



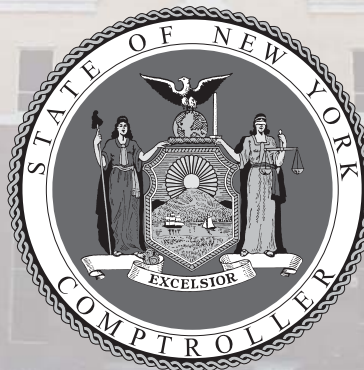
# Spencer-Van Etten Central School District Financial Condition

## Report of Examination

Period Covered:

July 1, 2012 — April 22, 2014

2014M-233



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**

October 2014

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 Spencer-Van Etten 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*

# Introduction

## Background

The Spencer-Van Etten Central School District (District) is located in the Towns of Baldwin, Chemung, Erin and Van Etten in Chemung County; the Town of Cayuta in Schuyler County; the Towns of Spencer, Barton and Tioga in Tioga County; and the Towns of Danby and Newfield in Tompkins 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 chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The District contracts with the Greater Southern Tier Board of Cooperative Education Services to provide its central business functions. The District also has a shared Business official who is responsible for managing the District's finance-related operations under the direction of the Superintendent and the Board.

There are three schools in operation within the District, with 962 students. The District's budgeted appropriations for the 2014-15 fiscal year are \$20.5 million, funded primarily with State aid, real property taxes and grants.

## Objective

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

- Did District officials properly manage the financial condition of the District?

## Scope and Methodology

We examined the District's financial activities for the period July 1, 2012 through April 22, 2014. To analyze the District's historical and projected fund balance, budget estimates and financial trends, we extended our audit scope period back to July 1, 2010 and projected forward through June 30, 2014.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix B of this report.

## Comments of District Officials

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.

## Financial Condition

The soundness of the District's financial condition begins with the Administration's development of reasonable budget estimates for the consideration of the Board and District voters, the Administration's monitoring of District expenditures in terms of both the adopted budget and their necessity, and the provision for long-term and unforeseen financial needs. Therefore, it is essential that officials develop reasonable budgets, manage fund balance responsibly and in accordance with statute to ensure that sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future expenditures. The Board is authorized to set aside moneys in reserves; however, reserve balances must be reasonable. Further, the Board should ensure that the District implements practices and procedures designed to aid them in identifying cost savings opportunities and realizing those cost savings.

District officials properly managed the financial condition of the District. While facing some financial difficulties, the Board has adopted budgets with reasonable estimates, provided sufficient reserves for future expenditures and reduced expenditures. While real property taxes have increased, the amount of available surplus money has been kept within the statutory limit.

Budgets – Over the last three fiscal years, the District developed budgets that were reasonable and based on historical or known expenditures. The actual expenditures have been on average within three percent of the budget estimates during this time. Similarly, the revenues have been on average within one percent of the budget estimates over the same period. Further the District received one-time American Recovery and Reinvestment Act funds which ended in 2010-11, which were used to maintain existing programs and operations instead of funding new programs.

Reserves – The District has set aside funds in a variety of reserves with an aggregate balance of about \$1.75 million as of the fiscal year ended 2013, \$179,000 more than the aggregate balance at the end of 2011. These increases were funded by surpluses generated from operations, budgeted appropriations and the transfer of unused moneys from other reserves (no longer in use). The District designated these reserves to finance increases in retirement costs, unemployment insurance and payments to employees for unused leave and repairs. District officials' project that the 2013-14 fiscal year will end in a surplus and plan to use this surplus fund to finance the purchase of

new buses, upgrade the District's security system and establish and fund a capital reserve.

Cost Saving Measures – District officials have engaged in multiple cost-savings opportunities in an effort to minimize expenses. The District has reduced staffing, paid down debts and sought lower-cost health insurance. For example:

- Due to anticipated increases in health insurance premiums, District officials switched to lower cost health insurance coverage during the 2011-12 fiscal year and achieved savings of approximately \$850,000 in the first year of the change.
- As a result of declines in Federal and State aid over the last three years, the District reduced staffing through job sharing, attrition and elimination of positions. Since the 2009-10 fiscal year, total District staffing has decreased, from 181 to 138 employees, a 24 percent decrease, while still maintaining an average class size of 20 students.
- Lastly, the District pursued a merger study in 2013 with the Candor Central School District. The results of the study reported potential cost savings for a newly created District. However, residents in both District voted against the merger.

We commend the District for pursuing and initiating cost savings measures and encourage them to continue to pursue opportunities in these areas and other areas where savings could be achieved.

Real Property Tax Levy – From fiscal years with 2010-11 through 2012-13, District tax increases were less than the total increases in expenditures. Specifically, the total taxes increased approximately \$968,000 while expenditures increased over \$1.3 million. The District has continued this trend in the 2013-14 and 2014-15<sup>1</sup> fiscal years; from the end 2012-13 to 2014-15, budgeted appropriations increased approximately \$1 million with an increase in the real property tax levy \$360,000.

Fund Balance – The general fund's available fund balance has decreased \$449,000 since 2010, driven mainly by a \$600,000 operational deficit during the 2013 fiscal year. This planned decrease was included as part of the adopted budgets for four of the last five years. The 2014-15 budget did not include the use of fund balance to fund operations in order to maintain sufficient fund balance.

We commend the Board and District Administration for their reasonable budget estimates, financed in part by increased real property

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<sup>1</sup> The 2014-15 fiscal year figures are budgeted figures.

taxes within the Real Property Tax Cap, which also provide for future expenditures that can increase outside of the District's control. As a result of these and other cost-savings efforts, the District has been able to avoid at least \$850,000 in expenditures. While recognizing the difficulty in maintaining current levels of educational programs and services within the Real Property Tax Cap and an unpredictable amount of State aid, the District could risk depleting their available fund balance completely.

In January 2014, the District was categorized as "susceptible to fiscal stress" in a report issued as part of the Comptroller's Fiscal Stress Monitoring System (FSMS). Fiscal stress designations of FSMS are based solely upon year-end financial statements (ST-3) filed by the District. We reviewed the factors used to calculate the District's score and classify the District in this category. We determined that the District's score was impacted by planned use of fund balance as a budgetary revenue source. This resulted in a deficit for fiscal year 2012-13 and a decline in the year-end cash balance of the general fund. Had the planned use of fund balance not occurred, the District would not have received the "susceptible to fiscal stress" designation.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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





***Spencer Van Etten Central School***

**District Office  
16 Dartts Cross Rd  
Spencer, New York 14883  
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FAX (607) 589-3010**

**Dr. Joseph G. Morgan  
Superintendent of Schools**

October 16, 2014

State of New York  
Office of the State Comptroller  
State Office Building  
44 Hawley Street, Room 1702  
Binghamton, NY 13901-4417

RE: Spencer-Van Etten Central School District  
Report of Examination - Financial Condition  
July 1, 2012 – April 22, 2014

Dear Sir or Madam:

We are in receipt of your draft findings and recommendations regarding our financial condition. The Spencer-Van Etten School District is in agreement with the audit results provided by your office. It is the goal of school district officials and the Board of Education to prudently manage school district resources while providing students an educational program that is supported by the community and prepares our students for college and career.

While the District anticipates financial challenges in the future we will continue to explore ways to reduce costs and improve efficiencies. The Board of Education and the District Administrative team will continue to make prudent decisions in the allocation of resources while planning for a future where revenues are uncertain and expenses continue to rise.

We appreciate the Comptroller's team confirming that "District officials properly managed the financial condition of the District" and "developed budgets that were reasonable". It was a pleasure to work with the staff of the Office of the Comptroller and we appreciate the review and the insight provided by them.

Sincerely,

Joseph Morgan, Ed.D.  
*Superintendent of Schools*

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed appropriate District officials, tested selected records and examined pertinent documents for the period July 1, 2012 through April 22, 2014. To analyze the District's historical and projected fund balances, budget estimates and financial trends, we extended our audit scope period back to July 1, 2010 and projected forward through June 30, 2014. Our examination included the following:

- We interviewed District officials and reviewed Board meeting minutes to gain an understanding of the budgeting process including procedures for monitoring and controlling the budget, long term plans, fund balance use, the use and funding of reserves and the cost saving measures implemented over the years by the District.
- We analyzed the use, funding and ending balance for all reserves from the 2010-11 through 2013-14 fiscal years to determine whether reserves were used properly and reserve balances were reasonable.
- We calculated the results of operations over the last three years by comparing actual revenues to actual expenditures, including appropriated fund balance where applicable. For those years with operating deficits, we determined whether the deficit was planned or unplanned and its significance.
- We calculated the projected result of operations and the unreserved fund balance for the 2013-14 fiscal year.
- We compared adopted budgeted revenues to actual revenues for the general fund for the fiscal years 2010-11 through 2012-13 to determine if the District's revenue budget estimates were reasonable.
- We analyzed the trend in total fund balance, including the use of appropriated fund balance and reserves in the general fund for 2010-11 through 2012-13. We also compared the unexpended surplus fund balance to the ensuing year's budgeted expenditures to determine if the District was within the statutory limit.
- We analyzed both budgeted appropriations and actual expenditures lines during the years when unreserved fund balance was appropriated to determine whether the appropriation of fund balance was tied to non-recurring appropriations and actual expenditures.
- We re-calculated using the Fiscal Monitoring Unit worksheet whether the District was diagnosed as fiscally stressed or susceptible to fiscal stress.
- Using data obtained from the New York State Education Department, we compared the District's staffing levels to those of other school districts in Tioga County for the last four years.

- We calculated the amount saved by the District by changing health insurance coverage. We verified cost savings reported by the District by reviewing select salary and benefits costs for eliminated and consolidated positions using personnel and payroll records and inquiries of District officials.

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

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