



Lyme Central School District Financial Condition

Report of Examination

Period Covered:

July 1, 2014 – May 31, 2016

2016M-383



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2016

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 Lyme 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 Lyme Central School District (District) is located in the Towns of Brownville, Cape Vincent, Clayton and Lyme in Jefferson County. The District is governed by the Board of Education (Board), which is composed of 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 Business Official and other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates one school with approximately 350 students and 73 employees. The District's budgeted appropriations for the 2015-16 fiscal year were approximately \$8 million, which were funded primarily with real property taxes and State aid.

Objective

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

- Did the Board and District officials adequately manage the District's financial condition?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2014 through May 31, 2016. We extended our scope back to June 30, 2012 to analyze historical fund balance, budgeting estimates and financial trends. We also reviewed the District's 2016-17 adopted budget.

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.

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. 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 School Board should make the CAP available for public review in the District Clerk's office.

Financial Condition

The Board, Superintendent and Business Official are responsible for making sound financial decisions that are in the best interest of the District, the students it serves and the residents who fund the District's programs and operations. Fund balance represents resources remaining from prior fiscal years that can be used to finance the next year's budget or can be set aside in reserve funds for specific purposes (for example, capital projects or retirement expenditures). New York State Real Property Tax Law currently limits the amount of unrestricted fund balance that school districts can legally retain to no more than 4 percent of the ensuing year's budget. District officials should develop accurate budget estimates and maintain fund balance levels within the statutory limit so that real property levies are not greater than necessary.

District officials did not maintain fund balance in accordance with statutory requirements. The fund balance in the general fund increased about \$1.4 million from the beginning of 2014-15 to the end of 2015-16. Unrestricted fund balance exceeded the statutory limit for each of the last four years and increased to 16.4 percent as of June 30, 2016, or nearly \$979,000 over the legal limit.

Figure 1: Unrestricted Fund Balance at Year-End

	2012-13	2013-14	2014-15	2015-16
Beginning Fund Balance	\$1,023,019	\$891,532	\$875,874	\$1,287,278
Plus: Operating Surplus/(Deficit)	(\$131,487)	(\$15,658)	\$411,404 ^a	\$1,020,764
Ending Fund Balance	\$891,532	\$875,874	\$1,287,278	\$2,308,042
Less: Restricted Fund Balance	\$245,000	\$120,000	\$340,000	\$715,000
Less: Appropriated Fund Balance	\$175,000	\$100,000	\$62,817	\$70,000
Less: Encumbrances	\$132,166	\$111,900	\$122,866	\$228,902
Unrestricted Fund Balance at Year-End	\$339,366	\$543,974	\$761,595	\$1,294,140
Ensuing Year's Budget	\$7,712,330	\$7,866,252	\$7,987,273	\$7,885,389
Unrestricted Fund Balance as a Percentage of Ensuing Year's Budget	4.4%	6.9%	9.5%	16.4%

^a We adjusted the 2014-15 operating surplus to capture the reclassification of \$14,713 interest paid on bond anticipation notes to the general fund. The District reported this amount as a prior-period adjustment in its 2015-16 financial statements.

Although the Board appropriated \$100,000 of fund balance to finance the 2014-15 budget and \$62,817 to finance the 2015-16 budget, the District generated operating surpluses totaling \$411,404 in 2014-15 and \$1,020,764 in 2015-16. 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 appropriated fund balance. Conversely, an operating surplus (when revenues exceed expenditures) results in an increase in the total year-end fund balance. Sound budgeting practices provide that adopted annual budgets do not routinely appropriate fund balance that will not actually be used to fund operations.

The District's operating surpluses occurred primarily because the Board overestimated appropriations for 2014-15 and 2015-16 by an average of \$1 million. The majority of overestimated appropriations were for regular and special education salaries (\$735,852, or 17 percent), employee benefits¹ (\$665,171, or 16 percent) and plant operations (\$328,669, or 36 percent).

District officials told us they budget conservatively to protect the District from unforeseen events and attributed variances in instructional and special-education salaries and benefits primarily to teacher contract negotiations, staff resignations and retirements that were not known at the time of budget preparation. In addition, certain grant funding was not approved prior to budget preparation, resulting in some salaries being budgeted in the general fund and expensed in the special aid fund. Officials also cited fluctuations in the special education student population and the associated levels of services, and infrastructure improvements that resulted in energy savings and reduced operational costs. While some factors cannot be precisely predicted, items such as retirements, for example, can be reasonably projected based on historical results and projected employer contribution rates provided by the New York State and Local Retirement System prior to budget adoption.

The District's unrestricted fund balance has exceeded the statutory limit for the past four fiscal years. Any amounts of fund balance in excess of the statutory limit should be used to benefit District residents. However, rather than apply the excess fund balance to decrease the tax levy, the Board has reduced the amount of fund balance appropriated in the budget from \$299,612 in 2012-13 to \$70,000 in 2016-17. In addition, during the same period, the Board increased the tax levy by \$331,500, or 9.2 percent. Had the Board used more realistic budget estimates, they could have avoided operating surpluses and the accumulation of excess fund balance and possibly reduced the tax levy.

Based on our review of the District's 2016-17 adopted budget, the Board has decreased its overall appropriations by 1 percent and decreased the amounts appropriated for some of the budget items

¹ Including employee and teacher retirement, Social Security and health insurance

overestimated in previous years. However, given the significant operating surpluses of the past two years, the District may still generate a year-end surplus.

Recommendations

The Board should:

1. Adopt budgets that represent the District's actual needs, based on current information and historical data.
2. Ensure that the amount of the District's unrestricted fund balance complies with the statutory limit and use any excess unrestricted fund balance in a manner that benefits District residents. Surplus funds can be used as a financing source for:
 - Funding one-time expenditures;
 - Funding needed reserves; 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.



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phone: 315-649-2417 ♦ fax: 315-649-2663 ♦ website: www.lymecsd.org

CAMMY J. MORRISON, SUPERINTENDENT

December 6, 2016

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

Dear Mrs. Wilcox:

The Lyme Central School District is in receipt of the draft Report of Examination on the District's financial condition for the period of July 1, 2014-May 31, 2016. On behalf of the Board of Education and District Administration, we appreciate the opportunity to respond to the findings of this report. Please accept this letter as the Lyme Central School District's Response and Corrective Action Plan.

The District is pleased that this extensive examination has resulted in no findings of a material weakness, fraud, waste, or abuse. As such, the focus of the referenced examination was our Financial Condition, which resulted in recommendations regarding our budgeting practices and fund balance.

While the District does not dispute the findings of the report, it also wishes to note it is important to respond to these findings so that an accurate context is provided, as well as the District's corrective action plan going forward. We do recognize that the District must strive to meet the provisions established by law, all while being impacted by the economic conditions facing school districts across the State in the formation of their budgets.

The District has prepared budgets guided by two fundamental principles. The first is to provide quality educational programs for our District's children. The second is to be fiscally responsible to our community by providing budget and tax rate stability over time. We believe that sound budgeting, along with managing fund balance and reserves, supports the District's goals to maintain high quality educational programs, manage emergencies, address unexpected expenses, and satisfy long term financial obligations. The District faces many unknown factors when projecting expenditures at the time of budget development. Future budgets will continue to utilize fund balance to reduce amount required to be raised via the tax levy. The district will review the fund balance levels during the development of the 2017-18 budget to determine their appropriateness and, if necessary, adjust accordingly.

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CAMMY J. MORRISON, SUPERINTENDENT

It is important to note that in recent years New York State imposed a Gap Elimination Adjustment and a Deficit Reduction on the Lyme Central School District resulting in a total of \$1,661,578 of withheld revenue. Foundation Aid increases averaging \$6,002 over eight budget cycles, and the Tax Cap Levy Legislation imposed upon New York State School Districts, which has most recently resulted in a decrease over the prior year's levy, has made for an unstable, unreliable balance between revenue and expenditure when creating our District's budgets. Due to Lyme Central School's geographic location, the District's property wealth negatively affects the schools state aid factors, which results in reduced state aid revenues.

The Lyme Central School Board of Education and Administration have taken their fiduciary responsibility of formulating a spending plan, while monitoring the efficiencies of operations versus costs associated with the day to day operations of the District, very seriously. The District successfully implemented a wide-range of cost saving measures to protect the educational programming as well as the fiscal stability of the district while maintaining one of the lowest tax rates per thousand of assessed values in New York State. Some such cost-saving measures have included, *but are not limited to*: Superintendent Share between Lyme Central and General Brown Central; Transportation Supervisor Share between Lyme Central and Thousand Islands Central; Shared Fuel Facility with the Town of Lyme; Cafeteria Manager Share between Lyme Central and General Brown; Automatic shut-down of all District computers at 6:30 p.m. nightly; and the Utilization of District Vehicle for Transportation, Eliminating Mileage Reimbursements; Staff Reductions based on enrollment needs and through attrition.

We believe it is important to note that the annual school budget development is based on prior years' operating results, past expenditure trends, anticipated increases in expenditures, student, programmatic and operational needs and also takes into account any and all available information from the State at the time the budget is developed. Responsible budgeting requires that a District build contingencies for unanticipated expenditures. As such it has, and will continue, the practice of conservatively planning for the situations over which the district has little or no control, such as increased Special Education, Transportation and Energy Costs, and unforeseen Emergencies.

Audit Recommendations/District Corrective Action Plans:

Recommendation 1: Adopt budgets that represent the District's actual needs, based on current information and historical data.

BOARD OF EDUCATION

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Corrective Action Plan: The Board of Education's budget development includes an extensive, intentional review of prior year expenditures, in addition to the deliberate, on-going monitoring of known existing expenses, anticipated increases and known legacy costs, all while projecting fluctuating costs such as Special Education Placements; Jefferson-Lewis BOCES Services; Transportation Costs; Energy Costs and New Mandated Regulations. The District will approach future budgets with a gradual budgeting process to reach realistic budget appropriation while operating with conservative assumptions.

Implementation Date: January 2017

Recommendation 2: Ensure that the amount of the District's unrestricted fund balance complies with the statutory limit and use excess unrestricted fund balance in a manner that benefits District residents.

Corrective Action Plan: The District will continue to appropriate fund balance to reduce the amount required to be raised via the tax levy, which is an important benefit to district residents. The District's plan to utilize fund balance includes maintaining stable property tax levies. The 4% level in statute is becoming more difficult to attain and may cost taxpayers interest expenses as the level creates difficulty in meeting cash flow requirements until the districts property tax revenues begin flowing in September. A moderate use of fund balance, resulting in a decrease of the overall fund balance, will not result in the financial hole that would result if the District reduced fund balance all at once. The District plans to establish, based on voter approval, a Capital Reserve fund in 2017. This reserve will mitigate the local taxpayer portion of future District Building Projects. In addition, during the 2016-17 school year, the District will begin eliminating debt and funding one-time expenditures in a manner that benefits District tax payers.

Implementation Date: February 2017

In conclusion, the Lyme Central School District wishes to thank the staff from the State Comptroller's Office for their insight and expertise. We appreciate the opportunity to respond to this written report as we are constantly looking for ways to improve our practices and enhance District efficiencies.

Sincerely,

Cammy J. Morrison
Superintendent

Gary P. Nicholson
BOE President

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials to determine the processes that were in place for budget preparation and to gain an understanding of the District's financial condition.
- We analyzed four years of data filed with the Office of the State Comptroller to evaluate fund balance trends.
- We compared budget-to-actual revenues and expenditures and investigated significant variances.
- We evaluated the District's operating results and resulting fund balance for the audit period.
- We calculated the unrestricted fund balance in the general fund as a percentage of the ensuing year's appropriations to determine if the District was within the statutory limit during fiscal years 2012-13 through 2015-16.
- We reviewed the trend of real property tax rates, levies and assessments for fiscal years 2012-13 through 2016-17.

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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