superintendent

AMT/smp

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed the Board President, Superintendent of Schools and Business Manager to gain an understanding of the District's financial management policies and procedures, budgeting practices and preparation of a multiyear financial plan.
- We calculated the general fund's unrestricted fund balances at fiscal year-end 2012-13, 2013-14 and 2014-15 and its percentage of the ensuing year's budgeted appropriations to determine if the District was in compliance with RPTL statutory limits. We also performed calculations to determine the effect of noncompliance on the District's tax levies.

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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