



Middleburgh Central School District

Financial Condition

Report of Examination

Period Covered:

July 1, 2011 — June 30, 2013

2013M-206



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2013

Dear District Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as 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 operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit the Middleburgh 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 local government 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 Middleburgh Central School District (District) is located in the Towns of Blenheim, Broome, Cobleskill, Conesville, Fulton, Middleburgh, Schoharie, Summit, and Wright in Schoharie County and the Towns of Berne and Rensselaerville in Albany 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 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. Responsibilities relating to the District's finances and accounting records and reports are largely those of the business manager.

There are two schools in operation within the District, with approximately 800 students and 190 employees. The District's general fund budget for the 2013-14 fiscal year is approximately \$20.2 million, which is 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:

- Did the Board and District management effectively manage the District's financial condition?

Scope and Methodology

We examined the financial condition of the Middleburgh Central School District for the period July 1, 2011, to June 30, 2013.

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 our recommendations and indicated that 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 Board and Superintendent are responsible for ensuring that structurally balanced budgets are prepared, adopted, and amended that include reasonable estimates of revenues and expenditures based on contractual and historical data. Although fund balance is an acceptable financing source, it should not be relied upon on a continual basis. Prudent fiscal management also includes preparing a comprehensive, up-to-date long-term financial plan¹ to address future obligations and expenditures. This allows budget decisions to 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.

Although the Board and District management believed they were effectively managing the District's financial condition, budgeting decisions over the last several years have made the District susceptible to fiscal stress. Even though District officials had knowingly generated surpluses in the past to prepare for economic difficulties, they have come to rely on using surplus funds to finance operations, and are close to depleting those funds. Additionally, District officials did not update the District's long-term financial plan to address how they will fund the budgets without the continued use of fund balance.

District officials adopted budgets for 2011-12 and 2012-13 that included expenditure estimates that exceeded revenue estimates by a total of \$2.4 million, financed by appropriated fund balance. Although revenues were relatively close to the budgeted estimates, expenditures were overestimated, primarily in the areas of special education services, employee benefits, and central services. As a result, the District generated unplanned surpluses totaling \$1 million as shown in Table 1:

| | 2011-12 | 2012-13 | Totals |
|---|------------------|------------------|--------------------|
| Appropriated Fund Balance (Expected Operating Deficit) | \$1,093,120 | \$1,300,000 | \$2,393,120 |
| Actual Operating (Deficit) | (\$610,825) | (\$742,642) | (\$1,353,467) |
| Total Unplanned Surpluses | \$482,295 | \$557,358 | \$1,039,653 |

¹ Actual financial results should be carefully monitored and compared to the long-term financial plan to identify potential fiscal difficulties, such as structural imbalances between revenues and expenditures, in a timely manner. The plan should also include how the District will finance and monitor its five-year capital plan.

Despite those unplanned surpluses, District officials still spent about \$1.4 million more than they received, reducing the District's unrestricted fund balance to \$2.5 million as shown in Table 2:

| | 2011-12 | 2012-13 |
|-----------------------------------|-------------|-------------|
| Beginning Fund Balance | \$4,995,948 | \$4,385,123 |
| Actual Operating (Deficit) | (\$610,825) | (\$742,642) |
| Ending Fund Balance | \$4,385,123 | \$3,642,481 |
| Restricted Fund Balance | \$1,158,203 | \$1,158,203 |
| Unrestricted Fund Balance | \$3,226,920 | \$2,484,278 |

Projected results for 2013-14 and potential long-term needs of the District indicate it could be risky for District officials to continue this trend, as the surplus will be depleted within the next budget year. The District's budget for 2013-14 uses an additional \$1.2 million of accumulated fund balance and is projected to leave the District with about \$1.3 million of available fund balance at the end of 2013-14. Based on our discussions with management and audit testing, it appears the expenditures in the 2013-14 budget are not as overestimated as they had been in previous years.² However, if the District officials continue to rely on a similar amount of fund balance to fund the fiscal year 2014-15 budget, they could be left with \$100,000 in unassigned fund balance (or one half of one percent of the ensuing year's budget) at the end of the 2013-14 fiscal year.

At the same time, the District and the surrounding area it serves have been recovering from severe flooding that occurred in late summer of 2011. Although some of the damage has been mitigated with the help of Federal and State emergency recovery funds totaling \$1.9 million through May 2013, the District's infrastructure was severely damaged and is still being restored. Additional resources may be required in advance of, or without the benefit of, Federal or State funds. Although the District has a five-year capital plan, it was formulated in late 2007 and District officials have not had the opportunity to address subsequent events, such as the flooding that occurred in 2011, and their impact on the District's current and future needs.

District officials told us it has been their budgetary custom to apply surpluses generated by annual operations to fund the ensuing years' operations. However, the financial results for the past two fiscal years,

² District officials told us they have had multiple business managers over the last several years. The current business manager started in June of 2012 and the 2013-14 fiscal year budget is the first he has developed.

the projected results for 2013-14, and the need for an updated long-term financial plan dictate that District officials should not continue this practice. At the current rate of using surplus money to finance operations, District officials will be faced with having to identify alternative financing sources or reduce expenditures.

Recommendations

1. District officials should carefully consider the amount of fund balance they appropriate to fund future budgets.
2. District officials 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. The plan should also include how the District will finance and monitor its five-year capital plan.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



MIDDLEBURGH CENTRAL SCHOOL DISTRICT
Office of the Superintendent
245-1 Main Street
Middleburgh, New York 12122
(518) 827-3625

November 14, 2013

[REDACTED]
Division of Local Government
and School Accountability
Office of the State Comptroller
State Office Building Room 1702
44 Hawley Street
Binghamton, New York 13901-4417

Dear [REDACTED]

This letter shall serve as the official response from the Middleburgh Central School District ("the District") regarding the "Draft Audit Report" on Financial Condition covering the period of July 1, 2011 through June 30, 2013. We have discussed your findings and will continue to work hard to ensure that taxpayers' funds are used appropriately. Overall, we believe the report is a fair and accurate account of the District's current financial condition but we also believe there are certain aspects that the District feels are not reflected completely.

In your report you reflected an "overestimation" of expenditures for special education costs. From an educational and financial perspective in operating a public school we see how expensive out-of-district placements can be. It is our District's intention to keep our students in-district when we can, but we are well aware of the looming unforeseen expense if a change of placement(s) is warranted, or a high-cost student(s) enrolls. Additionally, the report referenced overestimated expenditures in the areas of employee benefits and central services. In prior years, it has been the District's practice to develop budgets to accommodate unanticipated special education expenditures and estimate anticipated costs associated with employee benefits. Current budgeting practices have been refined related to these two expenditures by reflecting actual cost analysis and three year cost averaging.

The District has always held true to its mission to provide all students with the best education possible while being prudent with taxpayers' money. In order to fulfill their mission, the District recognizes the need for a comprehensive long-term financial plan. Given the current financial parameters, the property tax levy cap, it is incumbent upon the District to establish a plan, which will be reviewed and updated on a regular basis. As employee pension contributions, health care expenses, and other major costs continue to rise, it is even more important that the district take all precautionary measures possible to ensure the financial stability to Middleburgh Central School District.

We understand that following receipt of this letter a formal Report of Examination will be issued after which the district will prepare a corrective action plan within the 90 day timeframe.

Respectfully Submitted,

Michele R. Weaver
Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to review the financial condition of the District. To accomplish the objective of our audit we performed the following steps.

- We interviewed officials and reviewed Board meeting minutes to gain an understanding of the District's budgeting process and long-term financial plans.
- We reviewed the results of operations and analyzed changes in fund balance for the general fund for 2011-12 to 2012-13.
- We reviewed budget and revenue status reports and compared the adopted budgets to the modified budgets and actual operating results to determine if the budget assumptions were reasonable from 2011-12 to 2012-13.
- We compared the District's actual expenditures for the past four completed fiscal years with the 2013-14 adopted budget to determine if there were any significantly over-estimated expenditures or budgetary adjustments to project the District's future fund balance and financial position.

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.

APPENDIX C

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AND SCHOOL ACCOUNTABILITY

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