Office of the New York State Comptroller

Division of Local Government
& School Accountability

Tupper Lake Central School District

Financial Condition

Report of Examination

Period Covered:

July 1, 2011 — April 30, 2014

2014M-151

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

August 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 Tupper Lake 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

State of New York
Office of the State Comptroller

EXECUTIVE SUMMARY

The Tupper Lake Central School District (District) is located in the Town of Tupper Lake in Franklin County and the Towns of Colton and Piercefield in St. Lawrence County. The District is governed by the Board of Education (Board) which comprises five 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 the day-to-day management of the District under the Board's direction.

The District's budgeted expenditures for the 2013-14 fiscal year were $17 million, which were funded primarily with State aid and real property taxes.

Scope and Objective

The objective of our audit was to review the District's financial condition for the period July 1, 2011 through April 30, 2014. Our audit addressed the following related question:

- Does the Board adopt realistic budgets that are structurally balanced and take appropriate actions to maintain the District's fiscal stability?

Audit Results

The Board adopted budgets for the general fund that were not structurally balanced, because the Board routinely relied on significant amounts of appropriated fund balance to finance operations. The Board also did not adopt a policy establishing the level of unassigned fund balance that should be maintained to prepare for any unanticipated expenditures or revenue shortfalls. As a result, for the 2011-12 through 2012-13 fiscal years the general fund incurred operating deficits totaling more than $934,000, unassigned fund balance declined by 98 percent and cash balances declined by 47 percent. Further, at the end of each fiscal year 2010-11 through 2012-13, the general fund's cash balance was so depleted that District officials did not have sufficient cash to pay bills and other obligations when due. As a result, District officials annually issued short-term debt to finance operations.

The District's financial condition could decline further in the future because the Board continues to adopt budgets that are not structurally balanced. If the 2014-15 fiscal year's actual revenues and expenditures mirror the budget, the District will have limited unassigned fund balance as of June 30, 2015. If these trends continue, the District will incur fiscal instability that will negatively affect future District operations.

Finally, the District's school food service fund was not self-sufficient and required subsidies from the general fund through interfund transfers and advances. At the end of the 2012-13 fiscal year, the school food service fund owed the general fund accumulated advances of more than $167,000, which were not repaid by the end of the fiscal year, as required.[1] At the end of 2012-13, this fund experienced an operating deficit of more than $94,000, resulting in an ending fund balance deficiency of about $84,000. As a result, the school food service fund continues to rely on the general fund to cover operating expenses, which also contributed to the general fund's declining financial condition.

Comments of District Officials

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 have initiated, or indicated they planned to initiate, corrective action.

[1] New York State General Municipal Law (GML) allows the District to temporarily advance moneys held in one fund to another fund. Interfund advances are intended to address short-term cash-flow needs of operating funds and are, in effect, short-term borrowing arrangements between the operating funds. Repayment of the borrowed cash must be made as soon as moneys are available, but no later than the close of the fiscal year in which the advance was made.

Introduction

Background

The Tupper Lake Central School District (District) is located in the Town of Tupper Lake in Franklin County and the Towns of Colton and Piercefield in St. Lawrence County. The District is governed by the Board of Education (Board) which comprises five 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 other administrative staff, for the day-to-day management of the District under the Board's direction. The Business Manager is responsible for accounting for all District funds and preparing financial reports for the Board.

The District operates two schools with approximately 790 students and 170 employees. The District's budgeted expenditures for the 2013-14 fiscal year are $17 million, which are funded primarily with State aid and real property taxes. The District operates two cafeterias which offer breakfast and lunch to students and employees on school days.

Fiscal stress is a judgment about the financial condition of an individual entity that must take into consideration the entity's unique circumstances, but can be generally defined as a school district's inability to generate sufficient revenues within a fiscal year to meet expenditures. The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates school districts, based on both financial and environmental indicators, to determine if school districts are in or nearing fiscal stress. The District has been classified as being in significant fiscal stress.

Objective

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

- Does the Board adopt realistic budgets that are structurally balanced and take appropriate actions to maintain the District's fiscal stability?

Scope and Methodology

We examined the District's financial records for the period July 1, 2011 through April 30, 2014.

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 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 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

Financial condition may be defined as a school district's ability to balance recurring expenditure needs with recurring revenue sources, while providing desired educational services on a continuing basis. A school district in good financial condition can consistently generate sufficient revenues to finance anticipated expenditures and maintain sufficient cash flow to pay bills and other obligations when due, without relying on short-term borrowings. Conversely, a school district in fiscal stress usually struggles to balance its budget, has limited resources to finance future needs and has minimal cash available to pay current liabilities when due.

The Board and District officials are responsible for the financial planning and management necessary to maintain the District's fiscal health. As such, an essential component of the Board's and District officials' duties and responsibilities is to make sound financial decisions that are in the District's and taxpayers' best interests. This responsibility requires Board members and District officials to balance the level of educational services desired and expected from District residents with the ability and willingness of the residents to pay for such services. To maintain good fiscal health, it is essential that the Board adopt realistic and structurally balanced budgets, manage both fund balance and cash balance levels and identify and adjust to long-term challenges. Finally, while the Board may make interfund advances, the money must be repaid by year-end as required by New York State General Municiple Law (GML).[2]

The Board-adopted budgets for the general fund were not structurally balanced, because the Board routinely relied on significant amounts of appropriated fund balance to finance operations. The Board also did not adopt a policy establishing the level of unassigned fund balance that should be maintained to prepare for any unanticipated expenditures or revenue shortfalls. As a result, for the 2011-12 through 2012-13 fiscal years, the general fund incurred operating deficits totaling more than $934,000, unassigned fund balance declined by 98 percent and cash balances declined by 47 percent. Further, at the end of each fiscal year 2010-11 through 2012-13, the general fund's cash balance was so depleted that District officials did not have sufficient

[2] GML allows the District to temporarily advance moneys held in one fund to another fund. Interfund advances are intended to address short-term cash-flow needs of operating funds and are, in effect, short-term borrowing arrangements between the operating funds. Repayment of the borrowed cash must be made as soon as moneys are available, but no later than the close of the fiscal year in which the advance was made.

cash to pay bills and other obligations when due. As a result, District officials annually issued short-term debt to finance operations.

The District's financial condition could decline further in the future because the Board continues to adopt budgets that are not structurally balanced. If the 2014-15 fiscal year's actual revenues and expenditures mirror the budget, the District will have limited unassigned fund balance as of June 30, 2015. If these trends continue, the District will incur fiscal instability that will negatively affect future District operations.

Finally, the District's school food service fund was not self-sufficient and required subsidies from the general fund through interfund transfers and advances. At the end of 2012-13, the school food service fund owed the general fund accumulated advances of more than $167,000, which were not repaid by the end of the fiscal year, as required. At the end of 2012-13, this fund experienced an operating deficit of more than $94,000, resulting in an ending fund balance deficiency of about $84,000. As a result, the school food service fund continues to rely on the general fund to cover operating expenses, which also contributed to the general fund's declining financial condition.

General Fund

One of the key measures of a school district's financial condition is its fund balance, which is the difference between revenues and expenditures accumulated over time. It is the District officials' responsibility to ensure that the level of fund balance maintained is sufficient to provide adequate cash flow, but not so excessive as to withhold funds that could be put to productive use. A continual decline in unassigned fund balance is an indicator of a district's deteriorating financial condition. To help District officials manage financial operations and ensure continued orderly District operations, the Board should adopt a policy establishing an acceptable level[3] of unassigned fund balance to be maintained. When District officials follow such a policy during the budgeting development process, officials can better prepare for unanticipated expenditures or revenue shortfalls.

While fund balance can be appropriated in the budget to help finance operations, consistently doing so – instead of planning to use recurring revenue sources – can deplete fund balance to levels that are not sufficient for unanticipated contingencies and current cash flow. A school district is considered to have a sound cash position when it routinely has sufficient cash to pay its bills and other obligations

[3] New York State Real Property Tax Law currently limits unassigned fund balance to no more than 4 percent of the ensuing fiscal year's budget.

when due without needing to rely on short-term borrowings. At a minimum, the District should have enough available cash to pay its bills, meet payroll and pay any other required disbursements for a 30- to 60-day period. When a fund does not have sufficient cash to meet its current obligations, district officials are often forced to explore alternatives such as obtaining interfund advances or other authorized short-term borrowing options.

<u>Declining Fund Balance</u> – The District's total general fund balance decreased by $970,200 or approximately 40 percent over the last two fiscal years, from nearly $2.5 million at the start of the 2011-12 fiscal year to about $1.5 million at the end of the 2012-13 fiscal year. More importantly, unassigned fund balance decreased by more than $1.2 million or approximately 98 percent over this same period, from about $1.2 million to a dangerously low level of $24,478. The substantial decline in fund balance was primarily the result of the Board appropriating significant amounts of fund balance as a financing source to support operations during the 2011-12 through 2013-14 fiscal years.

Table 1: General Fund – Fund Balance

	2011-12	2012-13
Beginning Fund Balance	$2,470,296	$2,103,913[a]
Operating Surplus/(Deficit)	($330,547)	($603,817)
Year-End Fund Balance	$2,139,749	$1,500,096
Less: Nonspendable Fund Balance	$0	$19,030
Less: Restricted Fund Balance	$775,967	$746,588
Less: Assigned Fund Balance (Appropriated)	$410,000	$710,000
Unassigned Fund Balance at Year-End	$953,782	$24,478

[a] The difference between the beginning fund balance and prior year-end fund balance is due to a prior year adjustment.

For the 2011-12 and 2012-13 fiscal years, the Board adopted general fund budgets that resulted in no significant budget variances between the total amounts budgeted and actual revenues and expenditures. However, the Board budgeted for planned operating deficits[4] in both fiscal years by appropriating fund balance to help finance the budgets each year. The amount of combined fund balance appropriated to fund these years' operations totaled $820,000.[5] As a result, the District experienced combined operating deficits totaling $934,364 in those same years, which resulted in the decline in unassigned fund balance.

[4] A planned operating deficit occurs when the Board intentionally adopts a budget in which estimated revenues are less than budget appropriations, with the difference to be funded with appropriated fund balance and/or reserves.

[5] Both the 2011-12 and 2012-13 budgets included $410,000 of appropriated fund balance to finance operations.

We also found that the actual operating deficit incurred during 2012-13 exceeded the planned operating deficit by nearly $194,000. This occurred because the District did not receive about $157,500 in revenues that were estimated in the budget[6] and because expenditures exceeded budget appropriations by about $36,200. A more significant operating deficit was avoided because the Business Manager reclassified an $85,000 interfund transfer (expenditure) from the general fund to subsidize school food service fund operations during the 2012-13 fiscal year. Instead, this amount was recorded as an interfund advance to the school food service fund, which resulted in an $85,000 interfund receivable recorded in the general fund. However, based on the school food service fund's financial condition, the advance will likely not be able to be repaid to the general fund. Thus, at the end of the 2012-13 fiscal year, the fund balance of the general fund was likely overstated by $85,000. Without the Business Manager's reclassification, the District would have incurred an operating deficit of more than $688,000. This would have resulted in an unassigned fund balance deficiency of about $60,500[7] at the end of the 2012-13 fiscal year.

The Board's failure to adopt a fund balance policy that establishes the level of unassigned fund balance to be maintained and the over-reliance on appropriated fund balance as a financing source from 2011-12 through 2013-14 contributed to a significant decrease in the unassigned fund balance. The depletion of unassigned fund balance resulted in constraints on the District's financial flexibility.

<u>Cash Balance and Short-Term Debt</u> – While short-term borrowing such as revenue anticipation notes (RANs)[8] may be used to alleviate temporary cash flow shortages, RANs should not be routinely relied upon to finance District operations. The general fund's cash balance[9] decreased from $838,450 at the beginning of the 2011-12 fiscal year to $441,273[10] at the end of the 2012-13 fiscal year or 47 percent. In addition, the general fund's cash balance was so depleted at the end of each fiscal year that District officials issued RANs to address cash flow shortages. Specifically, the District issued RANs for about $1.5 million in June 2011, $950,000 in June 2012 and $995,000 in

6 Overestimated State Aid of $110,608 and Medicaid reimbursements of $57,684 contributed to the revenue shortfall.

7 The recorded unassigned fund balance of $24,478 at the end of 2012-13 less the $85,000 interfund transfer

8 A RAN represents a temporary source of cash borrowed in anticipation of the pending collection or receipt of certain specific revenues other than real property taxes estimated in the annual budget. The District issued the RAN in anticipation of State Aid.

9 For our analysis, we used the general fund's cash balances recorded as unrestricted and did not include cash received from issuing the RANs.

10 The $441,273 cash balance represented 2.6 percent of the 2013-14 general fund adopted budget appropriations.

June 2013. As a result, the District incurred combined debt-related expenditures for issuance fees and interest totaling more than $27,000 over the last three fiscal years (approximately $11,800 in 2010-11, $7,000 in 2011-12 and $8,200 in 2012-13).

Had District officials maintained healthier cash balances, sufficient resources may have been available to sustain operations and there might not have been a need to issue short-term debt. If District officials do not take action to improve the cash-flow situation, the District's cash position will deteriorate further, resulting in continued cash-flow shortages and a reliance on increasing levels of short-term debt to finance operations.

<u>2013-14 and 2014-15 Budgets</u> – The Board and District officials attempted to improve the District's financial condition by presenting the voters with a proposed 2013-14 budget totaling $17.23 million and a real property tax levy of about $7.9 million.[11] The proposed tax levy exceeded District official's calculated tax levy limit[12] by about $262,700. District voters did not approve the proposed 2013-14 budget by the necessary margin. Based on District officials' inability to override the tax levy limit with its original proposed budget, a revised 2013-14 proposed budget totaling nearly $17.0 million and a real property tax levy of $7.59 million was prepared and resubmitted for voter approval. The revised budget did not exceed the tax levy limit and was subsequently approved by the voters. District officials eliminated and reduced staff positions and programs in the revised 2013-14 budget,[13] which reduced expenditures for salaries by approximately $360,000.

The 2014-15 voter-approved budget totaled $16.86 million[14] and included a $7.67 million tax levy, which was less than the District officials' calculated tax levy limit. This year's budget included reduced expenditures by eliminating or reducing staff positions and filling vacant positions created by staff retirements with new employees

[11] This represented an 8.35 percent increase over the 2012-13 fiscal year tax levy of about $7.31 million.

[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. 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.

[13] The District eliminated five teaching positions and a speech provider, reduced the Superintendent's secretary to part-time and eliminated junior varsity sports, elementary school basketball and six extra-classroom activities.

[14] This represents a 1.06 percent increase over the 2013-14 fiscal year.

hired at reduced salaries.[15] Staff reductions resulted in reduced salary expenditures of approximately $240,000.

We reviewed the District's adopted 2013-14 budget and the proposed 2014-15 budget, prior to voter approval, to determine whether budget estimates were reasonable based on historical data, supporting source documents and actual results of operations through the end of our audit period, as well as whether the budgets were structurally balanced. We found that both years' budgets included estimated revenues that were reasonable and budget appropriations that overall were financially conservative. However, the 2013-14 budget was not structurally balanced because the Board appropriated fund balance and reserves totaling $910,000[16] as a financing source to support operations. District officials indicated that for $410,000 of appropriated fund balance the Board intentionally overestimated budget appropriations by this same amount to retain appropriated fund balance. During our review of the District's 2013-14 budget, we verified that budget appropriations were overestimated. For example, we projected that the District will not incur contractual expenditures totaling approximately $295,000 for programs for students with disabilities, electricity, heating fuel, diesel fuel and unleaded gasoline. Further, we projected that the District will not incur expenditures totaling approximately $400,000 for the New York State and Local Retirement System, the New York State Teachers' Retirement System and employee health insurance.

We also question why the 2013-14 budget did not include a budget appropriation for an interfund transfer to the school food service fund. District officials were aware that the school food service fund would not be self-sufficient during the 2013-14 fiscal year and would require a subsidy from the general fund to finance food service operations. In addition, the District incurred expenditures totaling $52,781 that were not included in the 2013-14 budget. These payments were made for the emergency replacement of a broken bus lift at the bus garage. As a result, although we project that the District will not use all of the appropriated fund balance because of their intentional overestimation of appropriations, the District will use a portion of the appropriated fund balance, which will cause the District's financial condition to further decline during the 2013-14 fiscal year.

We met with the Superintendent, Business Manager and Board President in early March 2014 and indicated that the Board should

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15 The District will eliminate a teaching position and a librarian, eliminate the Athletic Director's secretary half-way through the fiscal year, reduce a teaching assistant position to a teacher aide and replace two retiring teaching positions with new employees at reduced salaries.

16 The Board-adopted budget for the 2013-14 fiscal year included appropriated fund balance totaling $710,000 and appropriated reserves totaling $200,000.

discontinue the budgetary practice of appropriating fund balance as a means to finance recurring expenditures. However, District officials continued the budgetary practice of relying on fund balance to finance recurring expenditures while developing the 2014-15 budget, because the Board appropriated $410,000 of fund balance as a financing source to support operations. District officials indicated that they again intentionally overestimated budgeted appropriations by the same amount to retain the appropriated fund balance.

While we determined that the 2014-15 budget appropriations overall were financially conservative, if actual 2014-15 revenues and expenditures mirror the amounts budgeted, District officials will use all $410,000 of appropriated fund balance and the District will have limited unassigned fund balance left as of June 30, 2015. District officials should closely monitor the general fund's operations during the 2014-15 fiscal year and make any adjustments that are necessary to prevent a further decline in the general fund's financial condition.

In addition, the Board should not adopt budgets that include intentionally overestimated budget appropriations and appropriated fund balance that will not be used. Doing so resulted in the District's unassigned fund balance being understated and the District's financial condition appearing worse than it actually was. Furthermore, to make an informed decision prior to voting on the District's budgets, taxpayers should be presented with budgets that are developed in a transparent manner. Budgets with intentionally overestimated appropriations and the means to finance them deprive the public of transparency and knowledge about the Board's financial plans for the District.

School Food Service Fund

The District's school food service fund is a special revenue fund used to account for the District's food service operations. The fund's intent is that the cost of providing food services on a continuing basis be financed and recovered primarily through food sales and corresponding State and Federal aid. If this fund is not self-sufficient, District officials must rely on the general fund to subsidize food service operations and maintain fiscal stability through interfund transfers or advances. The Board may authorize an annual interfund transfer that is not required to be repaid. However, in the case of an interfund advance, which the District officials intend as a short-term loan, the money must be repaid by year-end as required by GML.

The school lunch manager (Manager), who reports to the Business Manager, oversees the daily food service operations. The Manager is assisted by a staff of four full-time and nine part-time food service employees. Although the school food service fund is intended to be self-sufficient, it experienced operating deficits during the 2011-12 and

2012-13 fiscal years because operating revenues were substantially below the level required to finance operating expenses.

District student enrollment declined[17] during our audit period resulting in a corresponding decrease in food sales. While food service expenditures decreased because fewer meals were served, revenues did not keep pace with the expenditures necessary to operate the District's food service program. Therefore the school food service fund was not self-sufficient.

As a result, the District's general fund subsidized a significant portion of the school food service fund's 2011-12 fiscal year operations through an $85,000 interfund transfer. Without this subsidy, the fund would have experienced an operating deficit of nearly $91,000 and ended the fiscal year with a fund balance deficiency of about $75,000; instead, at the end of 2011-12, the food service fund balance totaled more than $10,000.

The District's general fund did not subsidize the school food service fund's operation during the 2012-13 fiscal year through an interfund transfer. Therefore the school food service fund experienced an operating deficit of more than $94,000, resulting in an ending fund balance deficiency of about $84,000 at the end of 2012-13.

Table 2: School Food Service Fund - Fund Balance

	2011-12	2012-13
Beginning Fund Balance	$15,977	$10,308
Operating Revenues	$405,513	$376,580
Transfer From General Fund	$85,000	$0
Total Revenues and Transfers	$490,513	$376,580
Expenditures	$496,182	$471,036
Operating Deficit	($5,669)	($94,456)
Ending Fund Balance/(Deficiency)	$10,308	($84,148)

Instead of subsidizing the food service fund in the 2012-13 fiscal year with an interfund transfer, the general fund subsidized the school food service fund by making interfund advances for cash-flow purposes so that the fund could pay its operating expenses. At the end of 2012-13, the school food service fund owed the general fund an accumulated balance of more than $167,000. However, the school food service fund did not generate sufficient revenues to repay the interfund advances by the end of the fiscal year as required by GML.

[17] The District's student enrollment decreased from approximately 850 students during the 2010-11 fiscal year to 790 students during the 2013-14 fiscal year.

In an effort to address recurring school food service fund deficits, during the 2013-14 fiscal year the Board approved raising school lunch prices by $.10,[18] eliminated two part-time food service positions and contracted with a consultant to review the District's food service operations and make recommendations. However, based on our review of the school food service fund's actual results of operations through the end of our audit period, we determined that the fund will not be self-sufficient again during the 2013-14 fiscal year and will require a general fund subsidy.

District officials indicated that they anticipate that during the 2014-15 fiscal year the Board will approve raising school lunch prices. However, District officials indicated that the fund will not be self-sufficient during the 2014-15 fiscal year and will again require a general fund subsidy. The school food service fund's continued reliance on the general fund to cover operating expenses has contributed to the general fund's declining financial condition

Recommendations

The Board should:

1. Closely monitor the District's finances during the 2014-15 fiscal year to avoid depleting unassigned fund balance.

2. Adopt general fund budgets that include realistic estimates for revenues and expenditures and that are structurally balanced.

3. Develop and adopt a fund balance policy establishing the amount of unassigned fund balance to be maintained, within the legal limit, to assist with the budget development process, meet the District's financial needs, provide sufficient cash flow and avoid reliance on short-term borrowing.

4. Continue to evaluate and explore ways to cut costs and increase revenues for the general fund and school food service fund.

5. Develop a plan for the school food service fund to pay back the outstanding interfund advances from the general fund or, if it determines the interfund advances cannot be repaid, write them off.

[18] The elementary school lunch price was increased from $2.05 to $2.15 and the middle/high school lunch price was increased from $2.15 to $2.25.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

TUPPER LAKE CENTRAL SCHOOL

www.tupperlakecsd.net

District Offices
294 Hosley Avenue
Tupper Lake, NY 12986
518-359-3371 ext. 1000
518-359-7862 (fax)

Middle/High School
25 Chaney Avenue
Tupper Lake, NY 12986
518-359-3322 ext. 2000
518-359-9636 (fax)

LP Quinn Elementary School
294 Hosley Avenue
Tupper Lake, NY 12986
518-359-2981 ext. 1004
518-359-3415 (fax)

[redacted]
Office of the State Comptroller
One Broad Street
Glens Falls, NY 12801

August 18, 2014

RE: Draft Audit Report

Dear [redacted]

The Board of Education and Administration of the Tupper Lake Central School District have reviewed your draft audit report. Please consider this letter a response to that draft.

We have reviewed your recommendations in the area of our Financial Conditions. We are proud to know that the finding did not indicate any misuse of school funds. As you are aware, many of the recommendations have already been adopted.

We are committed to solicit feedback in all areas of operations. And while not all of your recommendations are necessarily appropriate in our school setting, each will receive due consideration. Any policies, regulations, or procedures requiring amendment or adoption will be done so in a timely manner.

I wish to commend you for your office's professional demeanor throughout the audit process, and thank you for your important insight and information you provided.

Sincerely,

Seth M^{c}Gowan, *Superintendent*
Tupper Lake Central School District

Seth M^{c}Gowan
Superintendent
District Office

Carolyn Merrihew
LP Quinn
Elementary School

Matt Southwick
Principal
Middle/High School

Petra LaBarge
Special Programs Director
Middle/High School

Garry Lanthier
Business Administrator
District Office

TUPPER LAKE CENTRAL SCHOOL DISTRICT

Tupper Lake, NY 12986
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Middle/High School
25 Chaney Avenue
518-359-3322 ext. 2000
518-359-9636 (fax)

LP Quinn Elementary School
294 Hosley Avenue
518-359-2981 ext. 1004
518-359-3415 (fax)

Unit Name: Tupper Lake Central School District
Audit Report Title: Financial Condition
Audit Report Number: 2014M-151

For each recommendation included in the audit report, the following are corrective actions taken or proposed. For all recommendations we have included the following explanations.

1. Audit Recommendation:
   Closely monitor the District's finances during the 2014-15 fiscal year to avoid depleting unassigned fund balance.
   a. Implementation Plan of Action(s)
      The Board of Education will continue to receive monthly budget updates.
   b. Implementation Date:
      Ongoing
   c. Person Responsible for Implementation:
      Garry Lanthier

2. Audit Recommendation:
   Adopt general fund budgets that include realistic estimates for revenues and expenditures and that are structurally balanced.
   a. Implementation Plan of Action(s):
      The Board of Education will continue to receive monthly reports of current spending levels as well as projections just prior to and during the budget development process
   b. Implementation Date:
      Ongoing
   c. Person Responsible for Implementation:
      Garry Lanthier

3. Audit Recommendation:
   Develop and adopt a fund balance policy establishing the amount of unassigned fund balance to be maintained, within the legal limit, to assist with the budget development process, meet the District's financial needs, provide sufficient cash flow and avoid reliance on short-term borrowing.
   a. Implementation Plan of Action(s):
      The Superintendent will consult with the District's policy service on the matter of a fund balance policy. The Superintendent will report those findings to the Board of Education prior to the start of the budget development process.
   b. Implementation Date:
      Fall 2014
   c. Person Responsible for Implementation:
      Seth McGowan

eth M^cGowan
uperintendent
istrict Office

Carolyn Merrihew
Principal
LP Quinn Elementary School

Matt Southwick
Principal
Middle/High School

Petra LaBarge
Special Programs Director
Middle/High School

Garry Lanthier
Business Administrator
District Office

4. Audit Recommendation:
   Continue to evaluate and explore ways to cut costs and increase revenues for the general fund and school food service fund.
   a. Implementation Plan of Action(s):
      - *The District's Administrative Team will continue to evaluate the requirements of NYSED vis-à-vis reductions in state-aid.*
   b. Implementation Date:
      Ongoing
   c. Person Responsible for Implementation:
      Seth McGowan

5. Audit Recommendation:
   Develop a plan for the school food service fund to pay back the outstanding interfund advances from the general fund or, if it determines the interfund advances cannot be repaid, they should be written-off.
   a. Implementation Plan of Action(s):
      The Business Office will examine the impact of including a line-item in the general fund budget that reflects payments from the cafeteria.
   b. Implementation Date:
      Fall 2014
   c. Person Responsible for Implementation:
      Garry Lanthier

Signed:

Seth McGowan, Superintendent

August 18, 2014

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed the Board President and other District officials to gain an understanding of the District's financial management policies and procedures. This included inquires about the District's budgeting practices and the development of plans to maintain the District's fiscal stability.

- We analyzed the District's general fund financial records for fiscal years 2011-12 and 2012-13 to determine if the general fund's financial condition had declined. We also evaluated any factors contributing to any decline.

- We compared the adopted general fund budgets for fiscal years 2011-12 and 2012-13 with the actual results of operations to determine if the budgets were realistic and structurally balanced.

- We reviewed the District's financial records for the period June 1, 2011 through April 30, 2014, and interviewed District officials to determine the type and amount of short-term debt that was issued and the reason the debt was issued.

- We reviewed the adopted general fund budget for the 2013-14 fiscal year to determine whether the budgeted revenues and appropriations were reasonable based on historical data, supporting source documents and the actual results of operations through the end of the audit period and whether the budget was structurally balanced.

- We reviewed the proposed general fund budget for the 2014-15 fiscal year to determine whether the budgeted revenues and appropriations were reasonable based on historical data and supporting source documents and whether the budget was structurally balanced.

- We analyzed the District's school food service fund's financial records for fiscal years 2011-12 and 2012-13 to determine if the fund was self-sufficient. We also evaluated any factors contributing to the fund not being self-sufficient.

- We reviewed the District's accounting records to determine all of the interfund transfers and interfund advances made from the general fund to the school food service fund during fiscal years 2011-12 and 2012-13. We then reviewed the interfund advances to determine if they were repaid by the close of the fiscal year, in accordance with GML.

- We compared the school food service fund cash balance at fiscal years ended 2011-12 and 2012-13 to the corresponding amounts owed to the general fund for advances received to determine if there was sufficient cash on-hand to repay these advances.

- We reviewed the school food service fund's actual results of operations through the end of the audit period to determine if the fund would be self-sufficient or require subsidies from the general fund.

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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APPENDIX D

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