



Ticonderoga Central School District

Financial Condition

Report of Examination

Period Covered:

July 1, 2010 — December 31, 2012

2013M-154



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2013

Dear District Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments 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 operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Ticonderoga 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 local government 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 Ticonderoga Central School District (District) is located in portions of the Towns of Ticonderoga, in Essex County, and Hague, in Warren County. The District is managed by a Board of Education (Board) comprising nine elected Board members. The Superintendent of Schools serves as the chief executive officer and reports to the Board. The District's business operations are overseen by a Business Administrator. The person who served as the Treasurer retired in December 2012 and the Deputy Treasurer assumed her duties. As a cost-saving measure, the resulting vacancy will not be filled.

The District had an enrollment of 875 students for the 2012-13 school year, a significant reduction from the enrollment of 953 students reported for the 2008-09 school year. With the decrease in the student population the District has reduced the number of administrative and instructional staff. For example, the number of teachers was reduced from 91 in 2008-09 to 77 in 2012-13. The number of principals was reduced from three to two during that same time period.

The Board must submit the District's annual budget to the public for vote. The budgets proposed for the 2010-11 and 2011-12 fiscal years did not pass on the first vote. After the Board made revisions, the budgets passed on the second vote. The budget for the 2012-13 fiscal year passed on the first vote. The 2012-13 budget is \$17,849,823 and includes a tax levy of approximately \$10.3 million, which is more than \$400,000 under the maximum allowed under the limitations of the property tax cap.¹ The District's expenditures are funded primarily with revenues from real property taxes and various State and Federal aid.

Objective

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

- Does the Board adopt realistic budgets, routinely monitor financial operations, and take appropriate actions to maintain the District's financial stability?

¹ Chapter 97 of the Laws of 2011 established a tax levy limit on all local governments in New York State, effective January 1, 2012. This law requires that local governments maintain any property tax levy increase to no more than 2 percent with adjustments for various factors, or the rate of inflation, whichever is less.

**Scope and
Methodology**

We examined the District's financial condition for the period of July 1, 2010, through December 31, 2012. We also reviewed the District's budget for the 2012-13 fiscal year. In order to develop additional information for perspective and background, we reviewed financial data from fiscal years prior to the audit period.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

**Comments of
District Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials 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 is responsible for making sound financial decisions that are in the best interests of the District, the students it serves, and the taxpayers who fund the District's programs and operations. Sound budgeting practices based on accurate estimates, coupled with prudent fund balance management, ensure that sufficient funding will be available to sustain operations, address unexpected occurrences, and satisfy long-term obligations or future expenditures. Accurate budget estimates also help ensure that the levy of real property taxes is not greater than necessary. Further, the Board should prepare a multiyear financial plan that projects future revenues and expenditures and prepares for the fiscal challenges of future years.

In recent years the District has struggled with fiscal challenges due to a deteriorating financial condition. We found that the Board adopted budgets that limited costs and tax increases by reducing administrative and instructional positions in response to the District's decreasing enrollment, negotiating salary freezes with faculty and support staff, and adopting a different medical insurance plan that reduced rate increases. The Board balanced its budgets with appropriations of unexpended surplus funds² and reserves. As a result, by the end of the 2011-12 fiscal year, the District had only \$10,000 remaining in reserves, and an unexpended surplus fund balance of \$384,362. To meet short-term cash flow needs, the District borrowed \$1.1 million at the beginning of the 2012-13 fiscal year. While the Board has taken steps to attempt to address its declining financial position, we found that the Board has not developed a multiyear financial plan to improve the budget development process. By developing such a plan, District officials will have a roadmap to help identify and manage future District costs and resources.

General Fund Budgets

The general fund is the District's main operating fund. The financial transactions for educational programs and other operating activities, including the maintenance of buildings and grounds, transportation,

² 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, less any amounts appropriated for the ensuing year's budget (after Statement 54).

and administration, are recorded in this fund. The general fund's financial condition depends on the Board's ability to develop realistic budgets, monitor the District's financial operations throughout the fiscal year, and make budget modifications as needed. Further, the Board is required to obtain voter approval for its budgets.³

In preparing the general fund budget, the Board is responsible for estimating what the District will spend and what it will receive in revenue (e.g., State aid), estimating how much fund balance will be available at fiscal year-end, and balancing the budget by determining what the expected tax levy will be. Accurate estimates help ensure that the levy of real property taxes is no greater than necessary. Real Property Tax Law (Law) allows a district to retain a limited amount of fund balance (up to 4 percent of the ensuing year's budget) as unexpended surplus. Fund balance in excess of that amount must be used to fund a portion of next year's appropriations, thereby reducing the tax levy, or used to fund legally established reserves.

We reviewed the District's actual revenues and expenditures and compared them to estimates in the adopted budgets for the 2010-11 and 2011-12 fiscal years⁴ and the 2012-13 fiscal year through December 31, 2012. We found that the District appropriated significant amounts of fund balance and reserves to finance its annual operations. For example, the District appropriated \$962,500 from fund balance and reserves to finance appropriations included in the 2010-11 budget. However, it only used \$690,484 of fund balance due to actual expenditures being approximately \$324,000 less than what was budgeted, and also offset a revenue shortfall of approximately \$52,000. In the 2011-12 budget, the District appropriated fund balance and reserves totaling \$344,385 to finance operations. However, it only used \$254,805 of fund balance due to actual expenditures being approximately \$865,000 less than what was budgeted, and also offset a revenue shortfall of approximately \$775,000.

The heavy reliance on unexpended surplus funds and reserves in recent years has resulted in significant reductions to the fiscal year-end balances. The unexpended surplus fund balance at the beginning of the 2009-10 fiscal year was \$936,374. At June 30, 2012, the unexpended surplus fund balance had been reduced to \$384,363 (See Table 1). Also, the District's reserves have been reduced from \$185,000 as of June 30, 2010 to \$10,000 as of June 30, 2012. Furthermore, the District took out a short-term loan in the form of a

³ If the voters reject a proposed budget, districts have the option of revising the budget and presenting it to the voters a second time or adopting a contingency budget. If the budget is subjected to a second vote and fails to pass again, districts must operate under the spending restrictions of a contingency budget.

⁴ The District's fiscal year begins July 1 and ends June 30.

revenue anticipation note (RAN) totaling \$1.1 million dollars for the beginning of the 2012-13 fiscal year to make debt service payments and pay for its general operating costs while waiting for the receipt of its property taxes and State aid.

Table 1: General Fund - Results of Operations		
	2010-11	2011-12
Beginning Fund Balance	\$1,521,230	\$830,746
Operating Surplus/(Deficit)	(\$690,484)	(\$254,805)
Total Year End Fund Balance	\$830,746	\$575,941
Less: Restricted Fund Balance	\$237,348	\$191,578
Unrestricted Fund Balance	\$593,398	\$384,363
Less: Appropriated Unexpended Surplus for the Ensuing Fiscal Year	\$344,385	\$0
Unexpended Surplus Funds	\$249,013	\$384,363
Unexpended Surplus as a Percent of Ensuing Year's Appropriations	1.3%	2.2%

District officials did not appropriate unexpended surplus funds or reserve moneys for the 2012-13 fiscal year. Instead, they adopted cost-savings measures that limited the increases that would otherwise have been incurred. For example, the District limited increases in personnel costs by negotiating pay freezes for all administrators, faculty, and staff. These concessions are important because the costs of salaries and benefits have represented about 70 percent of the total general fund's expenditures in recent years. The District also anticipated saving about \$364,000 in 2012-13 by directly providing services to students with special needs rather than sending them to programs provided by the Board of Cooperative Educational Services (BOCES).

The adopted 2012-13 budget was about \$1.1 million less than the adopted budget for 2011-12. It also included a tax levy that was more than \$400,000 under the District's property tax cap limit. The District cannot reasonably continue to develop balanced budgets in this manner without a multiyear financial plan. According to the provisions of current employment agreements with faculty and support staff, the District is obligated to provide raises for the 2013-14 fiscal year.

In future years the Board will be developing budgets that may need to assume little change in government aid and may be increasingly dependent on local taxes. The lack of available unexpended surplus funds limits the District's financial flexibility in the future. Officials expect that short-term borrowings will continue to be necessary in future years.

Multyear Financial Plan

Multyear financial planning is a tool school districts can use to improve the budget development process. Planning on a multyear basis will enable District officials to identify developing revenue and expenditure trends, establish long-term priorities and goals, and consider the impact of near-term budgeting decisions on future fiscal years. It also allows District officials to assess the merits of alternative approaches (such as using unexpended surplus funds or establishing and using reserves) to finance its operations. Multyear financial planning can also help District officials project the future costs of employee salaries and benefits provided for in collective bargaining agreements. 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 has not yet developed a multyear financial plan. District officials should formulate a plan that takes into consideration projected enrollment trends, current economic conditions, the recent trend of reductions in State aid, and the impact of the new property tax cap law on revenue projections. Further, the increases in employee salary and benefit costs, including medical insurance and required contributions to the retirement systems, must be addressed in the plan. The Board also needs to evaluate the establishment and future use of reserve moneys. Trends in student population changes should be analyzed and the future impact on programs should be anticipated. A well-designed plan can assist the Board in making timely and informed decisions about the District's programs and operations.

District officials are cognizant of the fiscal challenges they face and retained an outside consultant to review operations and prepare a study. Officials are considering cost-saving opportunities such as sharing services with other school districts, identifying cost efficiencies, or even merging with another school district. While such studies are helpful, they can also be used in development of a multyear financial plan that establishes priorities and goals, and anticipates future contingencies.

Recommendations

1. The Board should continue to ensure that future budgets are structurally balanced.
2. The Board should continue to closely monitor financial operations and take appropriate action to establish and maintain the District's financial stability.
3. District officials should develop and regularly update a multyear financial plan to provide a framework for future budgets and facilitate the District's management of financial operations.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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August 19, 2013

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PSU – CAP Submission
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Ticonderoga Central School District
Financial Condition
Audit #: 2013M-154

Dear Sir or Madam:

In conjunction with the requirements set forth in Subdivision 4 of Section 35 of the General Municipal Law, please accept the listed corrective action plan in accordance with your recommendations for the Ticonderoga Central School District.

For each recommendation included in the audit report, the following corrective action is proposed.

- 1. The Board should continue to ensure that future budgets are structurally balanced.**
The Board of Education will continue this process as noted.
- 2. The Board should continue to closely monitor financial operations and take appropriate action to establish and maintain the District's financial stability.**
The Board of Education will continue this process as noted.

3. District officials should develop and regularly update a multiyear financial plan to provide a framework for future budgets and facilitate the District's management of financial operations.

As part of the budget process for 2013-2014, this process was implemented. The district will continue to utilize this plan as part of the Business Office duties, with oversight from the Superintendent and the Board of Education.

In conclusion, I would like to thank [REDACTED], [REDACTED], for his valuable input and recommendations. We believe that this has been a positive experience for our District.

Sincerely,

John C. McDonald, Jr.
Superintendent of Schools

Cc: Mrs. Laurie Cossey, Business Administrator
Members of the Board of Education

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the District's financial condition for the period of July 1, 2010, through December 31, 2012. To accomplish the objective of our audit we performed the following procedures:

- We interviewed officials to gain an understanding of the District's budgeting process and the results of recent budget votes.
- We reviewed the results of operations and analyzed changes in fund balance for the general fund. To gain additional background information and perspective, we also reviewed financial data from fiscal years prior to those included in the audit scope period.
- We compared the adopted budgets to the modified budgets and actual operating results to determine if the budget assumptions were reasonable.
- We analyzed the composition of revenue sources to identify trends.
- We reviewed expenditures based on the District's budget categories to identify significant expenditures and analyze trends.
- We reviewed the appropriation of the District's reserves.
- We interviewed officials and obtained and reviewed related documentation of the District's efforts to implement cost savings opportunities.
- We interviewed officials to determine if the District had developed a multiyear financial plan.
- We reviewed documentation related to the calculation of the District's property tax cap limit to determine if the District established a tax levy within the limits of the property tax cap.
- We tested the reliability of the annual update document (AUD) data and the financial statements by reviewing journal entries, bank statements, cash receipts and disbursements, and related accounting records.
- We reviewed budget and revenue status reports and trial balances.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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