



# General Brown Central School District Financial Condition

## Report of Examination

Period Covered:

July 1, 2013 — March 31, 2014

2014M-216



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 local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the General Brown 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 local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

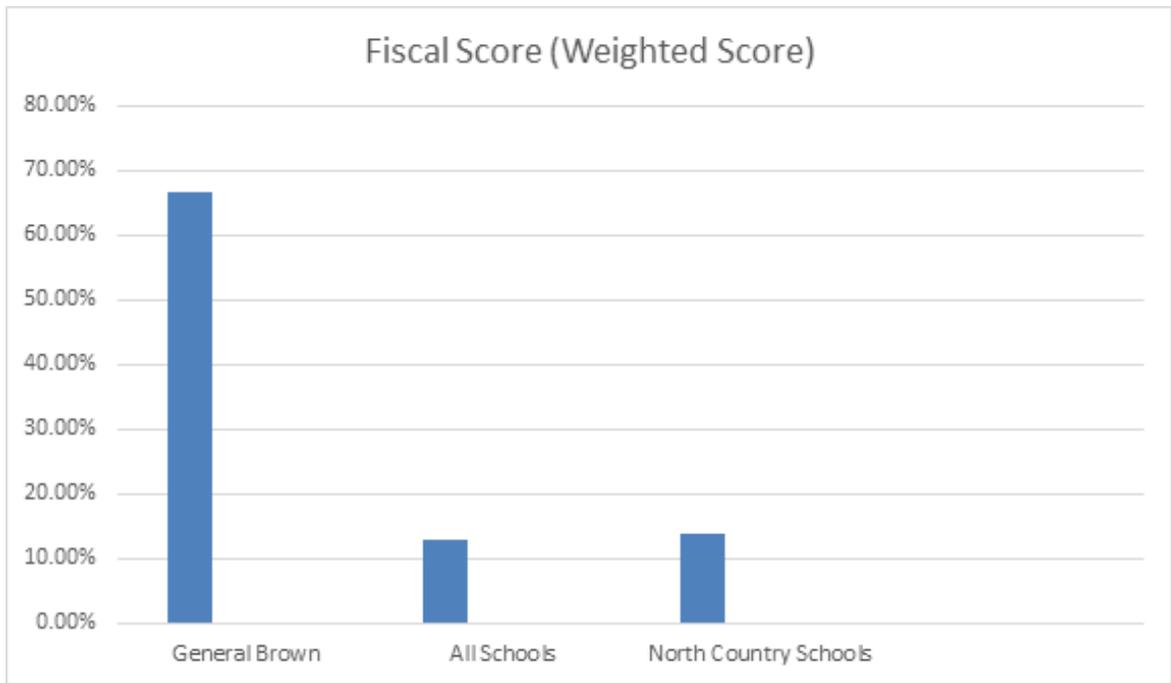
## Background

The General Brown Central School District (District) serves students in the Towns of Brownville, Hounsfield, Lyme, Pamela and Watertown and the City of Watertown in Jefferson County. The District is governed by a 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 the Executive Director of Administrative Services and other administrative staff, for the District's day-to-day management under the Board's direction and for the development and administration of the budget.

The District has two elementary schools and one middle-high school with approximately 1,550 students and 199 employees. During the 2012-13 fiscal year, the District had general fund expenditures of \$22.1 million, which were funded primarily with real property taxes and State aid. The District's budgeted appropriations for the 2014-15 fiscal year are \$21 million.

A systematic and objective methodology has been developed by the Office of the State Comptroller to assist in identifying the presence of stress conditions in school districts. This system, known as the fiscal stress monitoring system (FSMS), uses selected financial indicators to calculate a score that will determine a school district's level of fiscal stress. The District's score indicates that the District is in significant fiscal stress.<sup>1</sup> The following graph illustrates how the District's score compares to other school districts:

<sup>1</sup> The FSMS includes four classifications: significant fiscal stress (entity received 65 percent or more of the total possible points), moderate fiscal stress (45 percent or more), susceptible to fiscal stress (25 percent or more) and no designation (less than 25 percent of the total possible points). The District's score for the 2012-13 fiscal year was 66.7 percent. Additional information on the FSMS can be found at [www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm](http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm).



The FSMS relies on data submitted by the individual school districts to generate these scores.

**Objective**

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

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

**Scope and Methodology**

We examined the District’s financial condition for the period July 1, 2013 through March 31, 2014. We extended the scope of our audit to review certain financial trends back to July 1, 2008 and operating and fund balance projections as of 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 C of this report.

**Comments of District Officials and Corrective Action**

The results of our audit and recommendation 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 have initiated, or indicated they planned to initiate, 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 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

The Board and District management are responsible for making sound financial decisions in the best interests of the District, the students it serves and the taxpayers who fund its programs and operations. Sound budgeting practices based on accurate estimates, together with prudent fund balance management, can help ensure that sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future expenditures. A key component of budgeting is fund balance, which represents moneys accumulated from prior years. The unrestricted fund balance retained at the end of each fiscal year can serve as a financial cushion for unexpected events and maintaining cash flow. An appropriation of fund balance is the use of unexpended resources from prior years to finance appropriations in the budget and reduce the necessary tax levy and any excess unrestricted funds. When a board continuously appropriates fund balance, which results in a planned operating deficit<sup>2</sup> each year, it gradually depletes the unrestricted fund balance until there is none available to finance successive budgets. In this case, the board must either increase revenues (i.e., property taxes) and/or decrease appropriations (i.e., services) to balance budgets. District officials should monitor available fund balance to ensure it is not depleted to a stressed level.

In recent years, the District has struggled with fiscal challenges. The Board has balanced its adopted budgets with appropriations of fund balance and reserves while limiting tax increases, which has contributed to the District's deteriorating financial condition. As a result, by the end of the 2012-13 fiscal year, the District had approximately \$815,000 remaining in reserves and a deficit unrestricted fund balance of \$435,656.

We reviewed budget-to-actual results for the 2010-11 through 2012-13 fiscal years and found that District officials adopted realistic budgets and kept expenditures within budgeted appropriations. The Board reviewed budget-to-actual comparison reports throughout the year to monitor the budget and approved budget transfers at the monthly Board meetings. However, the Board's heavy reliance on appropriated fund balance and reserves as financing sources in the annual budgets has resulted in a significant reduction in the District's unrestricted fund balance and reserve balances.

<sup>2</sup> A planned operating deficit occurs when a board purposely adopts a budget in which appropriations are greater than anticipated revenues, with the difference to be funded with appropriated fund balance or reserves.

**Figure 1: Fund Balance – General Fund**

	2010-11	2011-12	2012-13
Beginning Fund Balance	\$4,451,391	\$3,493,704	\$4,044,904
Revenues	\$18,715,582	\$20,225,900	\$19,455,914
Expenditures	\$19,673,269	\$19,674,700	\$22,145,831
Operating Surplus/(Deficit)	(\$957,687)	\$551,200 <sup>a</sup>	(\$2,689,917) <sup>a</sup>
Year-End Total Fund Balance	\$3,493,704	\$4,044,904	\$1,354,987
Less: Fund Balance Appropriated for Next Year	\$1,195,000	\$895,000	\$895,000
Less: Fund Balance Restricted for Reserves and Encumbrances	\$1,482,704	\$2,742,886	\$895,643
Year-End Unrestricted Fund Balance	\$816,000	\$407,018	(\$435,656)
As a Percentage of Next Year's Budget	3.9%	1.9%	-2.0%
<sup>a</sup> The District received insurance proceeds related to a bus garage fire in 2011-12, equaling approximately \$1.8 million, and expended the bulk of these moneys in 2012-13. As a result, the reported operating surplus in 2011-12 and the operating deficit in 2012-13 are both larger than the planned operating deficits and appropriated fund balance for each fiscal year.			

The District's total general fund balance declined by more than \$2.1 million (60 percent) from the 2010-11 through 2012-13 fiscal years. The Board's extensive use of fund balance to fill budget gaps resulted in a deficit of \$435,656 in the District's unrestricted fund balance as of June 30, 2013.

As of the end of the 2012-13 fiscal year, the District had \$459,344<sup>3</sup> in fund balance that was available for appropriation in the 2013-14 budget. However, the Board appropriated more fund balance than was available for its 2013-14 budget. It appropriated \$895,000, which resulted in an unrestricted fund balance deficit of \$435,656.<sup>4</sup> At the time of our audit, the Board estimated that the District would have a 2013-14 operating surplus of at least \$385,000.<sup>5</sup> If the Board's operating estimates are accurate and actual revenues exceed expenditures, it is likely that the District will not need the \$895,000 that the Board appropriated for the 2013-14 fiscal year as a financing source.

The Board continued to appropriate fund balance at the same level in its 2014-15 budget, appropriating \$895,000 of fund balance to fund District operations. During our fieldwork, the District's projections indicated that approximately \$859,000 in unrestricted fund balance would be available at the end of the 2013-14 fiscal year to fund this

<sup>3</sup> As of June 30, 2013, the District's year-end total fund balance was \$1,354,987, which was reduced by \$895,643 in restricted fund balance for reserves and encumbrances (moneys set aside for purchases initiated but not yet completed). This left the Board with \$459,344 in fund balance that was available to appropriate in the 2013-14 budget.

<sup>4</sup> \$459,344 minus \$895,000 equals a deficit of \$435,656

<sup>5</sup> As of the end of our fieldwork, the District had not closed its records for 2013-14. Therefore, final year-end results were not available to review.

appropriation.<sup>6</sup> Consequently, the Board may have appropriated about \$36,000 more in the 2014-15 budget than it has available. Because the District has reduced its unrestricted fund balance to such a low level, the Board will likely need to replace fund balance as a financing source with recurring revenues and/or cut costs to balance future budgets.

State and federal aid represented approximately 63 percent of total general fund revenues for 2012-13, which left the District vulnerable to reductions in the amounts of aid expected. State and federal aid to the District has fluctuated between \$12.8 million and \$11.5 million per year, with an overall decrease of \$2.5 million in actual aid revenues received since the 2008-09 fiscal year. Reported aid revenues received for this period totaled approximately \$1.6 million below the District's budgeted aid revenues. Over the same period, District expenditures, specifically those related to employee benefits, have increased by more than \$1.2 million despite the elimination of 46 positions over the last four fiscal years.

To address the decline in financial condition, District officials took several steps, including fiscal planning, involving District taxpayers in the solution and considering cost-savings measures. They developed a multiyear financial plan that projects revenues and expenditures for the next four years<sup>7</sup> to better facilitate management of the District's financial operations. Also, the Board conducted public meetings in January and February 2014 to give community members the opportunity to discuss the budget development process and the District's current financial condition. The Superintendent also told us that the District has pursued cost-saving measures, such as conducting an energy audit, and reducing overtime and publication costs. We commend District officials for their efforts in monitoring financial operations and evaluating options to close the District's budget gaps.

## **Recommendations**

1. The Board and District officials should carefully consider the amount of available fund balance and reserves they appropriate to fund future budgets and retain a reasonable amount of unrestricted fund balance to address unanticipated needs and provide necessary cash flow for operations.
2. District officials should continue to evaluate and explore ways to cut costs and increase revenues.

<sup>6</sup> District voters voted to override the tax levy limit when they approved the 2014-15 budget, allowing the District to increase the tax levy by \$469,022, or 6.97 percent. In 2011, the State Legislature enacted a law establishing a property tax levy limit, generally referred to as the property tax cap. Under this legislation, the property tax levied annually generally cannot increase more than 2 percent or the rate of inflation, whichever is lower, with some exceptions. School districts may override the tax levy limit by presenting to the voters a budget that requires a tax levy that exceeds the statutory limit. However, that budget must be approved by 60 percent of the votes cast.

<sup>7</sup> 2014-15 through 2017-18 fiscal years

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

# GENERAL BROWN CENTRAL SCHOOL DISTRICT

## General Brown Junior-Senior High School

17643 Cemetery Road  
Dexter, NY 13634  
Tel 315-779-2300 / Fax 639-3444

## Brownville/Glen Park Elementary School

PO Box 10  
Brownville, NY 13615  
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## Dexter Elementary School

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[www.gblions.org](http://www.gblions.org)

September 25, 2014

Office of the State Comptroller  
Syracuse Regional Office  
Rebecca Wilcox, Chief Examiner  
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333 East Washington St.  
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This correspondence serves as the District response and corrective action plan to the financial condition audit covering the period from July 1, 2013 – March 31, 2014.

The District appreciates the oversight and feedback provided by the Office of the State Comptroller. While the audit did not provide the District with new information, we appreciate the acknowledgement and commendation of our efforts in monitoring our financial operations and evaluating and implementing strategies to improve our financial condition.

**Recommendation 1:** The Board and District Officials should carefully consider the amount of available fund balance and reserves they appropriate to future budgets and retain a reasonable amount of unrestricted fund balance to address unanticipated needs and provide necessary cash flow for operations.

***District Response/CAP*** – *The District agrees with this recommendation. Declining state financial support (due to the Gap Elimination Adjustment and Foundation Aid freezes) and the limited ability to raise revenue (due to the tax levy cap) have placed a significant strain on our limited resources - General Brown CSD spends the least per pupil in NYS at just over \$13,260. As a result, the Board of Education used fund balance and reserves to prevent academic insolvency. Without an end in sight to the GEA and declining fund balance, the Board was forced to eliminate 17.5 FTE positions in 2013-2014 school year. The reduction of 25% of employees over the course of 4 years has resulted in the loss of vital academic programs and services for our students.*

*Because of the elimination/reduction of positions, employee pay freezes/reductions, implemented cost-saving measures and the limit of supplies, the District closed the 2013-2014 school year with \$1,572,000*

*in unrestricted fund balance, of which \$895,000 was appropriated for the 2014-2015 budget, leaving \$677,000 in unassigned fund balance.*

*The Board of Education and District Officials have taken strides to become less reliant on reserves as a funding source and will continue to strive to build reserves and retain an unassigned fund balance to serve as a safety net for unexpected events and maintaining cash flow.*

**Recommendation 2:** District Officials should continue to evaluate and explore ways to cut costs and increase revenues.

***District Response/CAP*** – *The District agrees with this recommendation and will continue to explore opportunities to reduce expenditures and increase revenues.*

Please feel free to contact me anytime, should you have additional comments or questions regarding this audit or our responses to the above recommendations.

Sincerely,



Cammy J. Morrison  
Superintendent

## **APPENDIX B**

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

#### Note 1

After we completed our fieldwork, the District filed its ST-3 form with the New York State Education Department for the 2013-14 year which indicates that it had approximately \$1,572,000 in fund balance available for appropriation, had appropriated \$895,000 for the 2014-15 fiscal year budget, and had a remainder of approximately \$677,000 in unrestricted fund balance. We have not verified these numbers as they were not available for our examination during fieldwork.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates local governments based on financial and environmental indicators. These indicators are calculated using a local government's annual financial reports and information from the United States Census Bureau, the New York State Department of Labor and the New York State Education Department, among other sources. The District was selected for audit due to concerns about its operating deficits and declining fund balance.

Our overall goal was to examine the District's financial condition. We performed the following audit procedures:

- We reviewed the District's policies and procedures for developing and reporting information relevant to financial and budgeting activities.
- We interviewed District officials to determine what processes were in place and gain an understanding of the District's financial situation and budget.
- We compared data from the District's annual financial reports for 2008-09 through 2012-13 to illustrate the changes in the District's revenues and expenditures, use of fund balance and levels of State and federal aid received.
- We reviewed the District's adopted budgets for 2008-09 through 2012-13 for reasonable estimates.
- We evaluated the District's operating results and resulting fund balance for our audit period and reviewed the District's operating and fund balance projections for 2013-14.
- We calculated the unrestricted fund balance as a percentage of the ensuing year's budgeted appropriations for the audit period.
- We reviewed the District's multiyear financial plan.
- We reviewed bank statements and reconciliations to determine the District's cash balance as of June 30, 2013.

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 objectives. 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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