



Lowville Academy and Central School District Financial Condition

Report of Examination

Period Covered:

July 1, 2013 – March 31, 2015

2015M-220



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
EXECUTIVE SUMMARY	2
INTRODUCTION	4
Background	4
Objective	4
Scope and Methodology	4
Comments of District Officials and Corrective Action	5
FINANCIAL CONDITION	6
Comprehensive Multiyear Plan	9
Reserve Funds	10
Recommendations	12
APPENDIX A Response From District Officials	13
APPENDIX B Audit Methodology and Standards	17
APPENDIX C How to Obtain Additional Copies of the Report	18
APPENDIX D Local Regional Office Listing	19

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 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 Lowville Academy and 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Lowville Academy and Central School District (District) is located in Lewis County (County) and is governed by the Board of Education (Board). The Board is responsible for the general management and control of the District's financial and educational affairs. The 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 District's budgeted appropriations for 2014-15 were \$25 million. The District participates in a wind power agreement with the County, two neighboring school districts and four towns. The agreement is from 2006-07 through 2021-22 and provides for annual payments based on the number of operating turbines.

Scope and Objective

The objective of our audit was to review the District's financial condition for the period July 1, 2013 through March 31, 2015. We extended our scope back to July 1, 2010 for trend analysis and to determine the financial impact of wind power revenues. We also reviewed the 2015-16 budget and the results of operations for 2014-15 when they became available. Our audit addressed the following related question:

- Did the Board and District officials effectively manage the District's fund balance?

Audit Results

The Board and District officials did not effectively manage fund balance in accordance with statute. Over the last four years, District officials have overestimated expenditures and used very little of the revenue from the District's wind power agreement to reduce real property taxes even though that agreement has generated over \$32 million since 2006-07. As a result, the District's unassigned fund balance more than doubled from \$5.3 million in 2010-11 to \$10.8 million in 2013-14. The unassigned fund balance as a percentage of the next year's budgeted appropriations increased from 21 percent to 42.6 percent, nearly \$9.8 million over the 4 percent limit allowed by statute. Further, District officials have not developed adequate multiyear financial and capital plans to address how they will use wind power revenues and have been using the insurance and liability reserve funds (with accumulated balances totaling \$2 million) as repositories for even more excessive fund balance. Despite significant wind power revenues, District officials have levied \$3.79 million in taxes each year from 2010-11 through 2013-14 and have increased the tax levy to \$3.87 million for 2014-15.

Comments of District Officials

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.

Introduction

Background

The Lowville Academy and Central School District (District) is located in the Towns of Denmark, Greig, Harrisburg, Lowville, Martinsburg, Montague, New Bremen, Pinckney, Turin, Watson and West Turin in Lewis County (County). The District is governed by the Board of Education (Board), which is composed of nine elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The 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 Manager and the Treasurer are mainly responsible for the District's finances and accounting records and reports.

The District operates one building with students from pre-kindergarten through grade 12. As of March 2015, the District had approximately 250 employees and 1,400 students. The District's budgeted appropriations for the 2014-15 fiscal year were approximately \$25 million, which were funded primarily with real property taxes, State aid and wind power payment in lieu of taxes (PILOT) agreement revenues.¹ The District participates in a windmill turbine PILOT agreement with the County, two neighboring school districts and four towns.² The PILOT agreement concludes in 2021-22.

Objective

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

- Did the Board and District officials effectively manage the District's fund balance?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2013 through March 31, 2015. We extended our scope back to July 1, 2010 for trend analysis and to determine the financial impact of wind power revenues. We also reviewed the 2015-16 budget and the results of operations for 2014-15 when they became available.

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.

¹ PILOTs are payments equal to all or (more likely) part of the amount of taxes which would have been levied by or on behalf of an affected tax jurisdiction.

² Copenhagen Central School District, South Lewis Central School District and the Towns of Harrisburg, Lowville, Martinsburg and Watson

**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

Fund balance represents resources remaining from prior fiscal years that can be used to provide a cushion for unexpected events, assist with cash flow needs or lower property taxes for the ensuing fiscal year. The estimation of fund balance is an integral part of the budget process. A district may retain a portion of fund balance within the limits (up to 4 percent of the ensuing fiscal year's budget) established by New York State Real Property Tax Law (RPTL).³ Fund balance in excess of that amount must be used to fund a portion of the next year's appropriations, thereby reducing the tax levy, or to fund legally established reserves. Generally, school districts are not limited as to how much money can be held in reserves; however, reserve balances should be reasonable.

The Board is responsible for developing a formal plan for the use of its reserves, including how and when disbursements should be made, optimal or targeted funding levels and why these levels are justified. Additionally, the Board should prepare a multiyear financial plan that projects future revenues and expenditures and prepares the District for any future year fiscal challenges.

The Board and District officials did not manage fund balance in accordance with statute. Over the last four years,⁴ District officials budgeted to use approximately \$7.35 million of fund balance to finance District operations. However, primarily because of unrealistic appropriation estimates (overestimating expenditures), they did not use any of the appropriated fund balance during this period. As illustrated in Figure 1, the District's unassigned fund balance more than doubled from \$5.3 million at the end of 2010-11 to \$10.8 million at the end of 2013-14 year. The unassigned fund balance as a percentage of the next year's budgeted appropriations increased from 21 percent in 2010-11 to 42.6 percent in 2013-14 which is nearly \$9.8 million over the 4 percent limit allowed by RPTL.

³ Fund balance appropriated for the next fiscal year, reserve funds, encumbrances and amounts reserved for insurance recovery and tax reduction are not subject to the 4 percent limitation.

⁴ Fiscal years 2010-11, 2011-12, 2012-13 and 2013-14

Figure 1: Unassigned Fund Balance at Year-End				
	2010-11	2011-12	2012-13	2013-14
Beginning Fund Balance	\$12,386,351	\$14,181,541	\$16,048,225	\$16,328,298
Operating Surplus	\$1,795,190	\$1,866,684	\$280,073	\$26,675
Year-End Fund Balance	\$14,181,541	\$16,048,225	\$16,328,298	\$16,354,973
Less: Reserve Funds	\$5,795,303	\$5,775,284	\$6,419,347	\$3,931,734
Less: Fund Balance Appropriated for the Next Fiscal Year	\$3,000,000	\$1,350,000	\$1,500,000	\$1,500,000
Less: Encumbrances	\$80,188	\$51,577	\$181,096	\$114,158
Unassigned Fund Balance	\$5,306,050	\$8,871,364	\$8,227,855	\$10,809,081
Ensuing Year's Budget	\$25,325,410	\$25,823,456	\$26,323,456	\$25,382,245
Unassigned Fund Balance as a Percentage of the Ensuing Year's Budget	21.0%	34.4%	31.3%	42.6%

When fund balance is appropriated as a funding source, the expectation is that there will be a planned operating deficit in the ensuing fiscal year, financed by the amount of the appropriated fund balance. When the District consistently appropriates fund balance and still generates an operating surplus each year, the enacted budgets are not realistic. It is not a sound practice to routinely adopt annual budgets that appropriate fund balance that will not actually be used. Instead of decreasing the fund balance as advertised, this practice further increases the amount of surplus fund balance.

The Business Manager, Superintendent and Board members were aware that the District's unassigned fund balance as of June 30, 2014 greatly exceeded the statutory maximum. In fact, the Business Manager prepares an analysis of fund balance at budget time that she shares with the Board that shows the excessive fund balance. District officials told us the District's fund balance is directly related to the significant amount of wind power PILOT agreement revenue the District receives, which is nearly equal to the District's tax levy. They believe it is prudent to hold on to the District's current excess fund balance because the PILOT agreement is due to expire in 2021-22, and they are uncertain what impact this will have on future revenues.

The Business Manager told us that the District appropriated \$3 million of fund balance for 2011-12 because of the uncertainty of receiving the entire amount of revenues from the wind power PILOT agreement. The Board appropriated fund balance of \$1.35 million to \$1.5 million in the 2012-13 through 2014-15 budgets. However, the amounts appropriated were not used, and the District generated operating surpluses each year until 2014-15, primarily because the Board overestimated expenditures (see Figure 2). We reviewed the District's results of operations as of June 30, 2015. While the District used \$1.36 million of the \$1.5 million it appropriated as a financing source in the 2014-15 budget, this occurred because, in November

2014, voters approved the transfer of \$1.3 million into a capital reserve for a facilities upgrade planned for the 2015-16 school year. The District's unassigned fund balance at June 30, 2015 was \$10.8 million, or 42 percent of the 2015-16 budgeted appropriations.

Budget to Actual Results — We compared the District's budgeted appropriations to actual expenditures for the last four fiscal years and found that the District overestimated expenditures by a combined total of approximately \$5.4 million as shown in Figure 2.

Fiscal Year	Budgeted Appropriations	Actual Expenditures	Variance
2010-11	\$25,161,410	\$23,297,894	\$1,863,516
2011-12	\$25,325,410	\$24,019,984	\$1,305,426
2012-13	\$25,823,456	\$24,702,700	\$1,120,756
2013-14	\$26,323,456	\$25,247,880	\$1,075,576
Totals	\$102,633,732	\$97,268,458	\$5,365,274

The Business Manager told us that the Board budgets conservatively to have adequate contingency funds available should something unforeseen occur, such as an increase in the number of children with disabilities attending school. Our review of District expenditures at the end of 2013-14 showed that District officials overestimated general support by \$215,300, instruction by \$445,400, transportation by \$145,100 and employee benefits by \$268,200.

Real Property Tax Levy and Wind Power Revenues — Although the District first received the wind power PILOT agreement revenues in 2006-07, District officials used very little of this new revenue source to help lower property taxes over the past nine years. Figure 3 shows the amount of real property taxes levied the year before the District began receiving the wind power PILOT agreement money through the end of our audit period on March 31, 2015.

Fiscal Year	Money Received from Wind Power PILOT	Real Property Taxes
2005-06	\$0	\$4,136,072
2006-07	\$2,630,106	\$4,116,072
2007-08	\$3,573,152	\$3,816,071
2008-09	\$3,804,284	\$3,816,071
2009-10	\$3,976,756	\$3,796,071
2010-11	\$3,955,128	\$3,791,071
2011-12	\$3,978,594	\$3,791,071
2012-13	\$3,445,841	\$3,791,071
2013-14	\$3,445,842	\$3,791,071
2014-15	\$3,445,842	\$3,865,071
Totals	\$32,255,545	\$38,709,712

Although the District has received an average of \$3.6 million in PILOT agreement revenues annually since the beginning of the agreement, District officials lowered the tax levy by \$300,000 in the 2007-08 year, an additional \$20,000 in 2009-10 and an additional \$5,000 in 2010-11. Also, despite having an already excessive unassigned fund balance of 42.6 percent at the end of 2013-14, the District increased taxes by an additional \$74,000 in 2014-15.

Comprehensive Multiyear Plan

Comprehensive multiyear financial and capital plans are tools that can be used to improve the budget development process. It is important for the Board to develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and future capital needs and how to fund those needs, including the use of the District's ongoing wind power PILOT revenues. 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 to guide decisions is current and accurate.⁵ This type of planning should also include how unassigned fund balance and reserve fund money will be used.

The Business Manager developed a "Windmill Planning Model," which is the District's long-term plan, according to District officials. This plan is reviewed with the Board during budget preparation and throughout the year, although the Board has never officially adopted it. The plan includes an annual base amount for the District's overall budget with a 2 percent base increase for the budget from year to year over the 15 year term of the PILOT agreement. The plan does not use historical data, for example, from the last three or four years, or a level of detail such as expenditures by object or function or estimates for the current year. Furthermore, the District's plan is actually an analysis of the effect the wind power PILOT agreement money will have on the District over the term of the agreement. The plan does not show how the District plans to reduce its significantly excessive unassigned fund balance. Lastly, while the plan shows the total balance of the District's reserves, it does not show how the District plans on using them in the future to finance related costs.

District officials told us they may consider using some wind power revenues to establish a repair reserve to use for refurbishing the new turf (football) field or may establish a retirement contribution reserve. While funding these reserves may be appropriate, it is important for the Board and District officials to develop an effective multiyear financial and capital plan so they can better manage the use of the District's unassigned fund balance and reserve funds and establish

⁵ See our publication entitled *Local Government Management Guide - Multiyear Capital Planning* available at http://www.osc.state.ny.us/localgov/pubs/lgmg/capital_planning.pdf.

practical goals to ensure that such use is in the best interest of District taxpayers.

Reserve Funds

Districts may establish reserves to restrict a reasonable portion of fund balance for a specific purpose, in compliance with statutory requirements. When District officials establish reserve funds, it is important they develop a plan for funding the reserves, determining how much should be accumulated and how and when funds will be used to finance related costs. Such a plan serves to guide District officials in accumulating and using reserve funds and to inform District residents about how their tax dollars will be used.⁶

In addition to excessive unassigned fund balance, District officials have accumulated excessive balances in two of their reserve funds with no real determination as to whether the amounts are reasonable or necessary. As of June 30, 2014, the District had six reserves⁷ in the general fund, totaling approximately \$3.9 million. Four of the reserves had reasonable balances that were appropriately supported. However, District officials were using the insurance and liability reserve funds (with balances totaling approximately \$2 million) as repositories for excess unassigned fund balance. These two reserves were established in 2008 and funded to their statutory limits, 5 percent and 3 percent (per Board resolution) of total budget appropriations, respectively. The Business Manager and Board members told us they were hoping to transfer money from these two reserves into a tax stabilization reserve. However, the District would need authorization from the New York State Legislature to establish such a reserve fund, and it has thus far been unsuccessful in obtaining approval.

Insurance Reserve Fund—General Municipal Law (GML) authorizes this reserve to fund certain uninsured losses, claims, actions or judgments for which the District is authorized or required to purchase or maintain insurance. This reserve may be used to fund the payment of judgments and the uninsured portion of certain losses to property owned by the District, as well as expenses for certain services. It may also be used to pay the cost of actions or claims that have been compromised or settled with judicial approval. If the amount of the settlement or compromise does not exceed \$25,000, then judicial approval is not required to fund the payment. GML authorizes the transfer of insurance reserve fund money to certain other reserve funds upon a determination that the fund is no longer needed and the

⁶ See our publication entitled *Local Government Management - Guide Reserve Funds* available at <http://www.osc.state.ny.us/localgov/pubs/lmgm/reservefunds.pdf>.

⁷ The District's six reserves were capital (\$1,300,000), insurance (\$1,270,000), liability (\$760,000), employee benefits and accrued liability (\$397,000), unemployment (\$103,000) and tax certiorari (\$82,400).

discontinuance of the insurance reserve, but only to the extent that the money in the fund exceeds a sum sufficient to satisfy all liabilities incurred or accrued against the fund.

In August 2008, District officials established the insurance reserve at the maximum statutory limit of 5 percent of the budget, according to the resolution, by transferring \$1,043,000 of its excess fund balance into this reserve. District officials told us this reserve would be used if the District incurs a loss for something not covered under its general liability coverage because the District is not self-insured (for example, for employee misconduct). District officials transferred \$191,000 of excess fund balance to the reserve in June 2011, but have not expended any amount from this reserve since its inception. As of June 30, 2014 this reserve had a balance of \$1,265,796.

Liability Reserve Fund — Education Law authorizes the Board to establish and maintain a liability reserve to cover payments for liability claims. Once established, this reserve may not be reduced below the total amounts estimated to be necessary to cover incurred but unsettled claims or lawsuits, including related expenses. Payments may not be made for purposes other than those for which the reserve was established unless authorized by public vote, except that the Board may authorize use of the reserve funds (other than amounts allocated for unsettled claims or suits including related expenses) to pay premiums for insurance policies purchased to insure subsequent losses in areas previously self-insured, in the event of dissolution of the self-insurance plan.⁸

In August 2008, the Board established the liability reserve at the maximum statutory limit of 3 percent of the budget by transferring \$625,000 of its excess fund balance into this reserve. District officials told us that this reserve is for unforeseen occurrences at District-organized events such as a fundraiser or sporting event. In June 2011, the Board adopted another resolution to transfer \$116,000 of its excess fund balance into this reserve. Similar to the insurance reserve fund, District officials have not expended any amount from this reserve since its inception. As of June 30, 2014 this reserve had a balance of \$760,064.

While the Board members made the decision to fund these two reserves to the maximum amount allowed by statute to help reduce the level of unassigned fund balance, they did not perform an analysis to determine the reasonableness or necessity of each reserve. Board

⁸ Pursuant to GML, the school district may also discontinue the liability reserve fund and transfer the unexpended balance to an insurance reserve fund.

and District officials do not have a plan for the use of the reserves, including how and when disbursements should be made or optimal or targeted funding levels and why these levels are justified. Because of the accumulation of reserve funds without any specific plan for their appropriate use, District officials may have missed opportunities to make productive use of these funds.

Recommendations

The Board should:

1. Ensure the amount of unassigned fund balance is in compliance with statutory limits. Amounts in excess should be used in a manner that benefits District taxpayers. Such uses could include, but are not limited to, using surplus funds as a financing source in the budget, funding one-time expenditures or funding necessary reserves.
2. Adopt budgets with realistic estimates of anticipated expenditures and fund balance available for appropriation.
3. Develop comprehensive multiyear financial and capital plans that address the prudent use of future wind power PILOT revenues and better manage the District's unassigned fund balance and reserve funds. This plan should be updated regularly.
4. Review reserve funds at least annually to determine if the amounts reserved are necessary and reasonable.
5. Develop a formal plan for the use of reserves, including how and when disbursements should be made and optimal or targeted funding levels.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

LOWVILLE ACADEMY and CENTRAL SCHOOL

7668 NORTH STATE STREET

LOWVILLE, NEW YORK 13367-1328

Fax: 315-376-1933

Net: www.lowvilleacademy.org

CHERYL R. STECKLY
Superintendent of Schools
Telephone: 315-376-9000

PHILOMENA B. GOSS
Elementary School Principal
Telephone: 315-376-9005

DANIEL J. CUSHING
High School Principal
Telephone: 315-376-9015



SCOTT D. EXFORD
Middle School Principal
Telephone: 315-376-9010

November 18, 2015

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, NY 13202-1428

Dear Ms. Wilcox,

This letter is the official response from the Lowville Academy and Central School District to the Report of Examination of Financial Condition for the period of July 1, 2013 through March 31, 2015.

The district would like to once again express our appreciation for the time, insight and thoughtfulness your staff dedicated to our district. Your auditor was on site for several weeks and always maintained the upmost professionalism and willingness to answer any questions that arose. In addition, he made a genuine attempt to gather a true understanding of our unique financial circumstances which are a direct result of the 15 year Wind Turbine PILOT Agreement.

The District remains committed to ensuring that all financial operations are conducted with the highest level of integrity and the interests of the taxpayers are properly protected. In all aspects of district finances, the public engagement effort by the District has been open, transparent and forthright including publishing articles in the newsletter and local paper as well as discussing the circumstances surrounding the fund balance at budget meetings. The feedback from the public on the carrying out of the first 10 years of the district's strategic plan has been exceptionally positive. This plan involved building improvement projects, reduction/elimination of debt service obligations, significant educational improvements K-12, and major investments in technology. The district continues to have overwhelming taxpayer support for its spending plan and in favor of the Board's planning efforts to manage district finances (averaging 92% approval during the audit period).

The uncertainty of what will happen when the PILOT agreement ends in a few short years has been a determining factor in the Board's decision making over the past several years. It was never the intention of the District to overestimate expenditures or to appropriate fund balance as

a revenue that would not be actually used. While overestimating expenditures may have contributed to the overall fund balance, it is not the primary factor. The fund balance grew because of the sheer volume of revenues received coupled with a conservative budgeting approach and a series of fortunate events on the expenditure side. The district has remained fiscally conservative at a time when it would have been tempting to grow and increase the budget, being careful not to burden the taxpayers with sustaining expenses and for the sole purpose of maintaining a strong educational program for years to come.

Reductions made in the tax warrant during the first few years of the PILOT funding have carried forward every year thereafter and resulted in cumulative savings for taxpayers. Based on conservative assumptions, the district projects tax avoidance of over \$17 million dollars throughout the PILOT period. It should be noted that the tax levy in 2015-16 is still nearly \$200,000 less than in 2005-06 before Wind Turbine PILOT funding began, and the tax rate per \$1000 continues to decline from \$14.83 in 2005-06 to \$7.45 in 2015-16. Given the “true” levy would likely be nearly \$2 million more than it is projected by the end of the PILOT, the Board remains justifiably concerned with an abnormally low warrant in the phase out years of the Agreement. Since the outset of the PILOT, the Board of Education has carefully built up the Fund Balance while stabilizing taxes to provide support in the event of any failure of the PILOT and believes carrying less of a Fund Balance could seriously jeopardize the district’s financial standing. The magnitude of the current revenue stream makes forecasting the district’s financial future extremely difficult and complex. Given the circumstances, the additional percentage of fund balance above the 4% is considered a necessity.

The district has devoted numerous and extensive planning sessions to the development of a long term strategic plan that provides for the appropriate use and integration of PILOT funds into the district budget via an effective planning model. The district does agree, however, with the recommendation to develop a more comprehensive formal written plan to be adopted by the Board of Education. Through the use of the current planning model, the district recognized the need for building a tax base for when the PILOT agreement ends and fund balance is depleting. Though difficult to do so, the Board made the decision to raise taxes to ensure strong fiscal health in the future. The planning model shows that the fund balance will diminish significantly over the next several years and come down to an appropriate level. Using conservative assumptions of budget increases, changes in state revenues and limited ability to raise taxes, fund balance will need to provide a temporary buffer while the district reduces its budget over a multi-year period. This will help to ensure a degree of safety and stability for the district’s finances during this period of transition.

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
November 18, 2015
Page 3

For several years the district sought legislation allowing the establishment of a tax stabilization reserve but was unsuccessful in gaining approval. Up until the 2014-15 school year, the district was optimistic that legislation would be passed allowing such a reserve to mitigate and plan for any fluctuations in the current or any succeeding PILOT. The proposed legislation was passed on at least three occasions by the NYS Senate but never moved forward in the Assembly. Had this legislation passed, the fund balance would have been resolved in a manner comparable to other NYS school districts with large PILOTs. We respectfully request the assistance of the Comptroller's Office in joining and supporting this effort to create more equitable laws when dealing with substantially similar circumstances for all NYS school districts.

All district reserves were established legally, with the appropriate board approval and are within statutory limits. The Board exercised prudent planning to set this money aside in the event of circumstances occurring that would require the need for such reserves. The district does acknowledge that additional review and a formal plan for the use of reserves could be beneficial to the overall management of reserve funds and will include this in the Corrective Action Plan.

The Board of Education and Administration of the Lowville Academy and Central School District wish to express their appreciation for the recommendations provided through the audit process and will implement a plan to identify additional ways to strengthen the district's financial operations.

Respectfully submitted,

Cheryl R. Steckly
Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the District's financial condition for the period July 1, 2013 through March 31, 2015. To accomplish the objective of our audit, we performed the following procedures:

- We reviewed and analyzed the financial records and reports for the general fund, including annual budgets, annual reports, bank statements, budget status reports and general ledgers.
- We calculated the unassigned fund balance as a percentage of the ensuing year's appropriations to determine if the District was within the statutory limitation from 2010-11 through 2013-14.
- We interviewed District officials to determine whether they have a plan on how to reduce the current amount of excess fund balance.
- We analyzed the trend in fund balance from 2010-11 through 2013-14. We compared the appropriated fund balance to the same year's operating deficit (if there was one) to determine if the deficit was planned. We also compared the appropriated amounts per the adopted budgets to actual amounts used to determine if the full amount was budgeted.
- We analyzed the District's 2010-11 through 2014-15 budgets and compared the prior year's actual results to the current year's budget to determine if the District was overestimating budgeted appropriations.
- We interviewed District officials to gain an understanding of the impact wind power PILOT agreement revenues have on the District and whether a multiyear financial and capital plan was prepared.
- We analyzed the activity in the insurance and liability reserves during our audit period and examined Board resolutions to confirm these reserves were legally and properly established.

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

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Tracey Hitchen Boyd, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Bufferalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street, Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313