



Sherburne-Earlville Central School District Fund Balance

Report of Examination

Period Covered:

July 1, 2015 – November 8, 2016

2017M-19



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	2
FUND BALANCE	4
Recommendations	6
APPENDIX A Response From District Officials	7
APPENDIX B Audit Methodology and Standards	9
APPENDIX C How to Obtain Additional Copies of the Report	10
APPENDIX D Local Regional Office Listing	11

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2017

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 Sherburne-Earlville 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 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 Sherburne-Earlville Central School District (District) is located in 11 towns in Chenango and Madison Counties. 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 three schools with approximately 1,300 students and 500 employees. The District's budgeted appropriations for the 2016-17 fiscal year are \$33.3 million, which are funded primarily with State aid, real property taxes and grants.

Objective

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

- Did the Board and District officials ensure that fund balances were reasonable?

Scope and Methodology

We examined the District's financial records for the period July 1, 2015 through November 8, 2016. We extended our scope back to July 1, 2013 to analyze the District's unrestricted and restricted fund balances and budgeting trend and forward through June 30, 2017 to project results of operations.

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 the 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.

Fund Balance

The Board and District officials are responsible for making sound financial decisions that are in the best interests of the District, the students they serve and the residents who fund the District's programs and operations. Fund balance represents the cumulative residual resources from prior fiscal years that can be used to lower real property taxes for the ensuing fiscal year. A district may retain a portion of fund balance, referred to as unexpended surplus funds, as well as set aside and reserve reasonable portions of fund balance to finance future costs for a variety of specified objects or purposes. The Board and District officials should adopt a fund balance policy that provides guidelines for the maintenance and use of unrestricted and restricted fund balance.

New York State Real Property Tax Law (RPTL) requires that unexpended surplus funds not exceed 4 percent of the ensuing year's budget appropriations. Unreasonable budgetary practices can mislead District residents and can significantly impact the District's year-end unexpended surplus funds and financial condition. Sound budgeting practices based on accurate estimates, coupled with prudent fund balance management, help ensure that sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future expenditures.

The District's unrestricted fund balance for the 2013-14, 2014-15 and 2015-16 fiscal years exceeded the statutory maximum of 4 percent of the ensuing year's appropriations. However, from 2013-14 through 2015-16, the unrestricted fund balance declined from \$4,079,523 (13.0 percent of the ensuing year's appropriations) to \$3,777,439 (11.3 percent of the ensuing year's appropriations).

Figure 1: General Fund Unrestricted Fund Balance at Year-End

	2013-14	2014-15	2015-16
Total Beginning Fund Balance	\$8,447,794	\$8,452,694	\$7,939,991
Add: Operating Surplus/(Deficit)	\$4,900	(\$512,703)	(\$446,506)
Total Ending Fund Balance	\$8,452,694	\$7,939,991	\$7,493,485
Less: Restricted Funds ^a	(\$2,890,672)	(\$2,195,633)	(\$2,195,633)
Less: Encumbrances	(\$381,368)	(\$524,471)	(\$220,413)
Less: Nonspendable Funds	(\$1,131)	(\$1,184)	\$0
Less: Appropriated Fund Balance for the Ensuing Year	(\$1,100,000)	(\$1,500,000)	(\$1,300,000)
Total Unrestricted Funds at Year-End	\$4,079,523	\$3,718,703	\$3,777,439
Ensuing Year's Budgeted Appropriations	\$31,387,341	\$33,187,405	\$33,316,357
Unrestricted Funds as Percentage of Ensuing Year's Budget	13.0%	11.2%	11.3%
Dollar Amount Over 4 Percent Statutory Limitation	\$2,824,029	\$2,391,207	\$2,444,785
^a Excludes tax certiorari reserve of \$24,140 no longer needed and should be reclassified to unrestricted fund balance			

Additionally, District officials appropriated an average of \$1.3 million in fund balance as a financing source in each of the annual budgets for 2014-15 through 2016-17, but the unrestricted fund balance still exceeded the 4 percent statutory limit (Figure 1). However, the District used fund balance totaling between \$512,702 and a projected \$210,000 in 2016-17 to finance operations. When unused appropriated fund balance for the ensuing year was added back, the District's recalculated unrestricted fund balance as a percent of ensuing year's appropriations exceeded the 4 percent statutory limit each year by more than 10 percentage points.

Figure 2: Unused Fund Balance

General Fund	2013-14	2014-15	2015-16
Total Unrestricted Funds at Year-End	\$4,079,523	\$3,718,703	\$3,777,439
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	\$587,298	\$1,053,492	\$1,090,000 ^a
Total Recalculated Unrestricted Funds	\$4,666,821	\$4,772,195	\$4,867,439
Recalculated Unrestricted Funds as Percentage of Ensuing Year's Budget	14.9%	14.4%	14.6%
Percentage Points Over 4 Percent Statutory Limitation	10.9%	10.4%	10.6%

^a Estimated based on projected results for the 2016-17 fiscal year. See Appendix B for more information about our methodology.

We compared the budgeted revenues and appropriations to the actual revenues and expenditures and found that revenue estimates were reasonable while appropriations were overestimated by \$4.6 million in total, or an average of 4.4 percent per year, from 2013-14 through 2015-16. District officials were routinely overestimating employee benefits instead of relying on historical and prospective information. For example, over the last three years, the appropriation for employee benefits was consistently overestimated by an average of approximately \$1.1 million, or 14 percent. District officials told us they budgeted conservatively and attempted to limit the impact of unanticipated expenditures that may arise during the year. However, a primary purpose for fund balance is to be available for unexpected increases in expenditures, unplanned decreases in revenues or both. Had District officials adopted a fund balance policy and followed it, they would have complied with RPTL.

We projected the results of operations for the fiscal year ending June 30, 2017 and anticipate the District will have a small operating deficit. This will result in the use of fund balance, but not the \$1.3 million planned. While it is prudent to have some provision for unanticipated expenditures, it can be done in accordance with RPTL by maintaining appropriate fund balance, adopting a realistic budget and funding reserves. Doing all three of these excessively may have resulted in unnecessary increases in real property taxes.

Recommendations

The Board and District officials should:

1. Develop a plan to reduce the amount of available fund balance in a manner that benefits District residents. Such uses could include, but are not limited to:
 - Funding one-time expenditures;
 - Funding needed reserves; and
 - Reducing real property taxes.
2. Adopt a written fund balance policy for unrestricted and restricted fund balance that provides guidelines for the maintenance and use of unrestricted and restricted fund balance in keeping with RPTL.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Sherburne-Earlville Central School

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March 1, 2017

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, NY 13901-4417

Dear Mr. Eames:

Please accept this correspondence as our official acknowledgement of the receipt and review of the Draft Audit Report of the Sherburne-Earlville CSD, relating to the Fund Balance from July 1, 2015 through November 8, 2016. This will also confirm that an exit conference was held today, March 1, 2017 at 3:00 PM in the District Office Conference Room.

The Sherburne-Earlville Central School District thanks the Office of the State Comptroller for the time and evaluation of the District's fiscal management. We would like to express our appreciation for the professionalism, thoroughness, and courtesy of the auditors assigned to Sherburne-Earlville. The audit process was a positive experience and we welcome the feedback provided by the auditors.

The Board of Education and District Administration will develop the required Corrective Action Plan (CAP), based on the recommendations made by your office. We will develop a plan to reduce the amount of available fund balance. We will also adopt a written fund balance policy for unrestricted and restricted fund balance that provides guidelines for the maintenance and use of unrestricted fund balance in keeping with New York State Real Property Tax Law (RPTL).

On behalf of the District, I thank Comptroller's Office for its due diligence and recommendations.

Sincerely,

Eric Schnabl
Superintendent of Schools

Cc: Dr. Thomas Morris, Board President
Todd Griffin, Assistant Superintendent

Sherburne-Earlville is committed to students.

By providing an environment of educational excellence which emphasizes the learning of academic and life skills, nurtures self-respect, and fosters life-long learning, we enable our students to pursue challenging individual goals and to become positive members of society.

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials to gain an understanding of the District’s financial management processes and procedures, including the rationale for determining fund balance levels.
- We interviewed District officials and reviewed budgeting policies and procedures to gain an understanding of the District’s budgeting process.
- We calculated the unrestricted fund balance as a percentage of the ensuing year’s appropriations to determine if the District was within the statutory limitation from 2013-14 through 2015-16.
- We added the unused appropriated fund balance to the general fund’s unrestricted fund balance to determine if the District was over the statutory limitation during the last three fiscal years.
- We projected the results of operations for 2016-17 by comparing actual results through November 2015 to actual results as of November 2016 and calculating budget variances from the prior year to estimate total revenues and expenditures.
- We analyzed the District’s budget over the last three fiscal years by comparing budgeted revenues and appropriations to actual revenues and expenditures and comparing these results to appropriated fund balance amounts.
- We analyzed fund balance trends over the last three fiscal years by comparing the appropriated fund balance to the same year’s operating results to determine if appropriated amounts were actually used.
- We analyzed District officials’ use of, and balances maintained in, reserves during the last three fiscal years to determine if balances were excessive by reviewing related reserve expenditures, liabilities and charges to reserves.

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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