OFFICE OF THE NEW YORK STATE COMPTROLLER

DIVISION OF LOCAL GOVERNMENT
& SCHOOL ACCOUNTABILITY

Mayfield Central School District

Financial Condition

Report of Examination

Period Covered:

July 1, 2010 — November 17, 2011

2012M-46

STATE OF NEW YORK
EXCELSIOR
COMPTROLLER

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

July 2012

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 Mayfield 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 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 Mayfield Central School District (District) is located in the Towns of Broadalbin, Johnstown, Mayfield, and Northampton in Fulton County. The District is governed by the Board of Education (Board) which comprises five 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 chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

The Board of Education and the Superintendent are responsible for developing the annual budget. The District has formed a committee to assist in budget development consisting of the Board in its entirety, the Superintendent, District Treasurer, High School Principal, and Elementary School Principal. The District Treasurer is responsible for maintaining the financial records of the District and providing monthly financial reports to the Board so that it can monitor the budget.

There are two schools in operation within the District, with 963 students and 117 employees. The District's general fund expenditures for the 2010-11 fiscal year were $16.4 million, which were funded primarily with State aid and real property taxes.

Objective

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

- Does the Board adopt realistic budgets and take appropriate actions to maintain the District's financial stability?

Scope and Methodology

We examined the financial condition of the District for the period July 1, 2010, to November 17, 2011. We also reviewed selected financial information for fiscal years 2007-08 through 2009-10, and subsequent to November 17, 2011, to provide perspective and describe trends.

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 agreed with our recommendation and indicated that they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the 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

A school district's financial condition affects its ability to provide educational services to students. The responsibility for effective financial planning and management of the District rests with the Board, Superintendent, and District Treasurer. One of the most important tools for managing a district's financial condition is the budget process. It is imperative for Board members to maintain the District's financial condition by developing structurally balanced budgets that are based on accurate financial information and include reasonable estimates of expenditures, revenues, and available fund balance.[1] Budgets should accurately depict the District's financial activity while using available resources to responsibly lower the tax burden of District residents.

We found that although the District had fund balance in excess of the statutory limit[2] for the fiscal years ended June 30, 2007, through June 30, 2009, the Board and District officials have taken appropriate action to reduce the fund balance below this statutory limit for the fiscal years ended June 30, 2010, and June 30, 2011. The Board has accomplished this by establishing reserves and by using more of the fund balance that it had appropriated, as planned. The District is now facing increasingly difficult financial decisions as State and Federal aid is reduced and expenditures for health insurance and retirement continue to rise. Also, starting this year, the District is required to comply with the 2 percent property tax levy cap.[3] These developing

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[1] The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011, and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

[2] In July 2007, legislation was enacted to change the Real Property Tax Law statutory limit of unrestricted, unappropriated, fund balance to 3 percent of the 2007- 08 fiscal year's budget and 4 percent of the 2008-09 fiscal year's budget and for years after. Prior to this, the limit was 2 percent.

[3] The State Legislature enacted Chapter 97 of the Laws of 2011 that established a tax levy limit on all local governments, which is effective beginning in the 2012 fiscal year. The law precludes a school district from adopting a budget that requires a tax levy that exceeds the prior year's tax levy by more than 2 percent or the rate of inflation, whichever is less, and certain exclusions permitted by law, unless 60 percent of district voters approve a budget that requires a tax levy that exceeds the statutory limit.

issues will require sound budgeting practices and financial planning in the coming years.

Financial Planning

Preparing comprehensive, up-to-date multiyear operational plans makes good business sense. The benefits of planning ahead or taking a proactive approach to fiscal operations are especially important for a District faced with financial concerns. Officials must look ahead for potential problems so that they may react in a timely manner and plot a course to avoid them. This long-term approach can yield cost-savings and/or revenue gains. Budget decisions can be spread over a number of years, thereby putting less financial pressure on any given year and leveling the rate of tax increases while avoiding sudden and severe cost-cutting measures. All of these benefits lend stability to the year-to-year operations and fund balance.

The District previously had been retaining fund balance in amounts that were in excess of the statutory limit. This had occurred due to actual operating results, which were not in line with the District's budgets. The District took steps, starting with its 2008-09 fiscal year, to address this issue through the adoption of more realistic budgets, establishment of reserves, and using a portion of the accumulated fund balance for operations. However, District officials need to remain aware that the amount of fund balance is limited and, therefore, cannot be used as a continual funding source. The District is facing increasingly difficult financial decisions because of decreasing revenues and increasing expenditures. And starting this year, the District is required to comply with the 2 percent property tax levy cap. This will require sound budgeting practices and financial planning in the coming years.

During our audit period, the Board did not adopt a comprehensive long-term financial plan to address its financial concerns. The Superintendent indicated that the Board, in conjunction with himself, the District Treasurer, and the two school principals, had previously produced a five-year outlook, but this plan was never formally adopted by the Board. Due to the changing financial climate, the outlook of this plan has been reduced to two years. The District currently does not have a formal long-term financial plan; however, the Board has produced an informal two-year projection that shows shortfalls of $1.5 million in the 2012-13 budget year and $1.8 million in the 2013-14 budget year, if current trends continue. To cover the shortfall in the 2012-13 budget, the District has appropriated nearly all of its unreserved fund balance projected to be remaining as of June 30, 2012, to fill the gap.

District management, however, has taken some steps to address these financial concerns. Some of these steps included reducing total expenditures through reductions in staffing and cuts in art, music, athletics, clubs, and elementary summer school. The District has cut 31 positions in the last two years. Nine were the result of attrition, 19.5 resulted in actual lay-offs, and 2.5 positions were abolished with the employees being re-assigned to other previously vacant positions. District managers have indicated that, faced with decreasing revenues and increasing expenditures, they will continue to explore ways to improve the District's financial condition including merging with a neighboring district. A potential merger study has been submitted to the New York State Education Department for review.

Factors that need to be considered by the District include the following:

Revenues – The District relies heavily on State aid to fund its operations. The District has seen State aid decrease by approximately $1 million over the last three years and has experienced 5 percent decreases in actual State aid received in both 2009-10 and 2010-11. State aid currently makes up approximately 52 percent of total revenues from a high of 60 percent in 2008-09. Also, tax collections by the District have been negatively impacted because its second largest tax payer, the Hudson River Black River Regulating District (HRBRRD) has not made its tax payments in a timely manner. For example, the HRBRRD did not make its payments for the 2009-10 or 2010-11 fiscal years, totaling approximately $700,000, until August 2011. The HRBRRD's taxes of $372,036 for the 2011-12 fiscal year, due by the end of September 2011, remain unpaid as of mid-June 2012. It is unknown whether this pattern of delinquency will continue. Lastly, in 2009-10 and 2010-11, the District received approximately $500,000 and $550,000, respectively, in special Federal aid, which will not be available in future years. The decrease in State aid combined with the loss of special Federal aid will cause the District to rely more on real property taxes and other revenues.

Expenditures – The District has seen a steady rise in total expenditures over the last three years, from approximately $15.3 million in 2007-08 to almost $16.6 million in 2010-11. The main contributor to this increase was the cost of health insurance. Total health insurance costs have increased from $2 million to $3.2 million over this time period. It is possible that this trend will continue in the coming years.

Adequately planning for the District's long-term operational needs will help minimize the element of surprise, maximize the ability to manage change effectively, and allow management to act rather than react. It also can provide a mechanism for continually measuring performance against established standards (plans) and can be a valuable communications tool providing all interested parties with a common base of information. While we recognize that developing and monitoring sound long-term plans requires a time commitment from the Board and other District officials, the potential benefits to the District are significant.

Recommendation

1. District management should develop, and the Board should adopt and implement, a comprehensive long-term financial plan for the District and update it annually. Actual results should be carefully monitored to identify potential fiscal difficulties, such as structural imbalances between revenues and expenditures, in a timely manner.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

MAYFIELD CENTRAL SCHOOL DISTRICT
Mayfield, New York 12117

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Superintendent
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(518) 661-8207
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Elementary Principal
NICHOLAS CRISCONE
(518) 661-8251
FAX (518) 661-6590

June 27, 2012

Jeffery P. Leonard, Chief Examiner
State of New York
Office of the State Comptroller
Division of Local Government and School Accountability
110 State Street
Albany, New York 12236

Dear Mr. Leonard:

Mayfield Central School District is in receipt of the Draft Copy of the Comptroller audit performed by [redacted], under the supervisor, [redacted]. The information presented is fair and provides the district with a clear recommendation for district management to develop, and for the Board of Education to adopt and implement a comprehensive long-term financial plan and update it annually.

The District's Audit Committee, which is represented by the full board, has recently worked with three and five year financial plans, however, the plans were not formally adopted.

The audit was conducted in a professional manner with opportunities for input by district officials. The post audit meeting was held with Brenda Leitt, District Treasurer and myself in attendance. [redacted] and [redacted] met with the BOE Vice President, Ernest Clapper after our meeting.

To fulfill the recommendation, the District management will recommend a budget forecast and long-range plan for Board of Education adoption.

Respectfully,

Paul G. Williamsen

Paul G. Williamsen
Superintendent

PGW:dj

"ALL STUDENTS CAN LEARN"

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial condition, financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, and information technology.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided on the reported objective and scope by selecting for audit the area most at risk. We selected financial condition for further audit testing.

We examined the District's audited financial statements from 2007 through 2010. We examined reports from the District's financial management system including journal entries, trial balances, and budget status reports for expenditures and revenues. We examined the bank reconciliations, claims documentation, accounts payable schedules, general ledger activity reports, bank statements, Board minutes, and budget documentation. Where necessary, we sought explanation from District officials.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C

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APPENDIX D

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