



# Schoharie Central School District

## Financial Condition

### Report of Examination

Period Covered:

July 1, 2011 — July 8, 2013

2013M-263



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

December 2013

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 Schoharie 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 Schoharie Central School District (District) is located in portions of the Towns of Schoharie, Esperance, Wright, Middleburgh, Carlisle, Charleston, Duanesburg and Knox in Schoharie, Albany, Montgomery and Schenectady Counties. 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 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.

There are two schools in operation within the District, with approximately 850 students and 180 employees. The District's budgeted expenditures for the 2013-14 fiscal year are \$21 million, which are funded primarily with State aid, real property taxes and grants.

## **Objective**

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

- Did the Board properly manage District finances by ensuring that budgets were realistic and supported?

## **Scope and Methodology**

We examined the financial condition of the Schoharie Central School District for the period July 1, 2011 through July 8, 2013. We also reviewed selected financial information for the period July 1, 2008 to June 30, 2011 to analyze budgeting practices, fund balance trends and reserve account balances so as to provide current, relevant information.

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 C 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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on an issue raised in the District's response letter.

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

The Superintendent and Board must adopt budgets based on historical trends and known needs by using the most current and accurate information available. In preparing the budget, the Board is responsible for estimating what the District will spend and what it will receive in revenue (e.g., State aid), estimating how much fund balance will be available at fiscal year-end and determining the expected tax levy. Accurate estimates help ensure that the levy of real property taxes is no greater than necessary. Real Property Tax Law allows a district to retain up to 4 percent of the ensuing year's budget as unexpended surplus. Fund balance in excess of that amount may be used to fund a portion of the next year's appropriations, thereby reducing the tax levy, or to fund legally established reserves. The accumulation of excessive funds places an unnecessary burden on District taxpayers.

Although the Board adopted budgets with revenues that were realistic and supported, expenditures were consistently and significantly overestimated. As a result the District spent nearly \$8 million less than budgeted over a five-year period. In addition, although the Board appropriated on average approximately \$1.1 million of unexpended surplus funds<sup>1</sup> each year – totaling more than \$5.4 million over five years – to help finance the ensuing year's operations, the District actually used only \$676,000 of the fund balance during this period. Therefore, the District's actual available fund balance at the close of fiscal year 2012-13 was \$2.1 million, or 10 percent of the 2013-14 budget.<sup>2</sup>

District officials adopted budgets for 2008-09 through 2012-13 with planned deficits; revenue estimates were approximately \$5.4 million less than estimated expenditures, with the difference to be financed by appropriated fund balance. While revenues were relatively close to

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<sup>1</sup> 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).

<sup>2</sup> We tested the 2013-14 adopted budget for reasonableness and concluded that the District is likely to experience another operating surplus without the use of appropriated fund balance due to consistent and significant over-estimation of expenditures.

the budgeted estimates, District officials consistently over-estimated expenditures and as a result spent approximately \$8 million less than budgeted. These expenditure variances, which were driven primarily by employee salaries and benefits, allowed the District to generate an overall surplus of nearly \$2.2 million over those five years even though officials had planned on spending an annual average of nearly \$1.1 million from existing fund balance. As a result, although District officials planned for operating deficits totaling approximately \$5.4 million by appropriating fund balance as a revenue source, the vast majority of the fund balance was not used because the District actually realized nearly \$2.2 million in unplanned surpluses.

While District officials have maintained the unexpended surplus fund balance in compliance with the statutory limit each year, the process of consistently over-estimating expenditures and appropriating fund balance that will not be used serves as a means to circumvent the law and is not transparent to taxpayers. Consequently, the District's true unexpended surplus funds have exceeded 4 percent of the ensuing year's budget each year during our audit period:

	2008-09	2009-10	2010-11	2011-12	2012-13
<b>Appropriated Fund Balance</b>	\$825,000	\$900,000	\$1,118,018	\$1,284,585	\$1,284,585
<b>Appropriated Fund Balance Actually Used</b>	\$0	\$0	\$0	\$676,105 <sup>a</sup>	\$0
<b>Unexpended Surplus Fund Balance</b>	\$801,200	\$795,521	\$795,904	\$574,283	\$840,758
<b>Total True Unexpended Surplus Funds</b>	<b>\$1,626,200</b>	<b>\$1,695,521</b>	<b>\$1,913,922</b>	<b>\$1,182,763</b>	<b>\$2,125,343</b>
<b>True Unexpended Surplus Funds as % of Next Year's Appropriations</b>	8.07%	8.53%	9.62%	5.79%	10.11%

<sup>a</sup> Of this amount, \$675,350 was for an unplanned interfund transfer to the capital fund to finance a capital project. However, 83.8 percent of this total transfer amount was reimbursed to the District via State aid during the 2012-13 fiscal year.

District officials told us that they over-estimated expenditures to cover unexpected costs, which caused the true unexpended surplus fund balance to increase and exceed \$2.1 million at the end of the 2012-13 fiscal year. We expect this trend to continue based on our review of the 2013-14 adopted budget which over-estimates expenditures as in previous fiscal years. While it is prudent for the District to be prepared for unexpected costs, this is in fact the purpose of retaining fund balance at year-end, within legal limits intended to ensure that excess funds are not withheld from productive use.

By maintaining excessive and/or unnecessary fund balance, combined with budgeting practices that generate repeated operating surpluses, the Board and District officials have unnecessarily increased taxes and

compromised the transparency of District finances to the taxpayers. By implementing realistic budgeting practices for expenditures, as well as revenues, the District will be better equipped to manage unexpected events without imposing an excessive burden on its taxpayers.

## **Recommendations**

1. The Board and District officials should develop and adopt budgets that include realistic estimates for expenditures based on contractual and historical data.
2. The Board should discontinue the practice of adopting budgets with the appropriation of unexpended surplus funds that will not be used.
3. District officials should develop a plan to use surplus fund balance in a manner that benefits District taxpayers and provides appropriate transparency of the budget process with public disclosure. Appropriate uses of surplus funds could include, but are not limited to:
  - Funding necessary reserves,
  - Paying off debt,
  - Funding one-time expenditures, and
  - Reducing District property taxes.



## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

The response letter includes a reference to an attached Corrective Action Plan. Since the purpose of that document is adequately explained, we have not included it here.

# Schoharie Central School District

P. O. Box 430, 136 Academy Drive, Schoharie, New York 12157

BRIAN D. SHERMAN  
Superintendent of Schools  
Phone: (518) 295-6679  
Fax: (518) 295-8178

MARYELLEN GILLIS  
Elementary School Principal  
Phone: (518) 295-6651  
Fax: (518) 295-9506

JEFFREY S. ALGER  
Athletic Director and  
Assistant Principal  
Phone: (518) 295-6621  
Fax: (518) 295-9518



IN THE PURSUIT OF EXCELLENCE

ROBERT W. BONAHER  
Assistant Superintendent - Business  
Phone: (518) 295-6673  
Fax: (518) 295-9510

STACEY A. DELANEY  
Jr./Sr. High School Principal  
Phone: (518) 295-6601  
Fax: (518) 295-8161

LINDA M. NEVULIS  
Director of Curriculum and  
Pupil Services  
Phone: (518) 295-6657  
Fax: (518) 295-9514

November 20, 2013

Andrew A. SanFilippo  
Executive Deputy Comptroller  
Office of State and Local Government Accountability  
State of New York  
Office of the State Comptroller  
110 State Street  
Albany, NY 12236

Dear Mr. SanFilippo:

Please accept this letter as the official "Response from District Officials" for Appendix A re: Report Number 2013M-263, Financial Condition Examination of the Schoharie Central School District. The stated objective of the examination was: "Did the Board properly manage District finances by ensuring that budgets were realistic and supported?"

The District fully intends to comply with the recommendations that are listed and shall do so through a "corrective action plan" (CAP) that is detailed in Appendix A-1 (attached).

The District appreciates this opportunity to comment on a few of the statements made in the report narrative.

Please note that during the entrance conference, District officials were told that the reason for the financial condition review was that there appeared to preliminary indications that the school district could be exhibiting signs of fiscal stress.

On page 7 in the first paragraph, there is a statement that: *... "the District's true unexpended surplus funds have exceeded 4 percent of the ensuing year's budget every year during our audit period."*

continued on next page

See  
Note 1  
Page 11

Please note that at the end of each school fiscal each year during the period of the subject examination, any surplus funds that were not accounted for in legally established reserves were applied against the ensuing school year's tax levy, but for the allowable 4 percent retention, as follows:

2008-09: \$900,000; 2009-10: \$1,118,017; 2010-11: \$1,284,585; 2011-12: \$1,284,585; 2012-13: \$1,474,204.

On page 7 in the second paragraph, there is a statement...*"the Board and District officials have unnecessarily increased taxes and compromised the transparency of District finances to the taxpayers."*

Please note that although actual expenditures were less than proposed budgets, this should not necessarily compel the conclusion that budgets were improperly exaggerated or inflated. The budget estimating process exercised by District officials is rational, reasonable and consistent with law, as is evident by the District's excellent independent audit reports.

Following is data for the subject period regarding adopted budgets and taxes, and also state aid.

2009-10: Budget + 2.96% from previous year; Taxes: +2.13%; State Aid+2.75%

2010-11: Budget -1.32% from previous year; Taxes -3.40%; State Aid -8.53%

2011-12: Budget: +0.05% from previous year; Taxes: +5.92%; State Aid -9.62%

2012-13: Budget: +2.68% from previous year; Taxes: +3.15%; State Aid: +8.86%

2013-14: Budget: +2.88% from previous year; Taxes: +2.88%; State Aid: +1.34%

Analysis of the above points more to the overall decline in state aid as the most significant factor impacting a need to moderately raise taxes (within the tax levy limitation for the past two years).

Further, District officials and the Board have been extremely diligent and fiscally responsible by keeping the public fully informed with detailed budget presentations during Board meetings; public forums with citizen participation; and detailed news articles on the District website and in the budget newsletter.

District officials and the Board will endeavor to systematically reduce the overall amount of retained fund balance in order to further ease the burden of taxes on our citizens, as long as we are able to realize our fair share of state aid, and as long as the tax certiorari case is decided favorably.

Our primary purpose is to maintain the resources to provide our deserving students with excellent programs of instruction.

Schoharie Central School District appreciates the professionalism and courtesies extended to us during the audit engagement by the examiners. We appreciate their time in being of assistance to the District.

Sincerely,

Brian D. Sherman  
Superintendent of Schools

Robert W. Bonaker  
Assistant Superintendent for Business

cc: Board of Education Members

## **APPENDIX B**

### **OSC COMMENT ON THE DISTRICT'S RESPONSE**

#### Note 1

Although District officials reduced tax levies by appropriating surplus funds, thereby maintaining the District's year-end surplus fund balance under the 4 percent legal limit, this was a measure to compensate for the cumulative over-estimation of expenditures in the District's budgets and these appropriated amounts did not need to be used. These practices were not transparent to taxpayers and will not be necessary once District officials budget more realistically and limit the accumulation of excess funds.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the financial condition of the District. To accomplish the objectives of our audit we performed the following steps:

- We interviewed officials to gain an understanding of the District's budgeting process.
- We tested the reliability of the data reported on the ST-3 form (annual financial statement) and the accounting records by comparing the data to the District's independently audited financial statements.
- We compared the adopted budgets for the 2008-09 through 2012-13 fiscal years to the actual revenues and expenditures to determine if the budget assumptions were reasonable, to identify significant revenues and expenditures and to analyze trends.
- We compared the 2013-14 adopted budget to the actual operating results of the 2012-13 adopted budget to determine if the budget assumptions in the 2013-14 adopted budget were reasonable.
- We reviewed the results of operations for fiscal years 2008-09 through 2012-13 and analyzed changes in fund balance. We compared these results to the real property tax increases for fiscal years 2008-09 through 2013-14 to determine if District taxpayers were overcharged.
- We reviewed the year-end unexpended surplus funds for the 2008-09 to 2012-13 fiscal years to determine if they exceeded the 4 percent statutory limit. We also reviewed the year-end appropriated fund balance for the same years to determine if it was used by the District in the prior fiscal year. We then added any residual (unused) appropriated fund balance to the year-end unexpended surplus funds to determine if the total exceeded the 4 percent statutory limit.

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 D

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