



Utica City School District Financial Condition

Report of Examination

Period Covered:

July 1, 2011 — March 31, 2013

2013M-341



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
Fund Balance	6
Multiyear Operational Planning	7
Recommendations	8
APPENDIX A Response From District Officials	9
APPENDIX B Audit Methodology and Standards	12
APPENDIX C How to Obtain Additional Copies of the Report	13
APPENDIX D Local Regional Office Listing	14

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2014

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage 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 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 Utica City 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 taxpayers, students and their parents. 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 Utica City School District (District) is a small city school district whose boundaries are the same as the City of Utica (City) in Oneida County. The District is governed by the Board of Education (Board), which consists of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent is the District's chief executive officer and is responsible, along with other administrative staff, for day-to-day management under the Board's direction. The School Business Official oversees the daily operations of the Business Office.

The District operates 13 schools, with approximately 9,900 students. The District's general fund budgeted expenditures for the 2013-14 fiscal year are \$138.8 million, funded primarily with about 75 percent State aid and 22 percent real property taxes.

The District has seen a steady increase in enrollment from 9,390 students in 2009-10 to 9,917 in 2012-13. The District's cost per student is \$15,641 compared to the State average of \$20,410. The District's percentage of students with disabilities is 16.3 percent compared to the State average of 12.8 percent. About 80 percent of the District's students qualify for free or reduced price lunches and 15 percent of the students have limited English proficiency.

Objective

The objective of our audit was to assess 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 back to 2009-10 to review year-end fund balances and forward to June 30, 2013 for trend analysis and August 30, 2013 for tax collections.

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

The Board, Superintendent and School Business Official are accountable to District taxpayers for the use of District resources and for effectively planning and managing the District's financial operations. The Board and Superintendent are responsible for ensuring that budgets are based on reasonable estimates of appropriations and revenues and for monitoring them to ensure they are not overexpended. A district in sound financial health can consistently generate sufficient, recurring revenues to finance anticipated expenditures and maintain sufficient cash flow to pay bills and other obligations when due without relying on short-term borrowings. Multiyear operational planning is therefore essential for maintaining sound financial health. A proactive approach to fiscal management is especially important for districts that have sizable operations and/or declining financial positions.

In recent years the District has struggled with fiscal challenges due to a deteriorating financial condition. District officials have adopted realistic budgets and spending did not exceed the budget. However, they relied heavily on appropriations of fund balance in the 2010-11 and 2011-12 budgets. As a result, by June 30, 2012, the District's unexpended surplus funds¹ had declined to a deficit of \$1,157,820. By June 30, 2013, the District was able to increase the unexpended surplus funds to \$1,127,047 (.8 percent of the ensuing year's appropriations). Although this is an improvement from the prior year, the District has very little cushion for managing unforeseen events. To meet short-term cash flow needs, the District borrowed at least \$10 million each year, incurring about \$150,000 for interest costs in the 2012-13 fiscal year. While the Board has attempted to address the District's declining financial position, it has not developed a multiyear operational plan to provide a framework for future budgets and facilitate management of financial operations. By developing such a plan, District officials will have a roadmap to help identify and manage future costs and resources.

¹ 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).

Fund Balance

One of the key measures of a school district's financial condition is its fund balance, which represents assets left over from prior years. The Board can designate a portion of fund balance to help finance the next year's budget, but should ensure that the level of fund balance maintained is sufficient to provide adequate cash flow and address unforeseen circumstances without relying on short-term borrowings. A continuous decline in unexpended surplus funds indicates a deteriorating financial condition.

We reviewed the District's budget-to-actual results for the three fiscal years ending 2011-2013 and found that District officials adopted realistic budgets and did not exceed the budgets. Overexpenditures were prevented because the Board monitored the budgets and approved budget transfers at the monthly Board meetings.

However, for 2010-11 and 2011-12, the Board adopted budgets that used appropriated fund balance as a funding source, resulting in planned operating deficits of about \$3.2 million in 2010-11 and \$6.5 million in 2011-12. As a result, total fund balance in the general fund was reduced from \$11.5 million as of June 30, 2010 to about \$2.6 million as of June 30, 2013. Although operating deficits can be planned as a means of prudently using excess accumulated fund balance to finance operations, planned operating deficits can result in financial stress. The District's heavy reliance on appropriated fund balance in 2010-11 and 2011-12 has resulted in significant reductions to total fund balance. The Board did not apply any fund balance in 2013 to fund the 2013-14 budget.

	2010-11	2011-12	2012-13
Beginning Fund Balance	\$11,547,551	\$8,362,806	\$1,825,746
Revenues	\$127,655,773	\$124,782,337 ^a	\$134,685,876 ^a
Expenditures	\$130,840,518	\$131,319,397	\$133,917,463
Operating Surplus/(Deficit)	(\$3,184,745) ^b	(\$6,537,060)	\$768,413
Year-end Fund Balance	\$8,362,806	\$1,825,746	\$2,594,159
Less: Fund Balance Appropriated for the Next Fiscal Year	\$6,204,526	\$1,200,000	
Less: Non-spendable and Restricted Fund Balance and Encumbrances	\$1,270,014	\$1,783,566	\$1,467,112
Unexpended Surplus Fund Balance at Year-end	\$888,266	(\$1,157,820)	\$1,127,047
Unexpended Surplus as % of Ensnuing Year's Appropriations	.7%	(.8%)	.8%
^a We adjusted these amounts to account for deferred taxes that would not be collected within 60 days - \$1,292,207 in 2011-12 and \$566,206 in 2012-13. ^b The planned operating deficit (appropriated fund balance) was \$4,700,000 for the 2010-11 year.			

The Board adopted a fund balance policy in August 2011 that stated that the District should maintain between 2 and 4 percent of

unassigned fund balance to protect against cash flow shortfalls and maintain a strong bond rating. However, as shown in Table 1, the Board has maintained unexpended surplus funds totaling less than 1 percent. Board members told us they did not follow the policy because they needed to use fund balance to keep teachers and programs for as long as possible.

The District's cash position has also deteriorated. As of June 30, 2010, the District reported unrestricted cash of \$13.7 million, which was reduced to \$4.5 million as of June 30, 2012. Consequently, the District had to annually issue revenue anticipation notes of \$10 million to address cash flow shortages. The District incurred interest costs for this borrowing, amounting to about \$150,000 during 2012-13.

Additionally, the City collects the real property taxes for the District, and had previously paid the District the total tax levy (including unpaid taxes) by the end of the year. Due to the City's own cash flow difficulties, beginning in 2011-12, the City no longer paid the total tax levy to the District, but only collections-to-date. As a result, the District did not receive \$1.45² million of levied taxes during 2011-12 year as anticipated and had to issue a \$1.1 million tax anticipation note (TAN) in November 2012 to cover this additional cash flow shortage. Interest on this TAN is expected to cost the District approximately \$20,000.

The Board has reduced expenditures by eliminating 152 teaching positions from 2011-12 through 2013-14. The Board also eliminated its funding for a young scholars program³ in 2011-12 and implemented spending freezes beginning in the fall of 2011.

The District's financial condition is expected to be further affected by the recent opening of a charter school in the City. Approximately 176 students from the District will be attending the new school, with an estimated cost to the District of approximately \$1.6 million.

Insufficient fund balance limits the District's ability to manage unexpected occurrences such as emergency repairs, shortfalls in revenues and increases in expenditures. Maintaining adequate fund balance helps ensure that cash resources will be available to meet current expenditures and that short-term borrowing will be minimized.

Multiyear Operational Planning

Preparing comprehensive, up-to-date multiyear operational plans makes good business sense. The benefits of planning ahead or taking a proactive approach to fiscal operations are especially important for

² As of Aug 2013, the District has collected \$891,125 of these outstanding taxes and \$566,206 remains outstanding.

³ This program provides academic, cultural and social enrichment and its intent is to help students achieve academic success. In 2010-11, the District spent \$150,000 for the young scholars program.

school districts faced with financial concerns. Planning on a multiyear basis will enable District officials to identify revenue and expenditure trends, establish long-term priorities and goals and consider the impact of near-term budgeting decisions on future fiscal years. As a result, budget decisions can be spread over a number of years, putting less financial pressure on any given year while avoiding sudden and severe cost-cutting measures. All of these benefits lend stability to the year-to-year operations and fund balance. Multiyear planning also allows District officials to assess the merits of alternative approaches (such as relying on unexpended surplus funds) to finance its operations. Multiyear financial planning can also help District officials project the future costs of employee salaries and benefits. Any long-term operational plan should be monitored and updated on a continuing basis to provide a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate.

The Board has not yet developed a multiyear operational plan. District officials need to formulate a plan that considers current economic conditions and other known factors, such as the opening of the charter school, the potential opening of a second charter school in 2014 and the potential impact of contract negotiations, State aid trends and the tax cap law.⁴ District officials need to monitor progress against the plan and regularly update the plan to ensure that it includes current financial data and consideration of ongoing economic conditions. A well-designed plan can provide the Board with a roadmap for making timely and informed decisions about the District's programs and operations.

Recommendations

1. District officials should reduce reliance on fund balance as a financing source and continue to evaluate and explore ways to cut costs and/or increase revenues.
2. The Board should develop a plan to comply with the District's fund balance policy.
3. The Board should ensure adequate fund balance and cash flow to avoid reliance on short-term debt borrowing.
4. District officials should develop and document a multiyear operational plan to provide a framework for future budgets and facilitate management of the District's financial operations. The Board should monitor progress against the plan and take appropriate action to modify the District's financial management strategies based on actual performance and economic events.

⁴ 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 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.



UTICA CITY SCHOOL DISTRICT
106 Memorial Parkway
Utica, NY 13501

Christopher Salatino
Board President

Ph. (315) 792-2078
Fax. (315) 792-2292
khughes@uticaschools.org

February 10, 2014

Ms. Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
Division of Local Government and School Accountability
State Office Building Room 409
333 East Washington Street
Syracuse, New York 13202-1428

Dear Ms. Wilcox:

The Utica City School District is in receipt of the draft audit report, Financial Condition for the period July 1, 2011 – March 31, 2013. 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 Utica to its current precarious financial condition. Utica has been facing large deficits over the last five (5) years and in order to retain as many staff and personnel as possible, the District followed a recommendation from the State to spend down its fund balance. Our fund balance was reduced by \$12.4m to the current amount of \$1,693,249.

Another factor contributing to our deteriorating financial condition is the freezing of the foundation aid formula. The foundation aid formula was first implemented in 2007-08 with the promise that it was an equitable formula where districts would receive their fair share of state aid. The foundation aid was frozen in 2010 and if it had been phased in at its full level as promised in 2013-14, the Utica City School District would have received \$133,950,664. The District actually received \$72,413,005. This is a loss in aid of \$61,537,659. The Utica City School District still remains severely underfunded.

Another contributing factor is the GAP Elimination Adjustment. This has caused even further reductions in our state aid over the last four (4) years in the amount of \$23,892,153.

Each year the Utica City School District has been hurt by the GEA Restoration and its' CAP. Under the proposed 2013-14 GEA Restoration formula the Utica City School District should have received \$3,438,260 of restored aid. However, the amount a District could receive was capped at 41.5% of its 2012-13 state aid. Under the CAP the District lost another \$1,367,754 in aid. If there were no maximum CAP, Utica's GEA would be fully eliminated. Again for the 2014-15 school year, Utica will lose \$2,413,401 in aid due to the CAP.

The Utica City School District's student population has grown by almost 900 students over the last four (4) years. A large segment of this increase has been ESL students. With this increase in enrollment and the reduction of staff, class sizes have risen to approximately 32-34 students in a classroom.

With the opening of a second charter school in the near future, Utica's financial condition will further deteriorate. Utica already has one (1) Charter School costing the district approximately \$2m in 2013-14. The cost for the 2014-15 school year is approximately \$2.7. With the addition of another Charter School, the district will be looking at a further reduction in revenue of approximately \$3.5m - \$4m.

Therefore, let this response be our official Corrective Action Plan:

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

Implementation Plan of Action: District officials reduced their reliance on usage of fund balance as a financing source beginning with the 2013-14 school year and continues to make cuts to personnel/programs to stay within the District's budget.

Implementation Date: May 2013

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

Audit Recommendations: *The Board should develop a plan to comply with the District's fund balance policy.*

Implementation Plan of Action: Under the District's current policy the District should maintain between a 2% to a 4% percent unassigned fund balance. Currently the fund balance is at 1.2%. As noted in the comptroller's audit, the City of Utica owes the school district approximately \$1.3m of uncollected taxes for the 2012-13 school year. The City by law will have to pay the school district the \$1.3m in the 2014-15 school year. This revenue will be added to fund balance when received and when added to the current balance of \$1,693,252 will bring us to a 2% fund balance. The District will continue building the fund balance until it reaches a 4% level.

Implementation Date: 2014-15 School Year

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

Audit Recommendations: *The Board should ensure adequate fund balance and cash flow to avoid reliance on short-term debt borrowing.*

Implementation Plan of Action: The Board, the Superintendent and the School Business Official are working to increase our fund balance, but this a slow process – it will take a few years to build an adequate fund balance. The Superintendent took the initiative to freeze spending midway through the 2012-13 school year and at that point only allowed for emergency spending. The Board, the Superintendent and the School Business Official strive to adopt realistic budgets ensuring that the revenues are more than adequate to cover all expenditures. With this realistic approach and with the implementation of the spending freeze, the District ended the 2012-13 school year with a surplus that increased our fund balance by \$818,096, bringing our total unassigned fund balance to \$1,693,252 or a 1.22%. The District will continue with this plan of action yearly until such time that the District reaches a 4% fund balance level.

Implementation Date: 2012-13 school year

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

Audit Recommendations: *District officials should develop and document a multiyear operational plan to provide a framework for future budgets and facilitate management of the District's financial operations. The Board should monitor progress against the plan and take appropriate action to modify the District's financial management strategies based on actual performance and economic events.*

Implementation Plan of Action: District officials will begin developing a multi-year operational plan based on the template found on the Comptroller's office website. The School Business Official will begin projecting the costs over a four year period and will have the Board and the Superintendent review this plan and continue to monitor it periodically to ensure its effectiveness. Adjustments will be made based on New York States economic condition.

Implementation Date: March 2014

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

The Utica City School District would like to thank [REDACTED] for her professionalism and fairness during the audit and at 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 districts fund balance while continuing to provide a quality education for our students and safeguard the interests of the taxpayers.

Sincerely,

Christopher Salatino
Board of Education President

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to assess the District's financial condition. To accomplish the objective of our audit and obtain valid audit evidence, our procedures included the following:

- We interviewed District officials to gain an understanding of the budget process.
- We compared the District's accounting records to the annual update document (ST-3) and the audited financial statements.
- We evaluated the results of operations and analyzed cash balances, short-term loans and fund balance for the general fund. We compared budgeted data to actual revenues and expenditures to determine if the District operated within its budget. To gain additional background information and perspective, we also reviewed financial data from fiscal years back to the 2009-10 fiscal year and forward through August 30, 2013.
- We obtained the audited financial statements for 2012-13 to update trend analysis.
- We reviewed the 2013-14 budget for reasonableness.
- We interviewed officials to identify the causes and the impact of fiscal stress.
- We obtained the 2011-12 general fund trial balance and tested it for accuracy by comparing the balances to original source documents on a sample basis. This also verified the reconciliation of cash. We also examined recorded cash receipts to determine whether accounts receivable were realizable and we reviewed claims for July and August 2012 to determine whether all significant liabilities were recorded.
- We interviewed District officials to determine if the District developed a multiyear operational 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.

APPENDIX C

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Osego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Bufferalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313