

Clifton-Fine Central School District

Financial Condition

MARCH 2018



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

Contents

- Report Highlights 1**

- Financial Condition 2**
 - How Does a Board Effectively Manage Financial Condition? 2

 - The Board Appropriated More Fund Balance Than Needed,
Resulting in Reported Low Unrestricted General Fund Balance 3

 - The Debt Service Fund is Not Being Used to Pay for Related
Debt Service 6

 - What Do We Recommend? 7

- Appendix A – Response From District Officials 8**

- Appendix B – Audit Methodology and Standards 9**

- Appendix C – Resources and Services 10**

Report Highlights

Clifton-Fine Central School District

Audit Objective

Determine whether the Board and District management developed realistic budgets and adequately managed the District's financial condition.

Key Findings

- Each year, the Board appropriated over \$1 million more in fund balance than was needed to finance the budget. This led to a negative or low unrestricted fund balance in fiscal years 2014-15 through 2016-17, which made the District's financial position appear worse than it actually was.
- The District has retained over \$425,000 in the debt service fund and has not used the fund to pay off the related debt.
- The District has not developed a multiyear financial plan to address its financial condition.

Key Recommendations

- Develop realistic estimates of appropriations and the use of fund balance in the annual budget.
- Use money in the debt service fund to pay related debt service expenditures.
- Develop and adopt a multiyear financial plan.

District officials agreed with our recommendations and indicated they planned to initiate corrective action.

Background

The Clifton-Fine Central School District (District) is located in the Towns of Clifton, Fine, Pitcairn and Russell in St. Lawrence County. 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 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.

Quick Facts

Employees	85
Enrollment	298
2016-17 Budget	\$10.4 million

Audit Period

July 1, 2014 - June 30, 2017

Financial Condition

How Does a Board Effectively Manage Financial Condition?

A school district's board and officials are responsible for effectively managing financial operations. One of the most important tools for managing a district's finances is the budget process. Boards should adopt structurally balanced budgets in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained.

Boards are responsible for estimating what districts will spend and what they will receive in revenue, estimating how much fund balance will be available at fiscal year-end and determining what the expected tax levy will be. Accurate budget estimates help ensure the tax levy is not greater than necessary. Budgets should be based on prior years' operating results, past expenditure trends and anticipated future needs.

Fund balance represents resources remaining from prior fiscal years that can be used to finance the next year's budget or set aside in reserve funds for specific purposes. Boards may retain a portion of fund balance for unexpected events and cash flow but must do so within statutory limits. Currently, the New York State Real Property Tax Law (RPTL) limits the amount of unrestricted fund balance that a school district can retain to no more than 4 percent of the subsequent year's budget.

When fund balance is appropriated in the budget, the expectation is that there will be an operating deficit (budgeted expenditures exceeding budgeted revenues), financed by the appropriated fund balance. This allows a school district to use excess fund balance that it accumulated in prior years. Sound budgeting practices provide that adopted annual budgets should not routinely appropriate fund balance that will not actually be needed.

Districts may also establish reserves to restrict a reasonable portion of fund balance for a specific purpose in compliance with relevant laws. Prudent fiscal management includes establishing reserves needed to address long-term obligations or planned future expenditures. Therefore, it is important that a board adopt a written policy that communicates its rationale for establishing reserve funds, objectives for each reserve, targeted funding levels and conditions under which reserves will be used or replenished. A board should periodically assess the reasonableness of the amounts accumulated in each reserve. When warranted, and in accordance with statute, a board should reduce reserve balances to a reasonable level, or liquidate and discontinue any reserve that is no longer needed or whose purpose has been achieved.¹

¹ For more information, please refer to our Local Government Management Guide on Reserve Funds: <http://www.osc.state.ny.us/localgov/pubs/lmgm/reservefunds.pdf>

Lastly, a board should develop a multiyear financial plan to identify developing revenue and expenditure trends, establish long-term priorities and goals and consider the impact of near-term budgeting decisions on future fiscal years. Such plans also allow a board to assess the merits of alternative approaches (such as appropriating fund balance or establishing and using reserves) to finance its operations. Any long-term financial plan must be monitored and updated on a continuing basis to provide a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate.²

The Board Appropriated More Fund Balance Than Needed, Resulting in Reported Low Unrestricted General Fund Balance

The Board appropriated significantly more fund balance each year than was needed to finance the budget. This led to a negative or low unrestricted fund balance in fiscal years 2014-15 through 2016-17, which made the District's financial position appear worse than it actually was (Figure 1).

Figure 1: General Fund Unrestricted Fund Balance at Year End

	2014-15	2015-16	2016-17
Beginning Fund Balance^a	\$5,058,195	\$4,986,415	\$4,612,023
Add: Operating Surplus (Deficit)	(\$71,779)	(\$374,392)	(\$12,971)
Ending Fund Balance	\$4,986,416	\$4,612,023	\$4,599,052
Less: Restricted Funds (Reserve funds)	\$3,525,604	\$3,529,600	\$3,355,328
Less: Nonspendable and Assigned Fund Balance^b	\$48,091	\$5,403	\$17,708
Fund Balance Available for Appropriation	\$1,412,721	\$1,077,020	\$1,226,016
Less: Appropriated Fund Balance for the Ensuing Year	\$1,406,664	\$1,393,126	\$1,127,412
Unrestricted Fund Balance at Year End	\$6,057	(\$316,106)	\$98,604
Unrestricted Fund Balance as a Percentage of Ensuing Year's Budget	0.06%	(3.01%)	0.93%

a Includes minor prior period adjustments

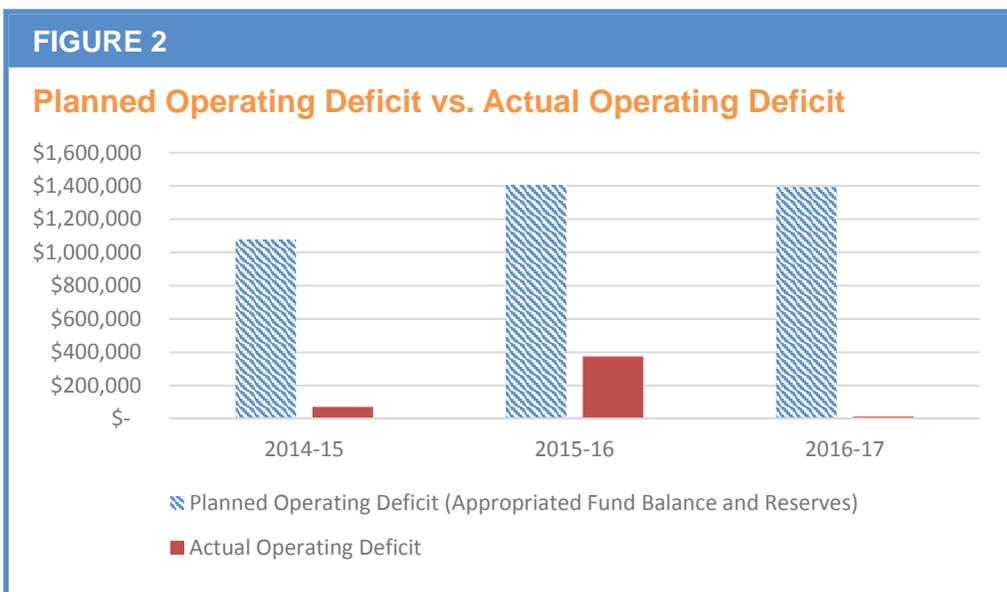
b Includes prepaid expenses and encumbrances

District officials overestimated the amount of fund balance that would be available to finance the next years' budgets. The District ended 2015-16 with \$1,077,020 of fund balance available for appropriation in the 2016-17 budget. However,

² See <http://www.osc.state.ny.us/localgov/planbudget/index.htm> for more information.

the Board appropriated \$1,393,126 in fund balance to finance the 2016-17 budget, which resulted in an unrestricted fund balance deficit of \$316,106 at the end of 2015-16. The Board also appropriated more fund balance than was available in the original 2017-18 adopted budget. The Board initially appropriated fund balance of \$1,380,542 in the 2017-18 budget, which would have left an unrestricted fund balance deficit of about \$155,000 at the close of 2016-17. However, in August 2017, the Board passed a resolution to reduce the amount of appropriated fund balance to \$1,127,412 and to appropriate reserve funds of \$253,130. This resulted in the District reporting unrestricted fund balance of \$98,604 at the end of 2016-17, which is less than 1 percent of the 2017-18 budget. The Business Manager told us officials provided the Board with estimates of fund balance available for appropriation at the time of the 2016-17 and 2017-18 budget preparation, but did not retain documentation to support these estimates.

When fund balance is appropriated for the ensuing year’s budget, the expectation is that there will be a planned operating deficit close to the amount of fund balance that was appropriated. Although the Board appropriated significant amounts of fund balance each year, it did not need to use most of the fund balance because it also overestimated appropriations by an average of \$1 million annually (10 percent), or a cumulative total of about \$3.1 million from 2014-15 through 2016-17. These overestimations were spread throughout the budget. As a result, the District’s total general fund balance declined by about \$459,000 (9.1 percent) over the last three years, which was significantly less than the \$3.9 million of fund balance that the Board appropriated for planned operating deficits during this period (Figure 2). Had the District actually used the fund balance the Board appropriated, it would have led to a significant decline in financial condition.



By including significant amounts of appropriated fund balance in the budgets that was not needed, it appeared that the District had less unrestricted fund balance than it actually had. Over the past three completed fiscal years, the District reported unrestricted fund balance that ranged from (3.01) percent to .93 percent of the ensuing year's appropriations, which is well below the 4 percent limit allowed by RPTL. However, when unused appropriated fund balance is added back³ to the reported unrestricted fund balance, the District's recalculated unrestricted fund balance was 10 percent, or more than two times the legal limit, at the end of 2014-15 and 2015-16 ⁴ (Figure 3).

Figure 3: Unused Fund Balance

	2014-15	2015-16
Total Unrestricted Funds at Year End	\$6,057	\$(316,106)
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	\$1,032,272	\$1,380,155
Total Recalculated Unrestricted Funds	\$1,038,329	\$1,064,049
Recalculated Unrestricted Funds as Percentage of Ensuing Year's Budget	10%	10%

According to the Board President, the Board has appropriated significant amounts of fund balance to keep unrestricted fund balance within the statutory limit and keep taxes within the real property tax cap.⁵ Because the District has consistently appropriated fund balance in the budgets each year and financial reports indicated it ended 2015-16 with a negative unrestricted fund balance, District officials were concerned that they were spending down fund balance and it would not be available to finance operations in future years. To address this concern, the Superintendent has been monitoring spending and controlling purchases to help reduce costs.

In addition, District officials began looking toward using reserves as a financing source in the budget to reduce the perceived reliance on appropriated fund balance. As of June 30, 2017, the District reported five general fund reserves totaling approximately \$3.4 million (workers' compensation, unemployment

³ The District did not use \$1,032,272 of the \$1,406,664 fund balance appropriated for 2015-16 and did not use \$1,380,155 of the \$1,393,126 appropriated for 2016-17.

⁴ We did not recalculate the unrestricted fund balance at the end of 2016-17 because the amount of appropriated fund balance the District will use in the current 2017-18 fiscal year is not yet known.

⁵ Real property taxes increased less than 1 percent from 2014-15 to 2016-17 and just over 1 percent in 2017-18.

insurance, retirement contribution, employee benefit accrued liability and repair reserves). District officials evaluated the balances in each reserve fund and developed a reserve fund plan that the Board reviewed in June 2017.

The plan addresses the purpose, funding method, funding levels and monitoring of each reserve. It identified excess funds in the workers' compensation and unemployment reserves and included recommendations to use these reserve funds and the retirement contribution reserve in 2016-17 and 2017-18.⁶ The District used \$190,457 from the workers' compensation, retirement contribution and unemployment reserve funds in 2016-17 and has budgeted to use \$253,130 from the retirement, unemployment and workers' compensation reserve funds in 2017-18. In addition, officials are planning to seek approval to establish a capital reserve fund to help fund a proposed building improvement project. If District residents approve this reserve and project, it plans to transfer the majority of the \$1,013,312 in its repair reserve to the capital reserve for the project.

While the District now has a reserve fund plan in place, it does not have a multiyear financial plan to address its financial condition. The Superintendent explained the Board realizes the reserves will not be a permanent funding source and the District plans to start developing a long-term plan for the future.

The development of a formal multiyear financial plan will be a useful tool to help District officials address fund balance levels, including the reserve funds and debt service fund balance. As District officials develop these plans, they should review historical expenditure trends and work to develop realistic projections of future costs. The establishment of a multiyear plan will also provide more transparency to District residents on the Board's strategy for addressing the level of the unrestricted and reserve fund balances.

The Debt Service Fund is Not Being Used to Pay for Related Debt Service

A debt service fund is used to account for the accumulation of resources for paying the principal and interest on long-term debt. For example, a debt service fund must be established and maintained to account for the proceeds of a capital asset's sale that has outstanding debt or if State or federal aid is received for a capital improvement for which there is outstanding debt. School districts are also required to account for and restrict unexpended bond proceeds and related interest earnings in accordance with statutory provisions. District officials should use the money in this fund to make the related debt service payments.

The District's debt service fund balance ranged from \$425,000 to \$430,000 over the last three years (2014-15 through 2016-17). The District has made no

⁶ The balance in the workers' compensation reserve was \$367,231 and the balance in the unemployment insurance reserve was \$436,205 as of June 30, 2017.

debt service related expenditures from this fund during this period. Instead, it budgeted for and paid the debt-related principal and interest from the general fund each year. The District made annual long-term debt payments averaging about \$441,000 in fiscal years 2015-16 and 2016-17. Using debt service money for its intended purpose could allow general fund resources to be used for other purposes, which could result in the reduction of real property taxes.

What Do We Recommend?

The Board and District officials should:

1. Develop realistic estimates of appropriations and the use of fund balance in the annual budget.
2. Ensure that the amount of the District's unrestricted fund balance is maintained at a reasonable level, in compliance with statutory limits, and use any surplus funds as a financing source for:
 - Funding one-time expenditures
 - Funding needed reserves
 - Reducing District property taxes.
3. Review estimates of year-end fund balance available for appropriation in the next fiscal year and retain any supporting documentation for the estimate calculation.
4. Review general fund reserve balances as part of the budget process and continue to reduce any excess reserves to reasonable levels in compliance with statutory restrictions.
5. Develop and adopt a multiyear financial plan to provide a framework for future budgets and facilitate the management of operations. This plan should be monitored and updated on an ongoing basis.
6. Use money in the debt service fund to pay related debt service expenditures in compliance with statutory requirements.

Appendix A: Response From District Officials



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March 13, 2018

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
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State Office Building, Room 409
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Dear Ms. Wilcox:

This letter is in response to the draft audit from the Office of the State Comptroller on Financial Condition from July 01, 2014 – June 30, 2017 for Clifton-Fine Central School District. We have had the opportunity to review the draft audit and will consider your recommendations for future budgeting.

On behalf of the District, I would like to thank the field examiner who was professional throughout the audit process. The District appreciates the feedback from the Comptroller's Office and the opportunity to improve and strengthen our practices based on the recommendations in the report.

Respectfully,

Regina Yeo
Superintendent of Schools

Clifton-Fine Students will have the skills and confidence necessary to compete in a global society.

ADMINISTRATION

• Regina C. Yeo, Superintendent • Rebecca J. Bascom, PK-12 Principal • Joseph Ruddy, CSE Chairperson
Alison Benjamin, District Clerk • Colleen Ayers, Assistant Business Manager • Cory Perrault, SBG&T

BOARD OF EDUCATION

• Jeremy Thompson, President • Christopher Cooper, Vice President • Judy Benzel
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Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We reviewed and analyzed the District's financial records and reports for the general fund, including annual budgets, annual and monthly reports, audited financial statements, budget status reports and general ledgers.
- We analyzed fund balance for fiscal years 2014-15 through 2016-17. This included comparing the amount of appropriated fund balance to the amount of fund balance available for appropriation at year-end.
- We calculated the unrestricted fund balance as a percentage of the ensuing year's appropriations to determine whether it was within the statutory limit.
- We interviewed District officials about the level of fund balance and their budget process.
- We analyzed the District's budget estimates to determine whether they were realistic and structurally balanced.
- We reviewed the District's reserve fund policy and interviewed the Board President and other District officials to determine whether the Board has a multiyear financial plan.

We conducted this performance audit in accordance with GAGAS, generally accepted government auditing standards. 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.

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, pursuant to Section 35 of General Municipal Law, Section 2116-1(3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the 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. We encourage the Board to make the CAP available for public review in the District Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmg

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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