OFFICE OF THE NEW YORK STATE COMPTROLLER

DIVISION OF LOCAL GOVERNMENT
& SCHOOL ACCOUNTABILITY

Gananda Central School District

Financial Condition

Report of Examination

Period Covered:

July 1, 2012 — January 8, 2014

2014M-62

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

April 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 district's 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 district assets. Following is a report of our audit of the Gananda 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 Gananda Central School District (District) is located in the Towns of Macedon and Walworth in Wayne 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 and the Business Manager is the chief fiscal officer. They are responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There are three schools in operation within the District, with approximately 1,100 students and 120 employees. The District's budgeted expenditures for the 2013-14 fiscal year totaled $19,966,154, funded primarily with State aid, sales tax and real property taxes.

The District was originally established as part of a planned community. The intention was to become a City School District. However, when this did not occur, the District remained a Central School District, as originally created by New York State. The District covers six square miles with a population of approximately 4,000. The District's tax base is predominantly residential and there are limited opportunities to increase this base.[1]

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 moderate fiscal stress.[2] The following graph illustrates how the District's score compares to other school districts.

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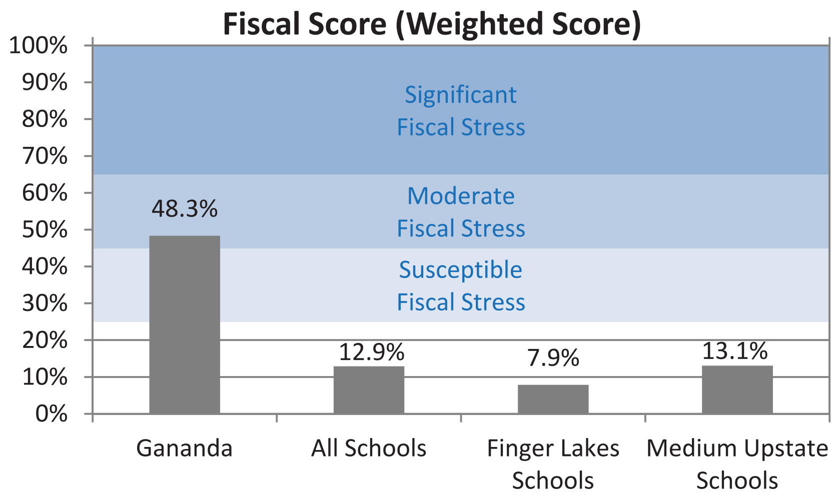
[1] See Table 2 for more information regarding the District's tax base.

[2] 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 as of June 30, 2013 was 48.3 percent. Additional information on the FSMS can be found at www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm.



The FSMS relies upon 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 District officials appropriately manage the District's financial condition?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2012 through January 8, 2014. We extended our scope for certain financial data back to the 2008-09 fiscal year 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 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 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 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 fund balance retained at year-end serves 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 as well as any excess unexpended funds. However, when a Board continuously appropriates fund balance, which results in a planned operating deficit[3] each year, it gradually depletes the unexpended surplus funds until there are none available to finance successive budgets, requiring the Board to either increase revenues (e.g., property taxes) and/or decrease appropriations (e.g., 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 and deteriorating financial condition. We found that the Board adopted budgets that limited tax increases[4] by balancing its budgets with appropriations of fund balance and reserves. As a result, by the end of the 2012-13 fiscal year, the District had approximately $2 million remaining in reserves, and unexpended surplus funds[5] of $461,000.[6]

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[3] 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.

[4] The District has remained within the constraints of the tax cap calculation since it was enacted into legislation.

[5] The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaced 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).

[6] The District is allowed to retain unexpended surplus funds of up to 4 percent of its next year’s budgeted appropriations, or $798,646 (4 percent of 2013-14 budget of $19,966,154), but instead retained 2 percent.

We reviewed budget-to-actual results for fiscal years 2010-11 through 2012-13 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 and reserves as financing sources in the annual budgets has resulted in a significant reduction in the District's unexpended surplus funds and reserve balances.

Table 1: Fund Balance – General Fund			
	2010-11	2011-12	2012-13
Beginning Fund Balance	$3,658,405	$3,404,795	$2,741,170
Revenues	$19,473,093	$18,725,839	$19,283,188
Expenditures	$19,726,703	$19,389,464	$19,535,427
Operating Surplus/(Deficit)	($253,610)	($663,625)	($252,239)
Year-end Total Fund Balance	**$3,404,795**	**$2,741,170**	**$2,488,931**
Less: Fund Balance appropriated for next year	$900,000	$500,000	$0
Less: Restricted Fund balance and encumbrances	$2,424,548	$2,239,393	$2,027,639
Year-end Unexpended Surplus Funds	$80,247	$1,777	$461,292
As percentage of next year's budget	0.41%	0.01%	2%

The District's total general fund balance declined by more than $915,000 (25 percent) over the three year period. The extensive use of fund balance in lieu of property tax increases to fill budget gaps has resulted in negligible unexpended surplus funds at year-end, which were well below the statutory limit of 4 percent of ensuing year's appropriations. The Board did not appropriate any fund balance to help finance the 2013-14 budget, which increased the reported unexpended surplus funds at June 30, 2013. However, the Board instead budgeted for the use of approximately $500,000 in reserve funds, which will reduce the District's reserve balances to approximately $1.3 million.[7]

The decline in the District's fund balance also affects the District's cash flow. The District's cash balance has dropped to about 31 percent of monthly expenditures. The FSMS indicates that the District's peer group, Finger Lakes Schools,[8] had cash balances totaling 313 percent of monthly expenditures. Consequently, the District will need to replace reserves and fund balance as a financing source with recurring revenues and/or cut costs to balance future budgets, and ensure adequate cash flow to pay bills throughout the year.

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7 If all of the reserve funds are used as budgeted during the 2013-14 fiscal year

8 The FSMS compares the District against the Finger Lakes Schools peer group, which includes 69 districts.

The decline in the District's financial condition was impacted by reductions in State and Federal aid while expenses such as retirement and health insurance grew substantially. For example, State and Federal aid has fluctuated between $10.1 million and $9.6 million, with an overall decrease of approximately $220,000 (2 percent) since the 2008-09 fiscal-year. Over this same period, expenditures, specifically those related to employee benefits, have increased more than $1 million (63 percent).

District officials have developed a multiyear financial plan which forecasts the District's financial operations, including both capital and operational requirements, for the next three years. The District's plan takes into consideration projected enrollment trends, current economic conditions, slight increases in State aid and the impact of the new property tax cap law on revenue projections. The plan also forecasts the increases in employee salary and benefit costs, including medical insurance and required contributions to the retirement systems. The Board also evaluates the establishment and future use of reserves in the plan, and analyzes trends in student population changes so that the future impact on programs should be anticipated. This well designed plan can assist the Board in making timely and informed decisions about the District's programs and operations. But the Board will still have significant decisions to make.

In the multiyear plan, District officials estimated that they will face a budget deficit of approximately $580,000 for each of the next three years, but indicated they will strive to minimize dependence on fund balance and reserves during those three years. District officials included a schedule in the plan that assumed the use of no unreserved fund balance and an average of less than $180,000 from reserves in each of the next three years, and estimated the District will have a combined reserve and fund balance total of approximately $1.3 million at the end of 2016-17, which is a $1.2 million decrease from 2012-13. However, the Board has not yet determined what budget changes it will make to offset the fund balance appropriations relied upon in prior years. If the Board does not reduce expenditures significantly, or increase the property tax levy, the District's fund balance and reserves will likely be depleted before the end of 2016-17.

District officials have been considering various options[9] to potentially improve the District's fiscal position. They surveyed District residents prior to completing the 2013-14 budget to determine what is most important to District residents. Residents indicated that class size and advanced course work are two of the most important District offerings,

[9] They have implemented some cost savings measures to date including moving the District office and reducing bus runs, but a significant budget gap remains.

and that they would be willing to pay higher taxes to maintain these services.[10] Due to the small geographical size of the District, there is limited opportunity for additional residential or commercial development. Therefore, any tax increases must be directly absorbed by current residential taxpayers. The District's tax rate is currently one of the highest in the State.[11] Table 2 illustrates the limited growth of the District's tax base.

Table 2: Fair Value of the District's Property Assessments

Town	2009-10	2010-11	2011-12	2012-13	2013-14	Percent Change
Macedon	$143,804,265	$149,290,938	$151,614,855	$152,862,607	$152,738,133	6.21%
Walworth	$147,680,487	$148,534,368	$148,238,204	$146,397,716	$146,764,691	(0.62)%
Total	**$291,484,752**	**$297,825,306**	**$299,853,059**	**$299,260,323**	**$299,502,824**	**2.75%**

In addition to the resident survey, the Board has also been conducting monthly "due diligence" meetings. During these meetings, District officials are discussing all possible options to improve their fiscal position. They have reviewed revenue enhancement possibilities as well as cuts to expenditures. Some of the topics that have been reviewed include merging with another district, closing a building, reducing transportation, cutting sports or advance placement programs and maintaining the minimum requirements for art and music. However, the Board has yet to make any major decisions about how to close this budget gap.

District officials have calculated property tax cap limits and determined the annual tax levies without overrides.[12] In future years, the Board will be developing budgets that may need to assume little change in government aid and may be increasingly dependent on local taxes. The lack of available unexpended surplus funds limits the District's financial flexibility in the future.

We commend District officials for their continuous efforts in closely monitoring financial operations and evaluating numerous options to close the District's budget gaps, including surveying taxpayers and

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[10] About 55 and 52 percent of residents stated that they would be very supportive of tax increases to maintain these services, while 35 and 36 percent indicated that they would be cautiously supportive of tax increases.

[11] In 2013-14, the District's tax rate was $30.785 per $1,000.

[12] 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.

developing a multiyear financial plan. Through these steps, the Board has identified that taxpayers are generally willing to pay higher taxes if necessary to maintain current service levels and has agreed on a goal of reducing or eliminating the reliance on fund balance and reserves to fill budget gaps. However, the Board must soon make concrete decisions regarding specific cost decreases or property tax increases in order to implement its plan to reduce its reliance on fund balance and reserves to finance annual operations.

Recommendation

1. The Board and District officials should take appropriate steps to establish and maintain the District's financial stability. These decisions will need to include significant decreases in expenditures or increases in real 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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Matthew C. Mahoney, Principal
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Tony Morabito
Director of Buildings and Grounds

Tim Page
Supervisor of Special Education

John Tichacek
Director of Athletics
Supervisor of Health, PE and Community Partnership

March 20, 2014

Mr. Edward V. Grant, Jr.
Chief Examiner
Division of Local Government and School Accountability
110 State Street
Albany, New York 12236

Dear Mr. Grant:

The Gananda Central School District is in receipt of the draft audit report, Financial Condition for the period July 1, 2012 – January 8, 2014. The District has thoroughly reviewed the draft audit report and agrees with the recommendations. This letter will serve as our official response and will also serve as the corrective action plan.

The District would like to reiterate the extenuating circumstances that have lead Gananda to its current precarious financial condition. In 2010, Governor Patterson implemented the Gap Elimination Adjustment. While New York State's funding formula called for Gananda to receive $8,635,074, the state aid to be paid to the district was reduced by $1,165,826. The practice of the Gap Elimination Adjustment, while intended as a one year solution, has continued to the present budget year resulting in $4,561,882 in lost revenues. This fiscal policy is the single greatest contributing factor to the District's current financial predicament.

During the intervening 4 years the district did indeed "…adopt budgets that limited tax increases." This was done in recognition of the fiscal stressors placed upon the residents of the district and in compliance of New York State's tax levy limit.

To work within the revenue constraints placed upon the district by New York State the District did indeed seek additional efficiencies by:

- Reducing staffing,
- Outsourcings services to BOCES,
- Sharing staff with other districts,
- Refinancing debt,
- Renegotiating Employee Benefits,
- Delaying capital improvements, and
- Participating in large consortiums to obtain economies of scale.

Unfortunately these actions were not sufficient to eliminate the budget deficits. Consequently, the District was forced to choose between cutting programs, raising taxes or utilizing reserves. To understand our response to the crises one must understand that financial decisions are made in support of our mission to "…provide each student with the opportunities and experiences that develop knowledge, character and unique abilities, serving as the foundation for life-long success." Recognizing that eliminating student programs would hinder our student's ability to find success and compete in a global marketplace the District focused on moderate tax increases and the utilization of reserves to eliminate the budget deficits.

I appreciate the commendation for our efforts to monitor our financial operations and investigations of alternatives to close the budget deficits. As you have noted we have taken significant steps to plan for the future and identify opportunities to ensure our fiscal status improves. Therefore, let this response be our official Corrective Action Plan:

Audit Recommendation: The Board and District officials should take appropriate steps to establish and maintain the District's financial stability. These decisions will need to include significant decreases in expenditures or increases in real property taxes.

Implementation Plan of Action: District Officials reduced their reliance on usage of fund balance as a financing source beginning with the 2013-14 school. The District will continue efforts to reduce reliance on reserves in the 2014-15 school year, with the elimination of this practice for the 2015-16 school year.

To these ends the following are planned:

- The superintendent will present to the Board of Education, by August 15, 2014, a proposal to move the sixth grade to the Elementary school for the 2015-16 school year.
- The district's facilities committee will continue a review of future capital improvements as an opportunity to move seventh and eighth grade to another building, eliminating the current middle school. This would provide significant savings in staffing and utilities costs.
- The district will continue to advocate for the elimination of the GEA and a restoration of funding for the district.
- The district will consider exceeding the Tax Levy Limit as implied by the auditors.

Implementation Date: July 1, 2014

Person Responsible for Implementation: Board of Education, Superintendent and School Business Administrator.

The Gananda Central School District would like to thank the auditors for their professionalism and fairness during the audit and the exit conference. We would also like to thank the NYS Comptroller's Office for conducting the review of our financial conditions. The District will utilize the recommendations as a resource to effectively manage operations and will continue to work diligently to build the district's fund balance while continuing to provide a quality education for our students and safeguard the interests of the taxpayers.

Sincerely,

Shawn Van Scoy, Ed.D.
Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- 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 the minutes of the Board meetings from July 1, 2012 through December 13, 2013 for significant activity related to the District's financial position.

- We compared data from the District's annual financial reports from 2008-09 through 2012-13 to illustrate the changes in the District's revenues and expenditures, the use of fund balance and levels of State and Federal aid.

- We reviewed the District's adopted budgets and budget to actual reports for 2008-09 through 2013-14 for reasonable estimates.

- We reviewed the District's use of reserves for 2012-13.

- We reviewed the District's multiyear financial plan.

- We reviewed the District's tax cap calculation for 2014.

- We reviewed bank statements and the related reconciliation for November 2013.

We conducted this performance audit in accordance with generally accepted government auditing standards (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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