



# Milford Central School District Financial Condition

## Report of Examination

Period Covered:

July 1, 2012 – June 30, 2015

2016M-87



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**

June 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 Milford 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 Milford Central School District (District) is located in the Towns of Hartwick, Laurens, Maryland, Middlefield, Milford and Westford in Otsego County. The District is governed by an elected seven-member Board of Education (Board). 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 day-to-day management of the District under the Board's direction. The District employs a shared<sup>1</sup> business manager, who started in July 2013 and is responsible for maintaining the District's accounting records.

The District operates one school with 417 students and 95 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$10.1 million, which were funded primarily with State aid, real property taxes and grants.

## Objective

The objective of our audit was to examine the District officials' management of fund balance. Our audit addressed the following related question:

- Did District officials maintain fund balance in accordance with statutory requirements?

## Scope and Methodology

We examined District financial records for the period July 1, 2012 through June 30, 2015. We extended our scope forward to June 30, 2016 to analyze and project revenues, expenditures and fund balance trends.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

## 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

<sup>1</sup> The business manager works half-time at the District.

generally agreed with our recommendations and indicated that they have taken, or plan to take, 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. 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

District officials are responsible for making sound financial decisions that are in the best interest of the District, the students they serve and the taxpayers 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, used to lower property taxes or set aside in reserve funds for specific purposes. New York State Real Property Tax Law currently limits the amount of unrestricted fund balance that can be legally retained by District officials to no more than 4 percent of the ensuing year's budget. District officials should ensure that they develop accurate budget estimates and projected fund balance levels to help the Board ensure compliance with the statutory limit and that real property levies are not greater than necessary.

District officials did not maintain fund balance in accordance with statutory requirements. The unrestricted fund balance exceeded the statutory limit of 4 percent of the ensuing year's budget for each of the last three years, ranging from 5 to 11 percent, as shown in Figure 1. From 2012-13 to 2014-15, the District's unrestricted fund balance increased by \$568,000, or 108 percent. As of June 30, 2015, the District's reported unrestricted fund balance totaled \$1.1 million, exceeding the statutory limit by \$691,000.

**Figure 1: Unrestricted Fund Balance at Year-End (Reported)**

|   | 2012-13            | 2013-14            | 2014-15                      |
|---|--------------------|--------------------|------------------------------|
| <b>Total Beginning Fund Balance</b>                       | <b>\$2,538,840</b> | <b>\$2,156,784</b> | <b>2,303,278<sup>a</sup></b> |
| Add: Operating Surplus/(Deficit)                          | (\$382,056)        | \$146,476          | \$349,894                    |
| <b>Total Ending Fund Balance</b>                          | <b>\$2,156,784</b> | <b>\$2,303,260</b> | <b>\$2,653,172</b>           |
| Less: Restricted Funds                                    | \$843,037          | \$844,029          | \$867,610                    |
| Less: Encumbrances  | \$36,987           | \$14,680           | \$9,041                      |
| Less: Appropriated Fund Balance for the Ensuing Year      | \$749,800          | \$703,250          | \$681,641                    |
| <b>Total Unrestricted Funds at Year-End</b>               | <b>\$526,960</b>   | <b>\$741,301</b>   | <b>\$1,094,880</b>           |
| Ensuing Year's Budgeted Appropriations                    | \$9,857,029        | \$9,969,277        | \$10,093,952                 |
| Unrestricted Funds as Percentage of Ensuing Year's Budget | 5.3%               | 7.4%               | 10.8%                        |

<sup>a</sup> Includes prior-period adjustment of \$18.

District officials appropriated an average of \$734,000 of fund balance as a financing source in each of the annual budgets for 2012-13 through 2014-15. Despite the annual appropriation of fund balance, the District's unrestricted fund balance exceeded the 4 percent statutory limit each year.

Further, over these three years, the District actually used \$382,000, or 18 percent, of the \$2.2 million of fund balance appropriated to finance

operations.<sup>2</sup> During 2014-15, District officials appropriated \$681,641 to help finance the 2015-16 budget; however, we project that they will use about \$121,000 (18 percent). As such, the District's unrestricted fund balance will continue to exceed the statutory limit.

District officials have established a repair reserve in 2015-16 with some of the excess funds. However, over the last three years, when unused appropriated fund balance was added back, the District's recalculated unrestricted fund balance exceeded the statutory limit each year, ranging from 13 to 16 percent of the ensuing year's budget as indicated in Figure 2.

**Figure 2: Unrestricted Fund Balance at Year-End (Recalculated)**

|  | 2012-13            | 2013-14            | 2014-15            |
|--|--------------------|--------------------|--------------------|
| <b>Total Unrestricted Funds at Year-End</b>                            | <b>\$526,960</b>   | <b>\$741,301</b>   | <b>\$1,094,880</b> |
| Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget  | \$749,800          | \$703,250          | \$560,562          |
| <b>Total Recalculated Unrestricted Funds</b>                           | <b>\$1,276,760</b> | <b>\$1,444,551</b> | <b>\$1,655,442</b> |
| Ensuing Year's Budgeted Appropriations                                 | \$9,857,029        | \$9,969,277        | \$10,093,952       |
| Recalculated Unrestricted Funds as Percentage of Ensuing Year's Budget | 13.0%              | 14.5%              | 16.4%              |

We compared the District's budgeted revenues and expenditures with actual results of operations for 2012-13 through 2014-15 and found minimal variances, averaging 4 percent in total. However, over the last three years, District officials did not budget for certain revenues they consistently received, such as refunds from the Board of Cooperative Educational Services (BOCES),<sup>3</sup> Medicaid reimbursements and tuition, totaling \$482,000. Over the same period, they also consistently overestimated expenditures for the operations and maintenance of facilities, transportation and unemployment insurance by a total of \$572,000. District officials told us that certain revenue lines are unknown at budget time and the appropriations were based on expenditures incurred in past years that were influenced by severe winter months, the projected price of gasoline and anticipated plans for layoffs.

The overestimation of expenditures and underestimation of revenues made it appear that the District needed to both raise taxes and use fund balance to close projected budget gaps. However, the District's budgets resulted in operating surpluses in two of the three years

<sup>2</sup> In the 2011-12 budget, the Board appropriated \$749,800 in fund balance for the 2012-13 fiscal year and subsequently used \$382,000 of that amount to fund operations.

<sup>3</sup> The District receives a refund in the following year of the difference between the District's payments to BOCES and BOCES' expenditures to provide the programs in the prior school year.

reviewed. Furthermore, the practice of appropriating fund balance that is not needed to finance operations is, in effect, a reservation of fund balance which is not authorized by statute and circumvents the statutory limit on unrestricted fund balance. In addition, the District increased the tax levy from \$3,758,615 in 2012-13 to \$3,906,399 in 2014-15 (3.9 percent). Part or all of these tax levy increases could have been avoided with better budgeting practices.

We reviewed the 2015-16 adopted budget and found that, based on historical data, District officials have begun to improve their budgeting practices with more realistic estimates of revenues and expenditures.

## **Recommendations**

The Board and District officials should:

1. Reduce the amount of unrestricted fund balance and use the excess funds in a manner that benefits District taxpayers. Such uses could include, but are not limited to:
  - Using surplus funds as a financing source;
  - Funding one-time expenditures;
  - Funding needed reserves; and
  - Reducing District property taxes.
2. Adopt budgets with more realistic estimates based on prior year's actual results and anticipated operations to avoid raising more real property taxes than necessary.

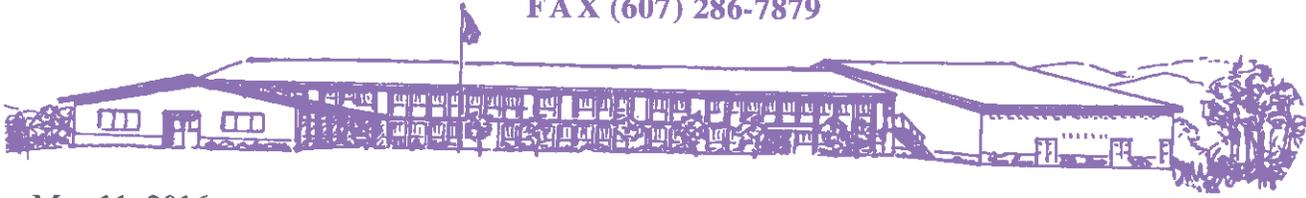
## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

# Milford Central School

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May 11, 2016

Mr. H Todd Eames, Chief Examiner  
Office of the State Comptroller  
Binghamton Regional Office  
44 Hawley Street, Suite 1702  
Binghamton, NY 13901-4417

Dear Mr. Eames:

Please accept this letter as the official response from Milford Central School District to the “Draft Audit Report of Examination” on the Financial Condition of the District covering the period of July 1, 2012 through June 30, 2015. Please note that this audit response will also serve as the Corrective Action Plan for the District. The Milford Central School Board of Education acknowledges the efforts of the New York State Comptroller and would like express our gratitude for the feedback as to the status of the financial condition of our District.

The Milford Central School District acknowledges the concerns of the New York State Comptroller. The District will continue to monitor fund balance as we go forward into future years considering the recommendations made in the audit report. The District will also continue to work to improve the budgeting process.

We believe that we have been managing the District’s finances in a conservative manner. We budget conservatively to ensure that the District can maintain the financial stability that a District needs for the long term. A budget is based on estimates, the methodology used when budgeting expenses and revenues for the upcoming school year; but the budgeting process is not an exact science. The District recognizes the statutory limit of 4 percent, however, with the tax cap limitation and the District’s need to ensure the fiscal viability of the District going forward, the four percent is an unrealistic statutory limit. Other public entities do not face such a draconian limit.

## Audit Recommendation #1:

1. Reduce the amount of unrestricted fund balance and use the excess funds in a manner that benefits District taxpayers. Such uses could include, but are not limited to:
  - Using surplus funds as a financing source
  - Funding one-time expenditures
  - Funding needed reserves
  - Reducing District property taxes.

Implementation Plan of Action:

Milford Central School has taken action to address the amount of unrestricted fund balance and has begun to use excess funds as recommended by the NYS State Comptroller in the audit.

During the current school year, the Board of Education has used fund balance as follows:

- A determination was made that there was a need to replace the bus lift in the school bus garage at a cost of \$215,000, based upon inspection from the DOT; the lift needed to be replaced immediately. Health and safety were determined as the cause for such action. We used fund balance to cover this expenditure rather than to borrow the funds.
- The Board of Education established a Repair Reserve Fund and approved to fund the reserve with a transfer from unappropriated fund balance in the amount of \$200,000. This reserve will enable the District to fund needed repairs to the District's property. A Building Condition Survey was presented to the Board of Education by the school architect earlier in the year. This survey identified work that needed to be accomplished on the District's property.
- The 2016-2017 budget presented to the taxpayers reflects a decrease in the tax levy of .74% or \$29,461 in accordance with the tax cap calculation.

The Superintendent with the assistance from the School Business Manager will continue to research options for the further use of fund balance and present any viable options to the Board of Education.

Audit Recommendation 2:

2. Adopt budgets with more realistic estimates based on prior year's actual results and anticipated operations to avoid raising more real property taxes than necessary.

Implementation Plan of Action:

As noted in your report, we have begun to improve our budgeting practices with more realistic estimates of revenues and expenditures.

The Board of Education, Superintendent, and the School Business Manager will continue to review prior year's results during the budget process for the next budget cycle. The District works to ensure that budget estimates are sufficient to cover expenses for special education programs, buildings and grounds, and transportation needs that may arise during the fiscal year. It is important to our District that unexpected and/or unanticipated needs can be addressed without compromising the needs of our students.

On behalf of the Board of Education and the administration of Milford Central School, I thank you for your time and efforts in this process.

Sincerely,

Peter N. Livshin  
Superintendent

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials regarding the District's process and procedures for budget development including the use of appropriated fund balance and budget monitoring. We interviewed District officials and reviewed documentation regarding the District's plans for the use of the excess unrestricted fund balance as of June 30, 2015.
- We compared the District's budgeted appropriations and estimated revenues with the actual results of operations to determine and follow up on any significant budget variances from July 1, 2012 through June 30, 2015.
- We compared the District's budgeted appropriations and estimated revenues for 2015-16 with the actual results of operations for the past three fiscal years (2012-13 through 2014-15) to determine the reasonableness of the 2015-16 budget.
- We analyzed the District's property tax levy for 2013-14 through 2015-16 to determine whether the District maximized the levy or raised unnecessary taxes.
- We calculated the unrestricted fund balances reported at fiscal year-end to the ensuing year's appropriations from 2012-13 through 2014-15, to determine whether the District's unrestricted fund balance was within the limit established by statute. We calculated the operating surplus or deficit from 2012-13 through 2014-15 and determined whether the District used the fund balance appropriated each year.
- We projected the results of operations for 2015-16 using actual revenues and expenditures as of April 2016 and projecting the remaining months through June 30, 2016. We used the results to determine whether the District used any of the fund balance appropriated and to recalculate the unrestricted fund balance percentage as of June 30, 2015.

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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