



Corinth Central School District Financial Condition

Report of Examination

Period Covered:

July 1, 2012 — February 28, 2015

2015M-68



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2015

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 Corinth 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 Corinth Central School District (District) is located in the Towns of Corinth, Day, Greenfield, Hadley and Wilton in Saratoga County and the Town of Lake Luzerne in Warren County. The District is governed by the Board of Education (Board) which comprises 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 (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 Administrator is responsible for accounting for all District funds and preparing financial reports for the Board.

The District operates two schools with approximately 1,200 students and 225 employees. The District's primary operating fund is the general fund, which is used to account for all financial transactions that are not required to be accounted for in another fund. The District's general fund budgeted appropriations for the 2014-15 fiscal year are \$20.7 million, which are funded primarily with State aid and real property taxes.

Fiscal stress is a judgment about the financial condition of an individual entity that must take into consideration the entity's unique circumstances, but can be generally defined as a school district's inability to generate enough revenues within its current fiscal period to meet its expenditures (budget solvency). The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates school districts based on financial and environmental indicators and calculates a score for each financial indicator to determine if these entities are in or nearing fiscal stress. The District has been classified as being in moderate fiscal stress as of June 30, 2014.

Objective

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

- Does the Board adopt realistic budgets that are structurally balanced and take appropriate actions to maintain the District's fiscal stability?

Scope and Methodology

We examined the District's financial records for the period July 1, 2012 through February 28, 2015.

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 is 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

Financial condition may be defined as a school district's ability to balance recurring expenditure needs with recurring revenue sources, while providing desired educational services on a continuing basis. A school district in good financial condition can consistently generate sufficient revenues to finance anticipated expenditures and maintain sufficient cash flow to pay bills and other obligations when due without relying on short-term borrowing. Conversely, a school district in fiscal stress usually struggles to balance its budget has limited resources to finance future needs and minimal cash available to pay current liabilities as they become due.

The Board and District officials are responsible for creating and managing the financial plans necessary to maintain the District's fiscal health. As such, an essential component of the Board's and District officials' duties and responsibilities is to make sound financial decisions to fund operations that are in the District's and taxpayers' best interests. This responsibility requires Board members and District officials to balance the level of educational services desired and expected from District residents with the ability and willingness of the residents to pay for such services. To maintain good fiscal health, it is essential that the Board adopt realistic and structurally balanced budgets, manage both fund balance and cash balance levels and identify and adjust to long-term challenges.

The Board-adopted 2012-13 through 2014-15 general fund budgets were not structurally balanced because the Board routinely relied on significant amounts of appropriated fund balance to finance operations. The Board also did not adopt a policy establishing the level of unrestricted fund balance that should be maintained for any unanticipated expenditures and/or revenue shortfalls. As a result, for the 2012-13 and 2013-14 fiscal years the general fund incurred operating deficits totaling more than \$1.9 million. As of June 30, 2014, the Districts unrestricted fund balance was \$287,901, which was 1.4 percent of the ensuing year's appropriations.

The District's financial condition will likely decline further in the future if the Board continues to adopt budgets that are not structurally balanced. Further, if no action is taken to address shortfalls in estimated revenues for the 2014-15 fiscal year and to control expenditures, the District will have a deficit fund balance as of June 30, 2015. If these trends continue, the District will incur fiscal instability that will negatively affect future District operations.

Fund Balance

One of the key measures of a school district's financial condition is its fund balance, which is the difference between revenues and expenditures accumulated over time. It is District officials' responsibility to ensure that the level of fund balance maintained is sufficient to provide adequate cash flow, but not so excessive as to withhold funds that could be put to productive use. A continual decline in unrestricted fund balance indicates a deteriorating financial condition. To help District officials manage financial operations and ensure continued orderly school district operation, the Board should adopt a policy establishing an acceptable level of unrestricted fund balance to be maintained. When District officials follow such a policy during the annual budgeting process, the District is better prepared for unanticipated expenditures and revenues shortfalls.

While fund balance can be appropriated to help finance annual operations, consistently doing so – instead of using recurring revenue sources – can deplete fund balance to levels that are not sufficient for unanticipated contingencies and current cash flow needs. A school district is considered to have a sound cash position when it routinely has sufficient cash to pay its bills and other obligations when due, without needing to rely on short-term borrowing.

Declining Fund Balance – The District's total general fund balance decreased by more than \$1.9 million or approximately 47 percent over the last two fiscal years, from nearly \$4.2 million at the start of the 2012-13 fiscal year to about \$2.2 million at the end of the 2013-14 fiscal year. More importantly, unrestricted fund balance decreased to \$287,901 at the end of the 2013-14 fiscal year which was 1.4 percent of the 2014-15 general fund adopted appropriations. The substantial decline in fund balance was primarily the result of the Board appropriating significant amounts of fund balance as a financing source to support operations during the 2012-13 through 2014-15 fiscal years.

| Figure 1: General Fund - Fund Balance | | |
|--|---------------|-------------|
| | 2012-13 | 2013-14 |
| Beginning Fund Balance | \$4,191,780 | \$3,164,569 |
| Operating Surplus (Deficit) | (\$1,027,211) | (\$941,002) |
| Ending Fund Balance | \$3,164,569 | \$2,223,567 |
| Less: Restricted Fund Balance | \$1,658,175 | \$1,308,175 |
| Less: Committed Fund Balance | \$66,239 | \$127,491 |
| Less: Assigned Appropriated Fund Balance | \$900,000 | \$500,000 |
| Unrestricted Fund Balance at Year-End | \$540,155 | \$287,901 |

For the 2012-13 and 2013-14 fiscal years, the Board adopted budgets that resulted in budget variances between the total amounts budgeted and the actual revenues and expenditures. Specifically, actual revenues received were less than the amounts estimated by \$220,000 in 2012-13 and \$1.26 million in 2013-14. However, actual expenditures were less than the amounts budgeted by \$890,000 in 2012-13 and \$1.2 million in 2013-14, resulting in the District using significantly less fund balance than planned during 2012-13 and slightly more in 2013-14. The Board budgeted for planned operating deficits¹ in both the 2012-13 and 2013-14 fiscal years by appropriating fund balance to help finance operations. As a result, the District experienced combined operating deficits totaling more than \$1.9 million in the 2012-13 and 2013-14 fiscal years, which resulted in the decline in total unrestricted fund balance.

Additionally, because the Board did not adopt a fund balance policy that establishes the level of unrestricted fund balance to be maintained, the overreliance on appropriated fund balance as a financing source for 2012-13 and 2013-14 contributed to the significant decrease in unrestricted fund balance. The depletion of unrestricted fund balance resulted in constraints on the District's financial flexibility.

2014-15 Budget – We reviewed the District's adopted 2014-15 general fund budget totaling approximately \$20.7 million to determine whether significant budget estimates were reasonable based on historical data, supporting source documentation and the actual results of operations through the end of our audit period, as well as whether the budget was structurally balanced. We found the District continued its practice of overestimating appropriations, while at the same time over estimating revenues. Specifically, the District has approximately \$500,000 in appropriations for contractual expenditures and \$300,000 in salaries that they do not anticipate using. We also found State aid was significantly overestimated by approximately \$1.4 million (7 percent of the overall budget) in the 2014-15 adopted budget based on our examination of the State aid runs.² Based on estimated budget variances in the other revenue accounts,³ it appears overall revenues could be overestimated by as much as \$1.3 million or 6.3 percent of the 2014-15 budget.

¹ A planned operating deficit occurs when the Board adopts a budget in which estimated revenues are less than budget appropriations, with the difference to be funded with appropriated fund balance and reserves.

² New York State Education Department General Formula Aid Output Report as of March 23, 2015

³ Real property tax, payment in lieu of taxes (PILOT) payments, New York State School Tax Relief (STAR), BOCES aid refunds, etc.

The Business Administrator did not prepare periodic year-end revenue projections for the Board. He agreed that State aid was overestimated in the budget which resulted in the shortfall we identified. If no action is taken to address the \$1.3 million revenue shortfall and actual expenditures for the 2014-15 fiscal year are approximately \$800,000 less than estimated, the District will use all the \$500,000 fund balance it appropriated for 2014-15, and the general fund will have a deficit unrestricted fund balance as of June 30, 2015. If this occurs the District's financial condition will further decline. As a result, unlike in previous years, District officials will have no fund balance to use as a financing source in the 2015-16 budget. The Board will then need to find other revenue sources, increase the amount of real property taxes levied if officials desire to maintain the District's current level of services or reduce expenditures.

We met with the Superintendent and Business Manager in late March 2015 and indicated that the Board should discontinue the budgetary practice of appropriating fund balance as a means to finance recurring expenditures. Furthermore they will need to address the significant shortfall of revenue expected for 2014-15 fiscal year.

Multiyear Financial Planning

Multiyear financial planning is a tool that school districts can use to improve the budget development process. Planning on a multiyear basis will enable District officials to identify developing revenue and expenditure trends, establish long-term priorities and goals and consider the impact of current budgeting decisions on future fiscal years. It also allows District officials to assess the merits of alternative approaches (such as using unrestricted fund balance or establishing and using reserves) to finance its operations. Any long-term financial plan should be monitored and updated on a continuing basis to provide a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate.

The Board and District officials did not develop a multiyear financial plan to address the use of restricted and unrestricted fund balance. Had District officials used multiyear financial planning, they would have understood that appropriating significant amounts of fund balance could have a negative impact on the District's financial position. Furthermore, the Board's failure to develop a financial plan to mitigate the District's fiscal stress inhibits its ability to effectively manage its finances.

Recommendations

The Board should:

1. Develop and adopt a fund balance policy establishing the amount of general fund unrestricted fund balance to be maintained within the legal limit.

2. Adopt general fund budgets that include realistic estimates for revenues and expenditures and ensure that future budgets are structurally balanced without relying on fund balance as a financing source.
3. Develop a comprehensive multiyear financial plan to establish objectives for funding long-term needs.

The Business Administrator should:

4. Prepare periodic year-end revenue and expenditure projections to ensure that estimated revenues are still anticipated to be collected in full to support appropriations.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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April 24, 2015

Dear Chief Examiner,

The Corinth Central School District was subject to an audit by the New York State Comptroller's Office from July 1, 2012 through February 28, 2015. The focus of the audit was the Financial Condition of the District.

The draft report was released on April 13, 2015 and an exit conference was held April 16, 2015. During the exit conference clarification was given and received regarding the draft report, and there was general agreement concerning the recommendations. When the final report is issued, the District will respond to the recommendations contained in the report.

We view the findings as helpful to our procedures and controls as we work to make our District more fiscally sound. We thank the auditor that was here, for his pleasant and professional manner in which he conducted himself, and in the way he interacted with District personnel.

Sincerely,

Daniel R. Starr, Ed.D.
Superintendent

OUR FOCUS IS LEARNING

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the District's financial condition and identify areas where the District could realize efficiencies and protect assets from loss or misuse. To accomplish this, our initial assessment included a comprehensive review of the District's financial condition.

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

- We interviewed the Superintendent and other District officials to gain an understanding of the District's financial management policies and procedures. This included inquiries about the District's budgeting practices and the development of plans to maintain the District's fiscal stability.
- We analyzed the District's financial records for the general fund for fiscal years 2012-13 and 2013-14 to determine if the general fund's financial condition declined. We also evaluated any factors contributing to the decline.
- We compared the adopted budgets for the general fund for fiscal years 2012-13 and 2013-14 with the actual results of operations to determine if the budgets were realistic and structurally balanced.
- We reviewed the District's financial records for the period July 1, 2012 through February 28, 2015.
- We reviewed the adopted general fund budget for the 2014-15 fiscal year to determine whether the budgeted revenues and appropriations were reasonable based on historical data and supporting source documentation. We analyzed the actual results of operations through the end of our audit period to determine whether the budget was structurally balanced.

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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