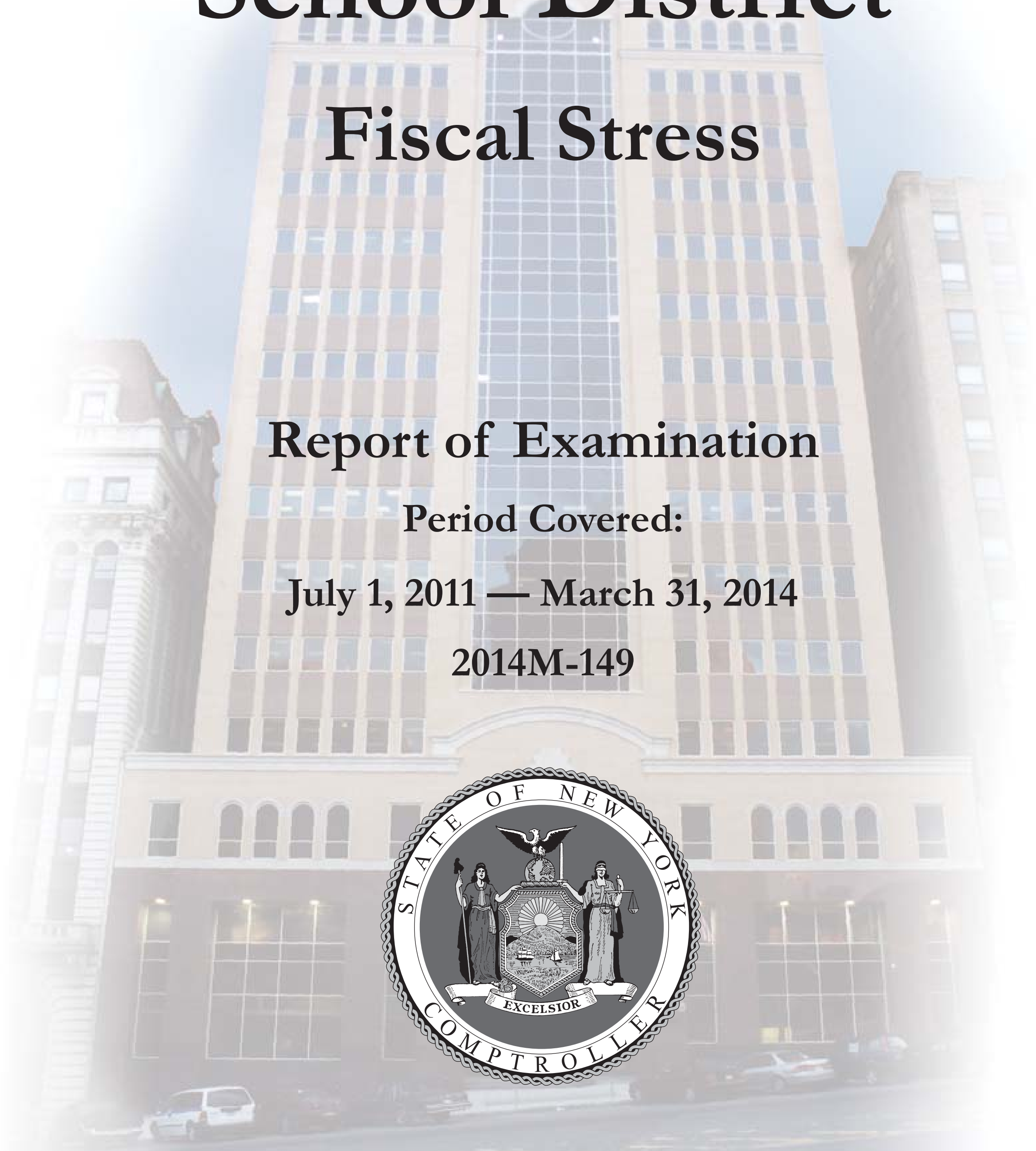
Office of the New York State Comptroller

Division of Local Government & School Accountability

Watervliet City School District

Fiscal Stress



Report of Examination

Period Covered:

July 1, 2011 — March 31, 2014

2014M-149

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government and School Accountability

November 2014

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as 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 Watervliet City School District, entitled Fiscal Stress. 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 New York State 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 Watervliet City School District (District) is located in the City of Watervliet and Town of Colonie in Albany County. The Board of Education (Board) is the legislative body responsible for managing District operations, including establishing internal controls over financial operations and for maintaining sound financial condition. The Board President is the District's chief financial officer. The Superintendent of Schools is the District's chief executive officer and is responsible for the District's day-to-day management and for development and administration of the budget. Although the Board is primarily responsible for the effectiveness and proper functioning of internal controls, the Superintendent and department heads share this responsibility.

As of March 31, 2014, the District had approximately 230 employees and 1,400 students. The District's budgeted appropriations for the 2013-14 fiscal year were approximately $23.5 million, which were funded primarily with real property taxes and State aid.

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 enough revenues within a fiscal year to meet its expenditures. The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates school districts based on financial and environmental indicators to determine if these entities 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, structurally balanced budgets and adequately monitor the financial activity of capital projects to ensure fiscal stability?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2011 through March 31, 2014. We extended our scope period back to July 1, 2006 for our review of the District's capital project activity.

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

Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of the New York State 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, R*esponding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the District Clerk's office.

Fiscal Stress

A school district in good financial condition generally maintains adequate service levels during fiscal downturns and develops resources to meet future needs. Conversely, a school district in fiscal stress usually struggles to balance its budget, suffers through disruptive service level declines, has limited resources to finance future needs and has minimal cash available to pay current liabilities as they become due. The Board and District officials are responsible for the financial planning and management necessary to maintain the District's fiscal health. To fulfill this responsibility, it is essential that District officials develop reasonable budgets and manage fund balance responsibly. Furthermore, the Board should adopt a policy that establishes an adequate level of unrestricted fund balance to maintain and use the policy in the annual budgeting process to ensure that unrestricted fund balance is always maintained at a sufficient level. Finally, District officials should develop detailed multiyear plans to allow them to set long-term priorities and work toward goals.

The Board did not adopt realistic, structurally balanced general fund budgets or adequately monitor the financial activity of capital projects to ensure fiscal stability.[1] The Board also did not adopt a policy regarding establishing an adequate level of unrestricted fund balance to maintain. As a result, the general fund's financial condition has diminished in recent years. In 2011-12 and 2012-13, the Board appropriated significant amounts of fund balance to finance operations which caused the general fund to realize operating deficits in both years. As a result, the general fund reported an accumulated fund balance deficit of approximately $275,000 at the end of the 2012-13 fiscal year. Furthermore, the Board and District officials failed to properly monitor capital project activity. Consequently, the District expended $741,000 more than the total amounts authorized for two projects causing a fund balance deficit in the capital projects fund in that amount. The District will ultimately need to transfer funds from the general fund to eliminate the capital project's deficit and, as of June 30, 2013, the general fund did not have sufficient funds available to do so.

General Fund

It is essential that the Board adopt structurally balanced budgets in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. An appropriation of fund balance is the use of unexpended resources from prior years to

[1] A structurally balanced budget must finance recurring expenditures with recurring revenues.

finance budget appropriations and is considered a "one shot" financing source, but it is an acceptable and reasonable practice when a local government has accumulated an adequate level of unrestricted fund balance. However, when a local government has recurring annual operating deficits, fund balance will be depleted and ultimately will go into a deficit position. Maintaining a reasonable level of unrestricted fund balance is an essential component of financial management. If the amount retained is too low, the District may not have a sufficient financial cushion for unanticipated costs. It is important for the Board to adopt a fund balance policy that addresses the appropriate level of unrestricted fund balance it desires to be maintained from year-to-year to provide guidelines for the Board during the budget process.

The Board did not adopt structurally balanced budgets that funded recurring expenditures with recurring revenues for the general fund for 2011-12 or 2012-13. In both fiscal years, the Board appropriated large amounts of fund balance to fund the District's operations, which created planned operating deficits each year. However, during each fiscal year, circumstances arose that created greater operating deficits than were planned, leaving the District's total fund balance in a vulnerable position in 2011-12 and, consequently, in a deficit position in 2012-13.

In the 2011-12 budget, the Board budgeted for a planned operating deficit by appropriating $800,000 of fund balance. This $800,000 appropriation was 57 percent of the fund balance that was available at the end of the previous 2010-11 fiscal year. During the 2011-12 fiscal year, the District realized slightly less revenues than the Board had estimated it would, which created a greater operating deficit than the Board had planned for, leaving the general fund with an $888,215 operating deficit, or $88,215 more than what the District planned for.

Similarly in the 2012-13 budget, the Board again budgeted for a planned operating deficit by appropriating $300,000 of fund balance. This $300,000 appropriation was 58 percent of the fund balance that was available at the end of the previous 2011-12 fiscal year. Additionally, the Board decreased the District's health insurance appropriations by $300,000 from the prior year in anticipation of realizing cost savings from a change in its health insurance provider.[2] However, during the 2012-13 fiscal year, the District did not realize these savings and health insurance expenditures exceeded the budgeted amount by $321,000. Also, the District received slightly less revenue than the Board estimated. Combining the higher spending for health insurance

[2] The District estimated these costs savings based on information provided by an independent consultant.

expenditures with this slight drop in revenues created a greater operating deficit than the Board had planned, leaving the general fund with a $794,164 operating deficit, $494,164 greater than planned.

The $1.7 million cumulative operating deficit in 2011-12 and 2012-13 caused the District's total fund balance to decline from $1.4 million as of July 1, 2011 to a deficit of $268,314 as of June 30, 2013.

Figure 1: General Fund Balance

	2011-12	2012-13
Beginning Total Fund Balance	$1,414,067	$525,850
Less: Annual Operating Deficit	($888,215)	($794,164)
Total Ending Fund Balance	$525,852	($268,314)
Less: Reserved Fund Balance	$6,254	$6,254
Less: Fund Balance Appropriated for Subsequent Year's Operations	$300,000	$0
Unrestricted Fund Balance at Year-End	$219,598	($274,568)

The District did not have a fund balance policy to indicate what would be an adequate level of unrestricted fund balance for the Board to maintain during its budget development process. Therefore, the Board had no guidelines to follow when determining how much fund balance to appropriate in the 2011-12 and 2012-13 budgets.

District officials told us that the Board appropriated fund balance at the levels it did in the 2011-12 and 2012-13 budgets, upon the recommendation of the former District business manager, to reduce the District's unrestricted fund balance to a level below the statutory requirement.[3] However, in the 2011-12 budget, the Board appropriated more fund balance than was necessary to reduce the District's unrestricted fund balance to below the statutory requirement. With the $800,000 appropriation of fund balance in the 2011-12 budget, the Board lowered the District's unrestricted fund balance to $607,812, which was 2.6 percent of 2011-12 budget appropriations.

The Board's failure to adopt a fund balance policy and its over-reliance on appropriating fund balance to finance operations, along with the unrealized revenues and health insurance cost savings, caused the general fund to become fiscally stressed.

<u>Short-Term Borrowing</u> – The general fund's cash balance was so depleted at the end of the 2012-13 fiscal year that the District had to

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[3] New York State Real Property Tax Law limits the amount of unrestricted fund balance that can be legally retained by District officials to 4 percent of the ensuing year's budget.

issue tax anticipation notes[4] (TAN) and a revenue anticipation note[5] (RAN) to meet cash flow needs.

On June 22, 2012, the District issued a $1.5 million TAN. As of June 30, 2012, the general fund had only $1.2 million of cash, which is 61 percent of the general fund's average monthly cash disbursements for 2011-12. This means that even after issuing the TAN, the District did not have enough cash on hand to fund an average month of operation. Additionally, on August 30, 2012, the District issued a second TAN for $1.6 million.

On June 17, 2013, the District issued a $3.5 million RAN[6] and reported less than $3.5 million of general fund cash as of June 30, 2013. This cash balance represented just a little more than one month's worth of the general fund's average monthly cash disbursements for 2012-13. While the District reported more cash on hand on June 30, 2013 than it had on June 30, 2012, this was a result of the RAN issuance.

Even after issuing the RAN in a larger amount than the previously issued TANs, the District still had only enough cash on hand to fund less than two months of operations. If the District had not issued these notes, the general fund would have had deficit cash balances at the end of the 2011-12 and 2012-13 fiscal years. Furthermore, issuing these notes resulted in the general fund incurring interest costs of $8,000 in 2012-13 and $33,785 in 2013-14.[7] While TANs and RANs may be used to alleviate temporary cash flow shortages, the repeated issuance of notes is indicative of an ongoing cash flow problem.

Had the District maintained a healthier fund balance level, it could have had sufficient cash balances to sustain operations and would not have needed to issue short-term debt. Furthermore, if the District does not take action to improve its fiscal health and cash-flow situation, its cash position may deteriorate further, which would likely result in further reliance on increasing levels of short-term debt to finance operations.

<u>2013-14 Adopted Budget</u> – Because the District depleted its general fund balance, it did not have any available fund balance for the Board to appropriate in the 2013-14 budget. As a result, in the 2013-14 budget, the Board was forced to increase real property taxes,

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4 An obligation issued in anticipation of the collection of future real property taxes and assessments

5 An obligation issued in anticipation of certain future revenues

6 The District issued this RAN in anticipation of the receipt of State aid.

7 Interest charges for the TANs were paid in the 2012-13 fiscal year and interest charges for the RAN were paid in the 2013-14 fiscal year.

identify other revenue sources and cut appropriations.[8] The District's property tax levy for 2013-14 was $6,475,000, which was a $371,000 (6.1 percent) increase from 2012-13. The 2013-14 tax levy did not exceed the District's calculated tax levy limit[9] as a result of exclusions the District was entitled to use when computing its 2013-14 tax levy limit.[10]

We reviewed the District's 2013-14 general fund adopted budget to determine whether budget estimates were reasonable and supported.[11] We also reviewed its results of operations through March 31, 2014 and the District's projection of 2013-14 final results of operations to determine whether the final 2013-14 results of operations could have an impact on the District's financial condition. Based on information provided by the District, we found that its original budget estimates for significant revenues and appropriations[12] were generally reasonable and supported.

However, as of March 31, 2014, we found – and District officials agreed – that it appeared unlikely the District would realize all revenues included in the 2013-14 adopted budget. District officials projected that the District would collect approximately $390,000 less revenue than planned, but it would expend approximately $580,000 less than planned, resulting in a $190,000 operating surplus. If this surplus is realized, it will improve the District's financial position. We encourage District officials to continue to monitor the District's results of operations and make appropriate adjustments if necessary.

2014-15 Adopted Budget – The District's 2014-15 adopted budget contains appropriations totaling $25 million, which are $1.5 million more than the 2013-14 adopted budget. The District increased appropriations primarily because of an increase in debt service costs.[13]

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[8] Although the Board increased general fund appropriations by approximately $400,000 in the 2013-14 budget, from the $23.1 million appropriated in 2012-13, the District was forced to cut individual appropriations by eliminating positions, programs and services.

[9] 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 by 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 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.

[10] The District reported a $208,000 exclusion for pension contribution expenditures because the retirement contribution rate increased by more than 2 percentage points.

[11] We selected significant revenue estimates and appropriations or classes of appropriations and analyzed them to determine whether they were realistic.

[12] Ibid.

[13] Debt service increased by $1.1 million to $3.6 million in the 2014-15 adopted budget due to an ongoing capital project that is about to be completed. Refer to the Capital Projects Fund section for further information.

As was the case in the 2013-14 budget, the District did not have any fund balance available for the Board to appropriate in the 2014-15 budget. However, in the 2014-15 budget, the Board offset its increase in appropriations with increases to its estimate for State aid revenue and the amount of real property taxes to be levied. The 2014-15 adopted budget contains a real property tax levy of $6,643,000, which was an increase of $168,000 (2.6 percent) from 2013-14. The 2014-15 tax levy did not exceed the District's 2014-15 tax levy limit.

We reviewed the District's 2014-15 general fund adopted budget to determine whether budget estimates were reasonable and supported. Based on information provided by the District, we found that its significant revenue estimates and appropriations appeared reasonable. However, District officials must closely monitor actual revenues and expenditures throughout the fiscal year to ensure that the District does not experience an operating deficit.

Capital Projects Fund

The Board is responsible for properly authorizing capital projects, ensuring that the projects receive adequate funding, and monitoring their financial activity throughout the course of the project. To meet this responsibility, the Board must set spending limits by adopting capital budgets and establish procedures to monitor the financial status of individual projects to ensure that expenditures are kept within the project's spending limits. To ensure that capital project expenditures do not exceed project spending limits and funding sources, the Board must establish procedures to monitor project activity, including reviewing change orders[14] which are used to officially authorize revisions to capital construction contracts.

Since 2006-07, the Board has passed three bond resolutions which authorized the District to issue $48.9 million of debt for capital projects. The first resolution, dated December 6, 2006, authorized the District to issue $8,200,000 of debt. The second resolution, dated December 18, 2007, authorized the District to issue $21,745,000 of debt and the third resolution, dated November 1, 2011, authorized the District to issue debt totaling $18,950,000.

Projects associated with the first two bond resolutions, totaling a combined $29,945,000, were substantially complete[15] as of March 31, 2014. However, as of this same date, the District expended $30,686,000 in connection with these projects, which was $741,000

[14] A change order is a written agreement between the District, the project architect and the contractor about a change in the work and any related adjustment in contract sum or time.

[15] District officials told us that additional minor expenditures may be incurred during the 2013-14 fiscal year.

more than the total authorized, creating a combined deficit for the projects in that amount. Expenditures made in connection with the third project totaled $10,747,000 as of March 31, 2014, which was about 57 percent of the $18,950,000 authorized for the project. The third project was not complete as of March 31, 2014 and will not likely be completed during the 2013-14 fiscal year.

The District expended more than the authorized amount for the first two projects because the Board and District officials did not properly monitor the projects' activity by reviewing change orders and ensuring that sufficient funds were available to finance all project costs. Unless District officials develop a realistic plan to fund the deficit, it will likely be financed by the general fund. Considering the current fiscal condition of the general fund, it is unable to absorb deficits incurred during the ongoing capital projects. Furthermore, the District must closely monitor the third project to ensure that its expenditures do not exceed the amount authorized.

Multiyear Financial Planning

Multiyear financial planning is a tool that school districts can use to improve the budget development process. Planning on a multiyear basis will enable District officials to identify developing revenue and expenditure trends, establish long-term priorities and goals and consider the impact of current budgeting decisions on future fiscal years. It also allows District officials to assess the merits of alternative approaches (such as using unrestricted fund balance or establishing and using reserves) to finance its operations. Any long-term financial 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 and District officials did not develop a multiyear financial plan to address the use of unrestricted fund balance or the District's fund balance deficit. Had District officials used multiyear financial planning, they would have understood that appropriating $1.1 million of fund balance over a two-year period would have a negative impact on the District's financial position and could have taken steps to avoid this inevitability. Furthermore, the Board's failure to develop a financial plan to mitigate the District's fiscal stress inhibits the District's ability to effectively manage its finances.

Recommendations

1. The Board should adopt structurally balanced budgets for the general fund that include realistic estimates for revenues and expenditures.

2. The Board should develop and adopt a fund balance policy that establishes an adequate amount of unrestricted fund balance to be maintained, within the legal limit, to meet the District's needs,

provide sufficient cash flow and avoid relying on short-term borrowing.

3. The Board should continue to evaluate and explore ways to cut costs and increase revenues for the general fund.

4. The Board and District officials should monitor capital project activity to ensure that capital project expenditures do not exceed authorized amounts.

5. The Board should develop a plan to fund the deficit in the capital projects fund.

6. The Board and District officials should develop a multiyear plan to address the District's fiscal stress.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

W A T E R V L I E T C I T Y S C H O O L S . O R G

Watervliet CITY SCHOOLS
1245 Hillside Drive
Watervliet, NY 12189
(518) 629-3200

October 28, 2014

Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801

To Whom It May Concern:

The purpose of this correspondence is to acknowledge that the Watervliet City School District has received the draft copy of the audit conducted by the New York State Comptroller's Office. Please note that this letter will also serve as the District's Corrective Action Plan.

We would like to thank the Comptroller's Office for its guidance and recommendations on the issues identified in the examination of the District's Financial Condition for the period July 1, 2011 through March 31, 2014.

The District acknowledges the auditor's findings and for each recommendation included in the audit report, the following are the corrective actions taken or proposed.

Audit Recommendation #1

The Board should develop and adopt structurally balanced budgets for the general fund that include realistic estimates for revenues and expenditures.

Implementation Plan of Action

As noted in the report, the over $1.9 million in cuts made by the District beginning in fiscal 2014 have realigned recurring expenses with recurring revenues. These reductions resulted in an operating surplus of $211,000 for the school year ended June 30, 2014 and has eliminated approximately 80% of the District's deficit.

The District will also develop and implement a fund balance policy (Recommendation #2) to reduce the District's reliance on unrestricted fund balance as a financing source.

Implementation Date

This corrective action was implemented beginning with the 2013-14 enacted budget and is a continuing process.

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Theresa O'Brien
Principal

Person Responsible for Implementation

The Board of Education, in conjunction with the Superintendent and Business Manager, is responsible for ensuring that the adopted budget is structurally balanced.

<u>Audit Recommendation #2</u>

The Board should develop and adopt a fund balance policy that establishes an adequate amount of unrestricted fund balance to be maintained, within the legal limit, to meet the District's needs, provide sufficient cash flow and avoid relying on short-term borrowing.

Implementation Plan of Action

The District will utilize resources provided by the State Comptroller's Local Government and School Accountability webpage* for guidance in developing a fund balance policy. Factors that will be considered include the timing of receipts and disbursements, the volatility of revenues and expenditures, and budgeting for contingencies.
*http://www.osc.state.ny.us/localgov/pubs/releases/budfund.htm

Implementation Date

The District anticipates adopting a fund balance policy prior to the end of the current fiscal year.

Person Responsible for Implementation

The Board of Education, in conjunction with the Superintendent, Business Manager and Policy Committee, is responsible for developing and adopting a fund balance policy.

<u>Audit Recommendation #3</u>

The Board should continue to evaluate and explore ways to cut costs and increase revenues for the general fund.

Implementation Plan of Action

The District continues to monitor all budget activities and explore cost saving opportunities that would be achieved either through efficiencies, reduced or eliminated services, or shared service agreements. Recently the District and the City of Watervliet entered into a

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shared service agreement for a refuse and recycling program. In addition, the District was able to offer summer school classes as a result of a shared service agreement with the Cohoes City School District.

New sources of revenue also continue to be explored. The District has revised its Use of Facilities Policy for athletic events, held fundraisers and continues to work with the community in attempts to generate revenue or sponsor programs.

Implementation Date

Exploring for cost savings and new revenue sources is an ongoing, continuous process.

Person Responsible for Implementation

Cost saving actions and developing new revenue sources is a communal effort with ideas originating from the Board of Education, Administration and the community itself.

Audit Recommendation #4

The Board and District officials should monitor capital project activity to ensure capital project expenditures do not exceed authorized amounts.

Implementation Plan of Action

The District has implemented several internal controls to monitor capital fund expenditures including:

- The Superintendent and Business Manager hold bi-weekly meetings with the District's architectural firm to review all potential change orders and allowance disbursements.
- All change orders and allowances, regardless of cost, must be approved by the Superintendent. Per District policy, any change order exceeding $50,000 must be approved by the Board of Education.
- The Business Manager submits all payment requests to the Board of Education for approval at monthly Board meetings.
- Copies of documentation for all change orders, allowance disbursements and payment applications are maintained by the Business Office.

Implementation Date:

Corrective actions were implemented during the 2013-2014 fiscal year.

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Person Responsible for Implementation:

The Board of Education, in conjunction with the Superintendent and the Business Manager, are responsible for monitoring capital project activity.

Audit Recommendation #5:

The Board should develop a plan to fund the deficit in the capital projects fund.

Implementation Plan of Action:

The District is currently working with its architectural firm (CSArch) and financial planning company (Capital Markets Advisors, LLC) to implement a plan to fund the overspending in the capital project. The multi-phased project is expected to be completed by spring 2015.

Implementation Date:

The development of the plan is underway and will be implemented prior to the 2015-2016 school year.

Person Responsible for Implementation:

The Board of Education, in conjunction with the Business Manager, are responsible for developing a plan to fund the capital project deficit.

Audit Recommendation #6:

The Board and District officials should develop a multiyear plan to address the District's fiscal stress.

Implementation Plan of Action:

The District will utilize resources provided by the State Comptroller's Office to develop a multiyear fiscal plan to address the District's fiscal stress. Specifically, the District will refer to the "Multiyear Financial Planning Local Government Management Guide" which can be found on the Comptroller's webpage.*
* http://www.osc.state.ny.us/localgov/pubs/lgmg/multiyear.pdf

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Implementation Date:

A multiyear fiscal plan will be used to develop the 2015-2016 budget.

Person Responsible for Implementation:

The Business Manager, in conjunction with the Board of Education and the Superintendent, will develop a multiyear financial plan.

This corrective action plan addresses all of the recommendations included in the Comptroller's report. We would like to thank the Comptroller's Office for its thorough work and invite the Comptroller's staff to return and examine the improvements that we have and will put in place.

Respectfully submitted,

Mark Scully
Board President
Watervliet City School District

Cc: New York State Education Department
Office of Audit Services, Room 524 EB
89 Washington Avenue
Albany, NY 12234

Dr. Lori S. Caplan, Superintendent
Watervliet City School District

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates school districts based on financial and environmental indicators. These indicators are calculated using the school districts' annual financial reports and information from the United States Census Bureau, the New York State Department of Labor and the New York State Education Department, 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 obtaining information on the fiscal responsibilities of District officials.

- We interviewed District officials to determine what processes were in place and gain an understanding of the District's financial situation and budget.

- We analyzed the District's financial records for the general fund 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 the decline.

- We compared the adopted budgets for the general fund 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 July 1, 2011 through March 31, 2014 and interviewed District officials to determine the type and amount of short-term debt that was issued and the reason the short-term debt was issued.

- We reviewed the adopted budget for the general fund for the 2013-14 fiscal year to determine whether the budgeted revenues and appropriations were reasonable based on historical data, supporting source documentation and the actual results of operations through March 31, 2014.

- We obtained and reviewed bond resolutions passed by the Board to identify the total authorized costs capital projects and purpose of the project according to the bond resolutions.

- We reviewed the District's capital project accounting records and interviewed District officials to quantify project expenditures and compared them to the amounts authorized by the bond resolutions.

- We reviewed the 2014-15 adopted budget and identified and analyzed significant revenue estimates and appropriations to determine whether they were reasonable and supported.

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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