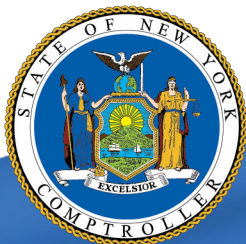


Ripley Central School District

Financial Management

AUGUST 2021



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

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Report Highlights

Ripley Central School District

Audit Objective

Determine whether the Ripley Central School District (District) Board of Education (Board) and District officials properly managed fund balance in accordance with statute.

Key Findings

The Board and District officials did not properly manage fund balance in accordance with statute.

The Board and District officials:

- Overestimated budgetary appropriations and appropriated fund balance, resulting in surplus fund balance exceeding the 4 percent statutory limit by approximately \$1.4 million, or 15 percentage points.
- Did not develop and adopt a comprehensive written multiyear financial plan and did not adhere to the fund balance policy.

Key Recommendations

- Adopt budgets that include reasonable estimates for appropriations and the amount of appropriated fund balance that will be used to fund operations.
- Develop and adopt a comprehensive written multiyear financial plan and adhere to the fund balance policy.

District officials generally agreed with our findings and indicated they have initiated or will initiate corrective action.

Background

The District serves the Town of Ripley in Chautauqua County.

The Board is responsible for managing and controlling the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is responsible for the District's day-to-day management under the Board's direction. The Board contracts with an accounting firm (Firm) to perform the day-to-day business office functions and assist the Superintendent to develop annual budgets.

The Firm oversees the District's business office and maintains the District's financial records. The Board, Superintendent and Firm are responsible for managing the District's resources.

Quick Facts

2020-21 Appropriations	\$9.5 million
Enrollment	124
Employees	55

Audit Period

July 1, 2017 – March 4, 2021. We extended our audit period to June 25, 2021 to obtain more up-to-date financial projections for the end of the 2020-21 fiscal year.

Financial Management

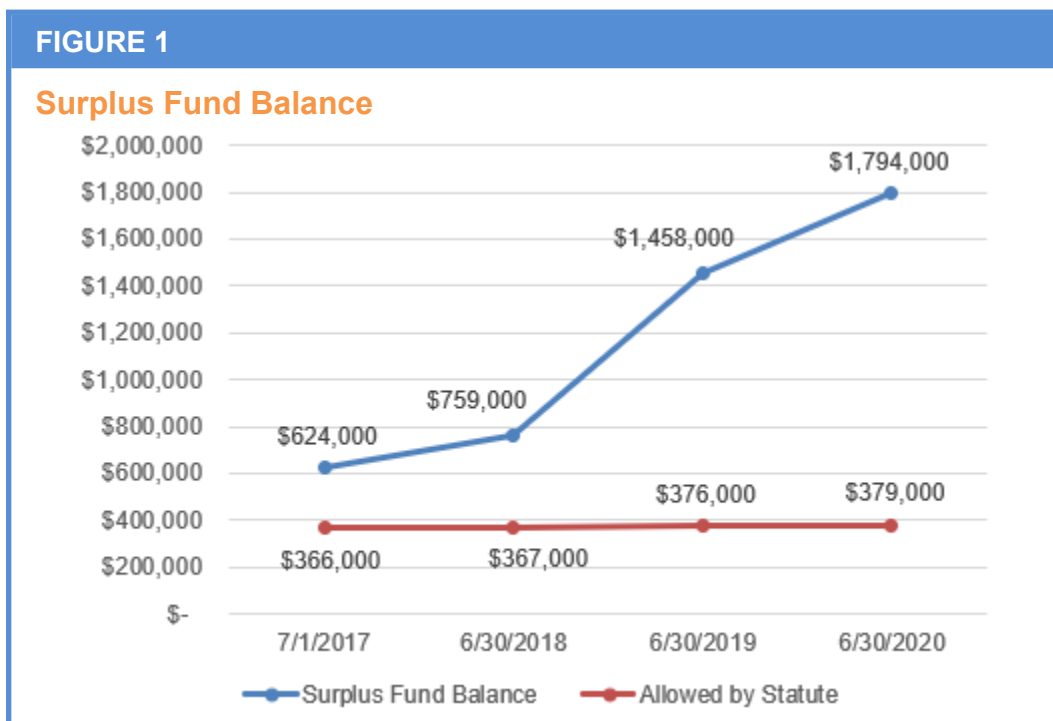
How Can the Board and District Officials Properly Manage Fund Balance in Accordance With Statute?

A board is permitted to retain a specified amount of fund balance for cash flow needs or unexpected expenditures and reserves for other identified or planned needs. School districts are currently limited by statute to the amount of surplus fund balance¹ that they can retain to no more than 4 percent of the next year's budget. The board must use any surplus fund balance over this percentage to reduce the upcoming fiscal year's real property levy or to fund needed reserves.

The Board and District Officials Did Not Properly Manage Fund Balance

The District's surplus fund balance increased from \$624,000 as of July 1, 2017 to almost \$1.8 million as of June 30, 2020; 19 percent of the 2020-21 fiscal year budgeted appropriations. This exceeded the statutory limit by approximately \$1.4 million, or 15 percentage points. This increase occurred primarily because the Board and District officials did not prepare annual budgets that reasonably estimated spending and appropriated fund balance amounts (Figure 1).

The District's surplus fund balance... exceeded the statutory limit by approximately \$1.4 million, or 15 percentage points.



¹ Surplus fund balance is defined as unrestricted fund balance minus appropriated fund balance and encumbrances included in committed and assigned fund balance. See our accounting bulletin at <https://www.osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>.

While annual revenues were generally reasonably estimated, the Board adopted budgets that consistently overestimated appropriations. The appropriations totaled approximately \$9.2 million in both 2017-18 and 2018-19 and \$9.4 million in 2019-20. These appropriations were overestimated by \$680,000 in 2017-18 and by approximately \$1.1 million in 2018-19 and 2019-20.

However, when we examined the variances, we identified two consistently overestimated appropriations which were the most significant across all three fiscal years. They were for:

- Teaching - regular school - ranged from \$105,000 to \$447,000, averaged \$300,000.
- Employee benefits - ranged from \$74,000 to \$210,000, averaged \$152,000.

As a result, these appropriations combined for a total of approximately \$1.4 million, or 45 percent of the total variances.

Annually appropriating fund balance that is not needed to finance operations is, in effect, an improper reservation of fund balance that circumvents the statutory limit for surplus fund balance. The District's annual external auditor also reported out on the finding of the excess surplus fund balance in their audits of fiscal years ending 2018 through 2020.

For illustrative purposes, we recalculated surplus fund balance as of June 30, 2019. While the District already exceeded the statutory limit, by adding back the unused appropriated fund balance of \$364,000, as of June 30, 2019, the District's fund balance exceeded the statutory limit by \$1.5 million, or 20 percent of the following year's budgeted appropriations.

We evaluated the District's 2020-21 budget and inquired with District officials regarding their financial projections for the end of the 2020-21 fiscal year during fieldwork and at the exit discussion. The budgeted appropriations totaled nearly \$9.5 million, approximately the same amount as 2019-20. At our exit discussion, District officials indicated that they anticipated realizing an operating surplus for 2020-21. District officials subsequently provided their estimates which indicated a potential operating surplus totaling approximately \$25,000.

A Comprehensive Written Multiyear Financial Plan Can Help District Officials Properly Manage Fund Balance

A comprehensive written multiyear financial plan projects revenues, expenditures and fund balance several years into the future using past trends and operating results as well as any emerging changes. These projections help a board assess expenditure commitments, revenue trends, reserve fund levels, financial risks and the affordability of future capital projects. Maintaining a reasonable level of surplus fund balance and reserve funds in accordance with statute is

a key element of effective multiyear financial planning. A fund balance policy that provides guidance on how fund balance will be used and maintained in accordance with statute is an important component of any multiyear plan.

A multiyear financial plan and fund balance policy should both be periodically reviewed and updated to provide a reliable framework for preparing reasonable annual budgetary estimates and ensuring that information guiding decisions is current, accurate and in accordance with statutory requirements.

The Board Has Not Adopted a Comprehensive Written Multiyear Financial Plan and Did Not Adhere to Its Fund Balance Policy

While the Board and District officials told us that the Board often discusses long-term planning during budget preparation and throughout the year, the Board has not adopted any written multiyear plans.

Adopting a multiyear plan would help District officials address the estimation and use of appropriated and surplus fund balance, including reserve funds, and prioritize and plan for future capital needs. The lack of a multiyear plan limits the Board and District officials' ability to properly manage fund balance in accordance with statute and address future needs.

While the Board did adopt a fund balance policy, it did not adhere to it. The policy required the Board to "strive to ensure" that surplus fund balance did not exceed the statutory requirements. The policy further required the use of surplus funds to reduce taxpayer liability (real property tax levy) in accordance with statute. However, as its surplus fund balance significantly exceeded the statutory limit and appropriated fund balance amounts were not used as budgeted, the Board did not adhere to either aspect of the policy.

As the District moves forward, a well-designed written multiyear financial plan and adhering to its fund balance policy can assist the Board in making timely and informed decisions about programs and operations and help the Board and District officials properly manage fund balance in accordance with statute.

The lack of a multiyear plan limits the Board and District officials' ability to properly manage fund balance in accordance with statute...

What Do We Recommend?

The Board and District officials should:

1. Develop and adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be appropriated and used to fund operations.
2. Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.

-
3. Develop and adopt a plan to reduce surplus fund balance to comply with the statutory limit. Surplus funds can be used for: reducing District property taxes, funding one-time expenditures, funding needed reserves and paying off debt.
 4. Develop, adopt and periodically update a comprehensive written multiyear financial plan to be used in conjunction with the annual budget process.
 5. Review and adhere to the fund balance policy in conjunction with the annual budget process.

Appendix A: Response From District Officials

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Unit Name: Ripley Central School District
Audit Report Title: Financial Management
Audit Report Number: 2021M-023

Office of the State Comptroller
Buffalo Regional Office
295 Main Street, Suite 1032
Buffalo, NY 14203-2510

Dear Sir/Madam:

We are in receipt of your draft report of the State Comptroller's Office audit of the Ripley Central School District for the period July 2017 – March 4, 2021. The District Board of Education and Administration appreciate your auditor's efforts to examine the District's procedures and provide the District with suggested improvements. This letter is to provide you with the District's response to the findings and recommendations included in your report, and to provide you with the corrective actions in response to the findings and recommendations. The District generally agrees with the findings in your report and has outlined the corrective actions taken in the response below.

The District will work toward following the recommendations suggested in the audit report, but will continue to budget conservatively to ensure that educational services are provided to its students without interruption and staffing and programming are maintained at the levels required to provide these educational services. As we have seen through the most recent economic crisis, there can potentially be high volatility in the state aid received by the District. The District strives to maintain a relatively level and/or slightly decreasing tax rate no matter the economic circumstances. The conservative budgeting practices of the District has allowed the District to maintain its educational programs and maintain appropriate staffing while staying within the property tax cap.

Audit Recommendation:

Develop and adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be appropriated and used to fund operations.

Ripley Central School District
12 North State Street, P.O. Box 688, Ripley, New York 14775

Implementation Plan of Action:

The District will continue to refine and strive to improve its budgeting practices and include reasonable estimate for appropriations beginning with its next budget.

Audit Recommendation:

Discontinue the practice of appropriating fund balance that is not needed or used to fund operations.

Implementation Plan of Action:

The District will work toward appropriating a more accurate amount of fund balance as it works toward more accurate estimates of appropriations.

Audit Recommendation:

Develop and adopt a plan to reduce surplus fund balance to comply with the statutory limit. Surplus funds can be used for: reducing District property taxes, funding one-time expenditures, funding needed reserves and paying off debt.

Implementation Plan of Action:

The District has reduced or maintained the same property tax rate over the past 10 years. The tax rate has decreased from \$29.74 per thousand in 2010-2011 to a rate of \$21.16 (estimated) for 2021-2022. This is a decrease of 28.9%. The District also was successful in receiving approval from voters of the District to establish a \$1 million capital reserve to fund the local portion of anticipated future capital projects. Funds will be transferred into the reserve to reduce the unappropriated fund balance. In addition, the District reviews its reserve accounts annually to determine if additional funds could/should be added to the reserves. Most within the past two years the District has added to its retirement contribution reserve, created a tax certiorari reserve and has been reserving the maximum amount allowed into the TRS reserve since it was allowed to be established in 2019. The District is facing a debt payment in 2023 of \$214,663 that will not be funded by state aid. All of the above will reduce the District's unappropriated fund balance.

Audit Recommendation:

Develop, adopt and periodically update a comprehensive written multiyear financial plan to be used in conjunction with the annual budget process.

Implementation Plan of Action:

The District has completed the multiyear financial planning spreadsheet included on the NYS Comptroller's website and reviewed the local government management guide to ensure that recommendations included in the guide are included in the District's budgeting process.

Audit Recommendation:

Review and adhere to the fund balance policy in conjunction with the annual budget process.

Implementation Plan of Action:

The District will work continue to work toward following its fund balance policy which states that the District will strive to not exceed statutory requirements by ensuring its reserves are maximized and that property tax rates continue to stay level and/or continue to decrease.

We believe this corrective action plan will address the findings in the audit. Thank you again for your efforts in assisting the District improve its financial management.

Sincerely,

William Caldwell
Superintendent

Ripley Central School District
12 North State Street, P.O. Box 688, Ripley, New York 14775

Appendix B: Audit Methodology and Standards

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, our audit procedures included the following:

- We interviewed the Board and District officials, representatives from the Firm and reviewed policies, procedures, external financial audit reports and Board meeting minutes to gain an understanding of the District's financial management practices and whether the District had any comprehensive written multiyear financial plans and fund balance policies.
- We reviewed the adopted general fund budgets from 2017-18 through 2019-20 to assess whether they were reasonable and structurally balanced by comparing adopted budgets with actual results of operations and analyzing significant budget-to-actual variances.
- We analyzed the change in surplus fund balance from July 1, 2017 through June 30, 2020 to assess the impact of the District's annual financial operating results.
- We compared the adopted 2020-21 general fund budget to the 2017-18 through 2019-20 adopted budgets and operating results to assess whether similar budgeting patterns existed.
- We obtained District officials' financial projections for the 2020-21 fiscal year, as of March 4, 2021 and June 25, 2021 to assess whether it was consistent with the District's historical financial trends.
- We calculated the general fund's surplus fund balance for 2017-18 through 2019-20 as a percentage of the next year's budgeted appropriations to assess whether the District complied with statute.
- We recalculated surplus fund balance as of June 30, 2019 as a percentage of the next year's budgeted appropriations after adding back unused appropriated fund balance for 2019-20.

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

The Board has the responsibility to initiate corrective action. 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-a(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 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 CAP should be posted on the District's website for public review.

Appendix C: Resources and Services

Regional Office Directory

<https://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf>

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

<https://www.osc.state.ny.us/local-government/publications>

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

www.osc.state.ny.us/local-government/fiscal-monitoring

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

<https://www.osc.state.ny.us/local-government/publications>

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

www.osc.state.ny.us/local-government/resources/planning-resources

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

<https://www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.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/local-government/required-reporting

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

<https://www.osc.state.ny.us/local-government/publications>

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

www.osc.state.ny.us/local-government/academy

Contact

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Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

www.osc.state.ny.us/local-government

Local Government and School Accountability Help Line: (866) 321-8503

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