



Canton Central School District

Financial Condition

Report of Examination

Period Covered:

July 1, 2011 — March 31, 2013

2013M-287



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2013

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their district resources 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 costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Canton 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 Canton Central School District (District) is located in the Towns of Canton, Dekalb, Lisbon, Oswegatchie, Pierrepont and Potsdam in St. Lawrence County. The District is governed by the Board of Education (Board) which comprises nine elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for day-to-day District management under the Board's direction.

The District has an elementary school, a middle school and a high school on one campus, with approximately 1,350 students and 225 employees. The District's general fund budgeted expenditures for the 2012-13 fiscal year were approximately \$23.2 million, which were funded primarily with State aid, real property taxes and grants.

Objective

The objective of our audit was to review 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, 2011 through March 31, 2013. We extended our scope for certain financial data back to 2008-09 and forward through June 30, 2013 for trend analysis.

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 and Corrective Action

The results of our audit and our recommendation have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report.

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 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 is 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, 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 amount of fund balance retained at year end serves as a financial cushion for unexpected events and maintaining cash flow. District officials should monitor available fund balance to ensure it is not depleted to a stressed level.

An appropriation of fund balance is the use of unexpended resources from prior years to finance appropriations in the budget. This is an acceptable practice when a District has accumulated an adequate level of unexpended surplus funds. However, when a Board continuously appropriates fund balance, which results in a planned operating deficit¹ each year, it gradually depletes the unexpended surplus funds until there are none available to finance successive budgets, causing the Board to either increase revenues (e.g., property taxes) and/or decrease appropriations (e.g., services) to adopt structurally balanced budgets.

We reviewed budget-to-actual results for fiscal years 2009-10 through 2011-12 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 heavy reliance on appropriated fund balance as a financing source in the annual budgets has resulted in a significant reduction in the District's unexpended surplus funds.²

¹ A planned operating deficit occurs when a Board purposely adopts a budget in which expenditures are greater than anticipated revenues, with the difference to be funded with appropriated fund balance.

² The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, minus appropriated fund balance, amounts reserved for insurance recovery and tax reduction, and encumbrances included in committed and assigned fund balance (post-Statement 54).

From 2009-10 to 2011-12, the total fund balance in the general fund has been depleted by 44 percent, from \$5,696,396 to \$3,170,685, and the unexpended surplus fund balance has been depleted from \$1.9 million to just over \$730,000 (or 3.1 percent of District appropriations) in 2011-12.

Table 1: Fund Balance – General Fund			
	2009-10	2010-11	2011-12
Beginning Fund Balance	\$5,318,737	\$5,696,396	\$4,944,739
Revenues	\$23,037,006	\$22,044,196	\$20,921,468
Expenditures	\$22,659,347	\$22,795,853	\$22,695,522
Operating Surplus/(Deficit)	\$377,659	(\$751,657)	(\$1,774,054)
Year-end Fund Balance	\$5,696,396	\$4,944,739	\$3,170,685
Less: Fund Balance Appropriated for the Next Fiscal Year	\$1,345,660	\$1,756,963	\$1,206,600
Less: Restricted Fund Balance^a and Encumbrances^b	\$2,374,308	\$1,959,798	\$1,233,913
Unexpended Surplus Funds at Year End	\$1,976,428	\$1,227,978	\$730,172
<p>^a A planned operating deficit occurs when a Board purposely adopts a budget in which expenditures are greater than anticipated revenues, with the difference to be funded with appropriated fund balance.</p> <p>^b The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011, and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term “unexpended surplus funds” to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, minus appropriated fund balance, amounts reserved for insurance recovery and tax reduction, and encumbrances included in committed and assigned fund balance (post-Statement 54).</p>			

The District appropriated \$1,489,186 to help finance the 2013-14 budget, resulting in unexpended surplus funds of \$782,108 as of June 30, 2013. The unexpended surplus funds were 3.2 percent of the District’s ensuing year’s appropriations, which is within the 4 percent limit established by law. However, the District has appropriated an average of \$1.4 million each year over the last four years. If the results of operation are close to budgeted amounts for the 2013-14 fiscal year, the District will no longer have sufficient fund balance to finance the next year at this level. Consequently, it will need to replace fund balance as a financing source with recurring revenues and/or cut costs to balance future budgets.

The decline in the District’s financial condition was impacted by significant reductions in State and Federal aid. For example, State aid has decreased in each of the last three years, with an overall decrease of approximately \$2.5 million (16 percent) since the 2008-09 fiscal year.

Table 2: State Aid				
2008-09	2009-10	2010-11	2011-12	Total Decrease
\$15,120,911	\$14,096,590	\$13,397,508	\$12,657,021	(\$2,463,890)

The reductions in aid, in addition to increasing expenditures particularly related to employee benefits, have negatively impacted the District’s financial position. District officials, have taken some steps to address these financial concerns, including reducing total expenditures through staff reductions and program cuts. For example, since 2008-09, District officials have cut 55 positions. In addition, District officials calculated property tax cap limits and raised tax levies by the maximum amounts allowed by law without overrides.³ District officials have also prepared a multi-year financial plan that projects revenues and expenditures for the next three years to facilitate management of the District’s financial operations. District officials are in the process of studying reorganization in an effort to sustain operations and are currently studying a potential merger with the Potsdam Central School District.

Recommendation

1. District officials should reduce reliance on fund balance as a financing source and continue to evaluate and explore ways to cut costs and increase revenues.

³ 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 a 60 percent of the votes cast.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



CANTON CENTRAL SCHOOL DISTRICT

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CANTON, NEW YORK 13617
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December 5, 2013

Office of the State Comptroller
Division of Local Government and School Accountability
PSU—CAP Submission
110 State Street, 12th Floor
Albany, New York 12236

RE: Canton Central School District Audit Response and Corrective Action Plan

Unit Name: Canton Central School District
Audit Report Title: Canton Central School District Financial Condition, Report of
Examination, Period Covered: July 1, 2011-March 31, 2013
Audit Report #: 2013M-287

This correspondence is intended to serve as a combined Audit Response and Corrective Action Plan.

Audit Recommendation 1: District officials should reduce reliance on fund balance as a financing source and continue to evaluate and explore ways to cut costs and increase revenues.

Implementation Plan of Action: This recommendation is not practicable.

Canton Central School has been forced to use its fund balance as a financing source because it lacks the state aid needed to meet its statutory and moral obligations of providing a sound basic education to its students. With regard to the District continuing “to evaluate and explore ways to cut costs and increase revenues”, we have taken every measure available to us to try to balance the budget equation.

As noted in the report, we have eliminated over 25% of our faculty and staff and some curricular and extracurricular courses/programs since the advent of the Gap Elimination Adjustment and predecessor. What is not noted in the report is that there is nothing left to cut going forward: we are at the point where we cannot eliminate one more teaching position and put together a coherent master teaching schedule.

With voter approval, we have also levied taxes to the maximum level permitted by the tax cap legislation enacted by the state. Even if there were no tax cap, we could not tax our way out of the fiscal crisis facing us. We raise approximately \$80,000 in additional revenue for each 1% increase in our tax levy. To offset the \$9,170,411 reduction in state aid we have experienced via the GEA over the past five years, we would have had to increase taxes some 115%.

Personnel costs are the largest part of any school budget. Annual increases in Teacher and Employee Retirement Systems (TRS/ERS) costs, which have approached or exceeded 20% in recent years, are beyond District control. Lack of statewide collective bargaining reform continues to handcuff the District's efforts to manage costs as well.

This report clearly indicates that the Board of Education and administration of the Canton Central School District has efficiently and effectively managed the fiscal resources available to the school to support its educational mission. It is significant to note that despite the fiscal constraints faced by the District, our academic achievement has remained consistently high. In its most recent annual regional rankings of schools, the Buffalo-based publication *Business First* ranked Canton Central School District first among all North Country schools and number 8 among the 429 districts comprising *Business First's* "Achievement Index", which compares each district's academic performance with its socioeconomic rating. Canton Central also achieved a #3 ranking among the 33 school districts in Jefferson, Lewis, and St. Lawrence counties for overall academic performance based upon a formula that considers four years of state historical data and includes weights of 10% for graduation rate, 50% for performance on high school assessments, and 40% for performance on grades 3-8 assessments. We are also extremely proud of the fact that Canton's Hugh C. Williams Senior High School earned a gold medal in *U.S. News and World Report's* 2013 Best High Schools rankings of America's high schools. Rankings are determined through a quantitative methodology involving three factors: the performance of all of a school's students on state proficiency tests; the performance of a school's least advantaged students compared to similar students in the state; and the college-readiness performance of its students as measured using Advanced Placement or International Baccalaureate test data. Based on these criteria, Canton ranked 55 of 1,149 high schools in the state of New York, a top 5% ranking statewide, and 430 of 21,035 high schools in the United States, a top 2% ranking nationally. This is the second year running that our High School has made this prestigious list, having earned a silver medal in last year's rankings.

Canton Central School is a good school; with appropriate resources we can progress from "good" to "great". Accordingly, we welcome any specific, constructive and viable recommendations that would be within the District's power to effect.

In any event, it is a clear certainty that the District will not be able to sustain any level of acceptable academic performance going forward without direct, substantive, and timely assistance from the state. Succinctly stated, absent this relief, Canton Central School will not have the capacity to remain fiscally and educationally solvent as it enters the 2014-15 school year.

Implementation Date: Not Applicable

Person(s) Responsible for Implementation: Not Applicable

William A. Gregory
Superintendent

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the District's financial condition. Our procedures included the following:

- We reviewed the District's policies and procedures for developing and reporting information relevant to financial and budgeting activities. This included gaining information on the fiscal responsibilities of District officials.
- We interviewed District officials to determine what processes were in place and gain an understanding of the District's financial situation and budget.
- We reviewed bank statements and reconciliations to determine the cash balances as of June 30, 2012.
- We reviewed and analyzed the District's financial records and reports for all funds, including balance sheets, budget reports and statements of revenues and expenditures.
- We compared data from the District's annual financial reports from 2009-10 through 2011-12 to illustrate the changes in the District's revenues and expenditures, the use of fund balance and levels of State aid.
- We reviewed the District's multiyear financial plan.

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.

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