

# Phoenix Central School District

## Financial Condition

**AUGUST 2017**



OFFICE OF THE NEW YORK STATE COMPTROLLER  
Thomas P. DiNapoli, State Comptroller

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# Report Highlights

## Phoenix Central School District

### Audit Objective

Determine whether the Board and District officials effectively managed the District's financial condition.

### Key Findings

- Unrestricted fund balance as a percentage of next year's appropriations exceeded the statutory limit by 4.2 to 8.1 percentage points for the last three years (2013-14 to 2015-16).
- Adopted budgets from July 1, 2011 through June 30, 2016 overestimated appropriations by nearly \$6 million due to conservative budget practices. As a result, the District experienced operating surpluses totaling \$6.3 million for the period.
- Reserves were not funded in a transparent manner because the Board funded them at year end with surplus funds.

### Key Recommendations

- Develop a plan to reduce the amount of unrestricted fund balance to the legal limit.
- Adopt realistic budget estimates and inform residents of District official's intent to fund reserves.

District officials generally agreed with our findings and indicated they planned to take corrective action.

### Background

The Phoenix Central School District (District) is located in the Towns of Granby, Hastings, Palermo, Schroepfel and Volney in Oswego County and the Towns of Clay and Lysander in Onondaga County.

The Board of Education (Board) is responsible for managing District operations. The Superintendent of Schools (Superintendent) is responsible, along with other administrative staff, for managing the District's day-to-day operations and developing and administering the budget.

#### Quick Facts

448	Employees
1,810	Enrollment
\$44.8 Million	2016-17 General Fund Appropriations
\$4 Million	2015-16 Year-End Unrestricted Fund Balance

### Audit Period

July 1, 2015 – February 28, 2017. We extended our scope period back to July 1, 2011 to review fund balance trends. We extended our audit scope forward through June 30, 2017 to project results of operations.

# Financial Condition Management

## What is Effective Financial Condition Management?

The Board, Superintendent and Assistant Superintendent of Finance and Educational Services (Assistant Superintendent) are responsible for making sound financial decisions in the best interest of the District, the students they serve and the residents who fund the District's programs and operations. To effectively manage financial condition, the Board should adopt realistic and structurally balanced budgets based on historical or known trends, in which recurring revenues finance recurring expenditures. In preparing the budget, the Board must estimate what the District will spend and the amounts it will receive in revenue (e.g., State aid), how much fund balance will be available at year-end and, to balance the budget, the expected tax levy. Accurate estimates help ensure that the real property tax levy is not greater than necessary.

The Board must also maintain reasonable fund balance levels. Fund balance is the difference between revenues and expenditures accumulated over time. New York State Real Property Tax Law limits the amount of unrestricted fund balance that a school district can retain to no more than 4 percent of the next fiscal year's budget. Additionally, school districts are allowed to legally set aside or reserve portions of fund balance to finance future costs for specific purposes (e.g., capital projects or retirement expenditures), and may also appropriate a portion of fund balance to help finance the next year's budget (referred to as appropriated fund balance). Amounts to be placed in reserve funds should be included in the annual budget to ensure residents are aware of the Board's intent to fund reserves in the upcoming year.

## Unrestricted Fund Balance Exceeded the Statutory Limit

District officials need to improve budgeting practices to effectively manage the District's financial condition. While unrestricted fund balance was within the statutory limit at the end of 2011-12 and 2012-13, it exceeded the statutory limit by a range of 4.2 to 8.1 percentage points over the last three years.

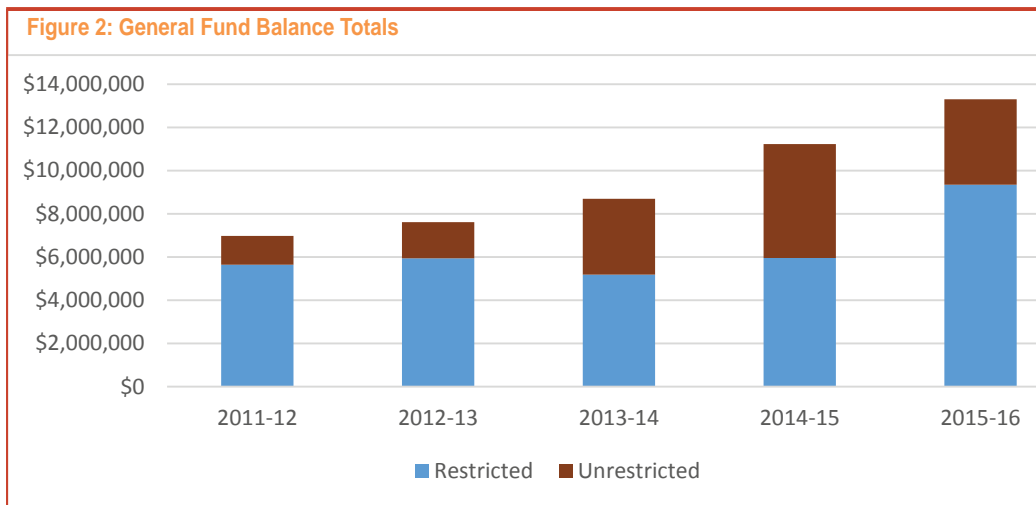
Figure 1: Unrestricted Fund Balance at Year-End

	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Unrestricted Fund Balance</b>	\$1,331,647	\$1,680,357	\$3,509,433	\$5,272,925	\$3,958,821
<b>Ensuing Year's Budgeted</b>					
<b>Appropriations</b>	\$41,261,399	\$42,008,927	\$42,559,049	\$43,747,467	\$44,787,050
<b>Unrestricted Fund Balance as Percentage of Next Year's Appropriations</b>	3.2%	4.0%	8.2%	12.1%	8.8%

Year-end unrestricted fund balance exceeded the statutory limit by about \$1.8 million in 2013-14, \$3.5 million in 2014-15 and \$2.2 million in 2015-16. Based on information provided by District officials, we project a \$2.2 million operating surplus in the current year, most of which the Board plans to transfer to the capital reserve. Consequently, we estimate unrestricted fund balance will be about \$4.1 million at the end of 2016-17, more than 9 percent of next year's anticipated budget appropriations. The Board does not plan to appropriate any of the excess fund balance to finance the 2017-18 budget.

### Fund Balances Increased Significantly

The District experienced operating surpluses totaling \$6.3 million over the past five years. As a result, total fund balance increased to \$13.3 million as of June 30, 2016. While over \$9 million of the fund balance is restricted in reserve funds, nearly \$4 million is unrestricted. Unrestricted fund balance was \$1.3 million as of June 30, 2012. By the end of 2015-16, unrestricted fund balance increased to \$3.9 million.



Despite these fund balance levels, the Board appropriated very little fund balance in the adopted budgets. It appropriated \$150,000 in the 2014-15 budget and none in 2015-16 or 2016-17. The Board also appropriated reserve funds (restricted fund balance) of \$455,000 in 2014-15, \$400,000 in 2015-16 and \$700,000 in 2016-17. However, District officials did not use these reserve funds as planned to finance related expenditures the first two years because these funds were not needed due to the operating surpluses. Based on year-to-date operating results as of March 15, 2017, the District will also not use the reserve funds appropriated for 2016-17.

Additionally, from 2012-13 through 2016-17, the Board increased the property tax levy by approximately \$698,000, or 4.3 percent. Given the excess fund balance levels, the Board may have levied more taxes than necessary to sustain District operations.

We reviewed the District's budgets for the 2011-12 through 2015-16 fiscal years and found that District officials overestimated appropriations, spending nearly \$6 million less than planned during this five-year period. Revenue estimates were very close to the actual revenues received, with the exception of 2013-14, where actual revenues were affected by the District's debt refinancing.

**Figure 3: Budget Variances**

	2011-12	2012-13	2013-14 <sup>a</sup>	2014-15	2015-16	Total
Appropriations	\$41,103,453	\$41,261,399	\$42,008,927	\$42,559,049	\$43,747,467	\$210,680,295
Actual Expenditures	\$39,968,635	\$39,671,148	\$43,797,803	\$40,045,725	\$41,242,346	\$204,725,657
Overestimated Appropriations	\$1,134,818	\$1,590,251	(\$1,788,876)	\$2,513,324	\$2,505,121	\$5,954,638
Percentage Overestimated	2.8%	3.9%	(4.3%)	5.9%	5.7%	2.8%
Estimated Revenues	\$40,677,533	\$40,482,759	\$41,080,287	\$41,954,049	\$43,347,467	\$207,542,095
Actual Revenues	\$39,989,256	\$40,314,048	\$44,873,382	\$42,584,242	\$43,311,108	\$211,072,036
Underestimated Revenues	(\$688,277)	(\$168,711)	\$3,793,095	\$630,193	(\$36,359)	\$3,529,941
Percentage Underestimated	(1.7%)	(0.4%)	9.2%	1.5%	(0.1%)	1.7%
Total Budget Variance	\$446,541	\$1,421,540	\$2,004,219	\$3,143,517	\$2,468,762	\$9,484,579

<sup>a</sup> During 2013-14 the District refinanced about \$3.6 million of debt. Without that, expenditures were \$1.8 million lower than appropriations (4 percent) and revenues were \$197,000 higher than estimates (0.5 percent).

While the budget variances each year were generally not large in terms of percentages, in aggregate they resulted in a 90 percent (\$6.3 million) increase to fund balance from 2011-12 through 2015-16. If the Board continues its current budget practices, the fund balance in the general fund will continue to accumulate.

The District expended less than budgeted, in part, because the Board adopted budgets with conservative estimates for certain appropriations. The Board overestimated appropriations for contractual expenditures<sup>1</sup> and employee benefits totaling \$6 million over the last five years (about \$1.2 million per year). For example, materials and supplies and fuel and health insurance were overestimated by \$746,000 (12 percent) during 2015-16.

The Assistant Superintendent told us that they budget conservatively because of uncertainty with some expenditures. Fuel was lower than estimated because they have not decreased the appropriations and fuel prices have declined recently. Similarly, health insurance is budgeted based on potential enrollment, but not all employees elected to have coverage.

Further, the Board did not use the budget process to fund reserves in a transparent manner. The Board passed resolutions to fund reserves at year-end instead of including appropriations in its adopted budgets to fund reserves. As

<sup>1</sup> This includes expenditures such as supplies, utilities, insurance and professional services.

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of June 30, 2015, the District had six reserves totaling over \$9 million, which included reserves for capital, compensated absences, property loss, retirement, tax certiorari and unemployment. While the Assistant Superintendent provided the Board with an annual report on the status of reserve funds and reserve balances were generally reasonable, total reserves increased by \$4.6 million over the past five years outside of the budget process.

### **What Do We Recommend?**

The Board and District officials should:

1. Ensure that the amount of unrestricted fund balance is in compliance with the statutory limit and develop a plan to use surplus funds as a financing source for:
  - Funding one-time expenditures
  - Funding needed reserves
  - Paying off debt
  - Reducing property taxes.
2. Adopt annual budgets that contain realistic estimates for appropriations based on historical or other known factors.
3. Include a provision in the annual budget to notify residents of District officials' intent to fund reserves.

# Appendix A: Response From District Officials

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**Christopher J. Byrne**  
Superintendent of Schools

## Phoenix Central School District

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**Phoenix, New York 13135**  
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Assistant Superintendent of  
Finance and Educational  
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**Robert J. Edwards**  
Director of Instruction  
and Personnel

July 31, 2017

State of New York  
Office of the State Comptroller  
Syracuse Regional Office  
State Office Building, Room 409  
333 East Washington Street  
Syracuse, NY 13202-1428

Dear Ms. Wilcox:

The following serves as our response to the preliminary draft findings of your agency's audit of the Phoenix Central School District, 2017M-96. The audit scope was primarily related to "Fiscal Management" for the period July 1, 2013 through June 30, 2016. The audit was extended back to July 1, 2011 to analyze financial trends in prior years. We would first like to extend our sincere appreciation of the staff provided by your office. Their professionalism and experience were viewed as an asset by our office, and their approach was always proactive in nature. The process helped us to identify opportunities for improvement as well as provided valuable information in the noted areas.

Below are the recommendations for improvement identified in your draft report, along with the district's response to each of those recommendations:

Unrestricted Fund Balance: The audit process identified concerns regarding unrestricted fund balance. The real property tax law limits the amount of unrestricted fund balance that a school district can retain to no more than 4% of the next fiscal year's budget. Although one could argue that such a 4% limit is challenging to maintain, the current property tax law requires schools, unlike other municipal entities, to stay within 4% limit. It was noted that the districts unrestricted fund balance increased significantly from 2012 to 2016. We agree that that there was an increase in the districts unrestricted fund balance. As noted by your office, the data used in calculating the unrestricted fund balance was taken from the districts ST-3 financial reports, which is filed by September 1 of each fiscal year. In each of the examined fiscal years, the district transferred any fund balance in surplus of 4% to appropriate reserves before the property tax card report was due by March 1 as it was the district's intent to stay within the statutory limit. In conversations during the audit, it was recommended that such movement of funds in excess of 4% should be done prior to September 1. The district agrees with this recommendation and appreciates the comptroller's guidance and advice in this area.

Annual Adopted Budgets: The audit process identified concerns with regards to adapting annual budgets that contain realistic estimates for appropriations based on historical or other known factors.



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The district adheres to a philosophy of overestimating expenditures and underestimating revenues thereby assuring the best positive outcome on a yearly basis. The district has also experienced savings through bond refunding, ancillary insurance savings, and savings from retirements in the examined timeframe, which lowered the actual expenditures. We agree with the recommendation and have thus started to account for the noted savings in aligning the 2017-18 budget expenditures.

**Funding Reserves:** The audit process resulted in a recommendation that the district include a provision in the annual budget to notify residents of the district's intent to fund reserves. Although not required by statutory law or regulation, the district agrees with including provisions in the budget of its intent to fund necessary reserves as part of the budget process. The district currently funds the capital reserve in accordance to a past voter approved proposition in which it was stated that capital reserve would be funded through excess fund balance.

For each recommendation included in the audit report for the Phoenix Central School District, the following are our corrective actions to be taken or proposed.

### **Audit Recommendation**

The audit process identified concerns regarding unrestricted fund balance. It is recommended that the Board and District Officials ensure that the amount of unrestricted fund balance complies with the statutory limit and develop a plan to use surplus funds as a financing source for:

- funding one time expenditures
- funding needed reserves
- paying off debt
- reducing property taxes

### **Implementation Plan of Action**

The district agrees with this recommendation and believes that it has historically used surplus funds to fund the reserves, thus minimizing the impact to taxpayers of large expenditures such as retiree payments and capital facility improvements. Given the \$80 million worth of facility needs identified in our 2015 building condition survey, the Board of Education and District officials asked voters to establish a capital reserve in May of 2015 to help offset any local taxpayer share of its next capital improvement project. By using reserves, there will be significantly less interest expense over the life of the financing thereby saving taxpayers in the years to come. The district plans to continue to be cognizant of these factors as well as consider funding one-time expenditures such as bus purchases and paying off debt early with future surplus funds.

### **Implementation Date**

September 1, 2017

### **Person Responsible for Implementation**

Assistant Superintendent of Finance and Educational Services

### **Audit Recommendation**

The audit process identified concerns with regard to adopting annual budgets that contain realistic estimates for appropriations based on historical or other known factors.

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Implementation Plan of Action

The Assistant Superintendent of Finance and Educational Services will adopt the practice of annualizing budgets and looking at historical data to fund appropriate budget appropriations based on that data. Future budgets will create significant less fund balance due to a tightening of budget appropriations.

Implementation Date

September 1, 2017

Person Responsible for Implementation

Assistant Superintendent of Finance and Educational Services

**Audit Recommendation**

The audit process resulted in a recommendation that the district include a provision in the annual budget to notify residents of District official's intent to fund reserves.

Implementation Plan of Action

Starting with the 2018-19 adopted budget the district will include projected reserve appropriations in its annual budget. Such practice will notify residents of the district's intent to fund targeted reserves.

Implementation Date

September 1, 2017

Person Responsible for Implementation

Assistant Superintendent of Finance and Educational Services

In closing, we would like to reiterate our appreciation of the efforts of your office and the outcome of the audit process. If you have any questions or require additional information, please feel free to contact me.

Sincerely,

Christopher J. Byrne  
Superintendent of Schools

Earl Rudy  
President, Board of Education

## Appendix B: Audit Methodology and Standards

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We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed District officials and reviewed the Board meeting minutes, resolutions and budget policies to gain an understanding of their budget process.
- We calculated the results of operations over the last five years by comparing actual revenues with actual expenditures.
- We analyzed the trend in total fund balance in the general fund for the 2011-12 through 2015-16 fiscal years. We compared unrestricted fund balance with the next years' budget appropriations to determine whether the District was within the statutory limit.
- We compared the general fund's total estimated revenues and budget appropriations with the actual revenues and expenditures for the 2011-12 through 2015-16 fiscal years to determine whether District budgets were reasonable. We followed up with District officials on significant budget variances.
- Based on information provided by District officials, we projected results of operations to year end for 2016-17.
- We reviewed reserve fund balances to determine whether they were reasonable and whether they were funded in a transparent manner.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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, pursuant to Section 35 of General Municipal Law, Section 2116-1(3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the 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. We encourage the Board to make the CAP available for public review in the District Clerk's office.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://www.osc.state.ny.us/localgov/regional_directory.pdf)

### **Cost-Saving Ideas** – Resources, advice and assistance on cost-saving ideas

[www.osc.state.ny.us/localgov/costsavings/index.htm](http://www.osc.state.ny.us/localgov/costsavings/index.htm)

### **Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems

[www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm](http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm)

### **Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management

[www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm](http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm)

### **Planning and Budgeting Guides** – Resources for developing multiyear financial, capital, strategic and other plans

[www.osc.state.ny.us/localgov/planbudget/index.htm](http://www.osc.state.ny.us/localgov/planbudget/index.htm)

### **Protecting Sensitive Data and Other Local Government Assets** – A non-technical cybersecurity guide for local government leaders

[www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf](http://www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf)

### **Required Reporting** – Information and resources for reports and forms that are filed with the Office of the State Comptroller

[www.osc.state.ny.us/localgov/finreporting/index.htm](http://www.osc.state.ny.us/localgov/finreporting/index.htm)

### **Research Reports / Publications** – Reports on major policy issues facing local governments and State policy-makers

[www.osc.state.ny.us/localgov/researchpubs/index.htm](http://www.osc.state.ny.us/localgov/researchpubs/index.htm)

### **Training** – Resources for local government officials on in-person and online training opportunities on a wide range of topics

[www.osc.state.ny.us/localgov/academy/index.htm](http://www.osc.state.ny.us/localgov/academy/index.htm)

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