



New Paltz Central School District Financial Condition

Report of Examination

Period Covered:

July 1, 2012 — November 30, 2013

2014M-38



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of District Officials and Corrective Action	3
FINANCIAL CONDITION	5
Recommendations	6
APPENDIX A Response From District Officials	7
APPENDIX B Audit Methodology and Standards	10
APPENDIX C How to Obtain Additional Copies of the Report	11
APPENDIX D Local Regional Office Listing	12

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 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 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 New Paltz 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 New Paltz Central School District (District) is located in portions of the Towns of New Paltz, Gardiner, Rochester, Shawangunk, Lloyd and Plattekill in Ulster 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 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 Assistant Superintendent for Business is responsible for monitoring the District's financial operations and overseeing Business Office operations. The District operates four schools with approximately 2,200 students and 440 employees. The District's budgeted general fund appropriations for the 2013-14 fiscal year were approximately \$52 million, funded primarily with State aid, real property taxes and grants.

Objective

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

- Do the Board and District officials establish accurate and realistic budgets and effectively manage the District's fund balance?

Scope and Methodology

We examined the District's financial condition for the period of July 1, 2012 through November 30, 2013. We also reviewed selected financial information for the period of July 1, 2010 through June 30, 2012 to analyze 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 is 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 indicated that they have taken or plan to take corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to 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 that are in the best interests of the District, the students it serves and the taxpayers who fund the District's programs and operations. Sound budgeting practices based on accurate estimates, coupled with prudent fund balance management, ensure that sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations of future expenditures. Accurate budget estimates also help ensure that the levy of real property taxes is not greater than necessary. It is also important that the Board have a policy that specifies a minimum amount of unrestricted, unappropriated fund balance that the District should maintain to remain stable in case of unanticipated events.

Although the Board believed it was effectively managing the District's financial condition, budgeting decisions to reduce the unrestricted, unappropriated fund balance from fiscal years 2010-11 through 2012-13 have made the District susceptible to fiscal stress. The Board consistently balanced its budgets by appropriating unrestricted fund balance, a non-recurring source of funding. As a result, by the end of the 2011-12 fiscal year, the District had an unrestricted unappropriated fund balance of \$6,309, or .01 percent of the ensuing year's budget. This left the District with little cash on hand at the end of the fiscal year and very little financial cushion for managing unforeseen events.

In the 2012-13 fiscal year, the Board took necessary steps to improve the District's financial condition. In an effort not to raise taxes, the Board had previously directed the Assistant Superintendent for Business to reduce the fund balance to as close to zero as possible. The current Board has directed District officials to take measures to increase the District's fund balance. In the 2012-13 fiscal year, District officials reduced expenditures by \$1.7 million from the original budget. However, the District did not realize all of its estimated revenues, resulting in a revenue shortfall of approximately \$680,000. The District therefore had an operating surplus of almost \$1.1 million in fiscal year 2012-13, which increased its unrestricted unappropriated fund balance to \$1,006,094, as detailed in Table 1. While the District's amount of unrestricted, unappropriated fund balance has increased, it is still less than 2 percent of the ensuing year's budget. As such, the District can benefit from having a greater amount of unrestricted, unappropriated fund balance in the event of an emergency or unforeseen event.

Table 1: Fund Balance

	FY 2010-11	FY 2011-12	FY 2012-13
Beginning Fund Balance	\$5,659,936	\$3,996,305	\$3,348,784
Prior Period Adjustment		\$1,964	(\$10,000)
Revenues	\$46,597,866	\$48,065,902	\$49,627,741
Expenditures	\$48,261,497	\$48,715,387	\$48,545,538
Operating Surplus/(Deficit)	(\$1,663,631)	(\$649,485)	\$1,082,203
Year-End Fund Balance	\$3,996,305	\$3,348,784	\$4,420,987
Unrestricted, Unappropriated Fund Balance	\$322,488	\$6,309	\$1,006,094
Ensuing Year's Budgeted Appropriations	\$50,260,000	\$50,310,000	\$52,250,000
Unrestricted Unappropriated Fund Balance as a % of the Ensuing Year's Budgeted Appropriations	0.642%	0.013%	1.926%

District officials told us that the Board has tried to recover from previous decisions to use fund balance to offset real property taxes. While a reduced tax levy benefits taxpayers in the short term, fund balance should not be depleted to the point that there is insufficient cash available for managing potential unforeseen events. Although the District does have a fund balance policy, it does not address the minimum amount of unrestricted, unappropriated fund balance that the District should maintain to remain stable in case of unanticipated events.

Recommendations

1. The Board should revise its current fund balance policy to specify the minimum amount of unrestricted, unappropriated fund balance that the District should retain.
2. The Board should take the necessary steps to increase the amount of unrestricted, unappropriated fund balance the District retains to provide for a financial cushion in the event that unforeseen expenses should arise.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

April 24, 2014

Electronic Address: caps@osc.state.ny.us

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

Unit Name: New Paltz Central School District
Audit Report Title: Financial Condition Report of Examination
July 1, 2012 through November 30, 2013
Audit Report Number: 2014M-038

For each of the two recommendations included in the audit report, the following is our corrective actions taken or proposed.

Audit Recommendation 1.0:

The Board should revise its current fund balance policy to specify the minimum amount of unrestricted unappropriated fund balance that the District should retain.

Implementation of Plan of Actions:

- Policy # 5512, Fund Balance Policy will be sent to the Board's Policy Committee on April 30, 2014 for review and revision based on the above recommendation.
- The revised policy will recommend that a fund balance be stabilized no less than 2% and no greater than 4%.
- The revised policy will be sent to the full Board for a first reading on May 7, 2014.
- A second reading and subsequent approval of the revised policy will take place at the BOE meeting on May 21, 2014.

Implementation Date:

The revised Fund Balance Policy #5512 will be implemented following adoption by the Board on May 21, 2014 and will be incorporated into the budgeting process from that point forward (see Audit Recommendation 2.0 and subsequent implementation of Plan of Action).

Person Responsible for Implementation:

1. The person responsible for the Policy review and revision is the Board's Policy Committee.
See the process for revising the policy below:

- BOE Policy Chair will facilitate the revisions to Policy #5512 on April 30, 2014.
 - The BOE Policy Committee, which includes the Superintendent, will make revisions to the policy on April 30, 2014.
 - The Superintendent will provide the revised Fund Balance Policy #5512 to the District Clerk on May 1, 2014 for inclusion on the May 7, 2014 BOE agenda.
 - The Board of Education will conduct a first reading of the revised Fund Balance Policy #5512 during the public session of the meeting of the Board on May 7, 2014.
 - The Board of Education will conduct a second reading and subsequent approval of the revised Fund Balance Policy #5512 during the public session of the meeting of the Board on May 21, 2014.
 - The District Clerk will include the newly adopted Fund Balance Policy #5512 into the district's Policy manual thereby posting the new policy on the district's website.
 - The Board of Education, Superintendent, and Assistant Superintendent for Business will implement the policy after its approval on May 21, 2014.
2. The full Board will be responsible for approving the revised policy as outlined above.
 3. The Superintendent, Assistant Superintendent, and Board of Education will be responsible for implementing the policy as written.

Audit Recommendation 2.0:

The Board should take the necessary steps to increase the amount of unrestricted unappropriated fund balance the District retains to provide for a financial cushion in the event that unforeseen expenses should arise.

Implementation of Plan of Actions:

The district has modified the budget philosophy on budgeting revenues. The old philosophy (2008-2012) had been to intentionally over budget revenues to decrease the fund balance. The new philosophy (stated with the 2012-2013 budget) is to budget revenues in a more conservative manner. Over time, this will increase the fund balance and provide a financial cushion in the event that unforeseen expenses should arise.

Implementation Date:

This change in philosophy was started with the 2012-2013 budget year. The implementation of this change in philosophy resulted in an increase in the fund balance by June 30, 2013.

Person Responsible for Implementation:

The Assistant Superintendent for Business with approval from the Superintendent and Board of Education will be responsible for implementing the new philosophy via the construction and implementation of the budget.

Signed:

 Maria C. Rice
 Superintendent

Date

04-24-2014

C: Members, Board of Education
 New Paltz Central School District Clerk
 Richard Linden, Assistant Superintendent for Business

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates local governments and school districts based on financial and environmental indicators. These indicators are calculated using the District's ST-3¹ and information from the United States Census Bureau, New York State Department of Labor and the New York State Education Department (SED), among other sources. The District has demonstrated signs of fiscal stress in several areas. Due, in part, to these fiscal stress indicators, we selected the District for audit.

Our overall goal was to assess the District's financial condition and identify areas where the District could realize efficiencies and protect assets from loss or misuse. To accomplish this, our initial assessment included a comprehensive review of the District's financial condition.

To achieve our financial condition objective and obtain valid audit evidence, 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. 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 condition and budget.
- 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 reviewed the District's draft of its multiyear financial and capital 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.

¹ Required to be submitted annually by the District to SED and the Office of the State Comptroller via the State Aid Monitoring System

APPENDIX C

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