Office of the New York State Comptroller

Division of Local Government
& School Accountability

Niagara Wheatfield Central School District

Financial Condition

Report of Examination

Period Covered:

July 1, 2011 — September 2, 2014

2014M-364

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

April 2015

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 Niagara Wheatfield 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 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 Niagara Wheatfield Central School District (District) is located in the Towns of Wheatfield, Niagara, Lewiston and Cambria, in Niagara County. The District is governed by the Board of Education (Board), which is comprised of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. There are six schools (including the Tuscarora Indian School) in operation within the District, with approximately 4,200 students and 600 employees. The District's budgeted appropriations for the 2014-15 fiscal year in the general fund total approximately $64.6 million, which are funded primarily with real property taxes and State aid.

The Board and administration are also responsible for providing oversight and administrative services for the Tuscarora Indian School (School), located on the Tuscarora Indian Reservation (Reservation). The School was established to provide elementary education for grades kindergarten through eight for residents and members of the Reservation. The Board, together with certain members of the Tuscarora Indian Nation, have primary fiscal responsibility for the School. The School's budget is prepared by the District and subsequently approved by the New York State Education Department (SED). This budget is not approved by voters and is for internal purposes only. All funds appropriated for the School are passed through the District, and all employees serving at the School are District employees. The costs incurred to operate the School are expected to be reimbursed by New York State (State).

The Office of the State Comptroller's (OSC) Fiscal Stress Monitoring System[1] monitors school districts for indications of fiscal stress, such as declining fund balance. The District was identified as being under significant fiscal stress largely because of the District's poor cash flow, operating deficits and low unrestricted fund balance.[2]

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[1] For more information on the Fiscal Stress Monitoring System, see the OSC website at *http://osc.state.ny.us/localgov/fiscalmonitoring/index.htm.*

[2] Portion of fund balance that is not restricted, committed or assigned for another purpose

Objective

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

- Is fund balance adequate to support District operations?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2011 through September 2, 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 C 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 the findings and recommendations and indicated that they planned to take corrective action. Appendix B includes our comment on the District's response.

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 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, *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

Fund balance that is maintained at reasonable levels provides cash flow and can be used to provide for fluctuations in cash flow, or for unexpected circumstances or can be available for appropriation in subsequent years. When too much fund balance is used to finance operations, or the District incurs unplanned operating deficits, fund balance will be depleted and the District may be left without adequate fund balance.

A delay in State aid reimbursements for the School has caused cash flow problems for the District. The District reports a receivable for this State aid; however, the receivable is not liquid. Without the State aid, the District used general fund resources and cash flow borrowing to finance School operations. The District has also issued a significant amount of short-term cash flow borrowing during the past three fiscal years. Furthermore, the District's poor management of funds in the debt service fund may have resulted in avoidable debt service costs of more than $500,000.

General Fund

The District accounts for the School's financial operations separately and distinctly from the general fund.[3] The primary operating fund of the School is the Tuscarora Indian education fund. Any costs incurred to operate the School that are not reimbursed by the State are an expense of the District's general fund.

As of June 30, 2014, the State owed the District $6.6 million in aid for costs associated with the operation of the School.[4] Since the receipt of State aid was significantly delayed, the District used general fund resources to finance School operations. This negatively impacted the general fund's financial condition. The Tuscarora Indian education fund owed the general fund approximately $6.8 million as of June 30, 2014. There was no cash in the Tuscarora Indian education fund to repay the loan because the receipt of State aid was delayed. As a result, the interfund receivable in the general fund is not liquid. Figure 1 presents the general fund's financial condition and the impact of the long term interfund receivable.

3 The primary operating fund of the District

4 This figure includes $3.4 million from the 2012-13 school year and $3.2 million from the 2013-14 school year. A payment for 2012-13 operations totaling $3.3 million was released by SED on October 3, 2014 while the 2013-14 balance remains outstanding as of November 2014.

Figure 1: General Fund Operating Results and Fund Balance

	FY 2011-12	FY 2012-13	FY 2013-14
Beginning Fund Balance	$4,269,634	$941,844	$4,365,002
Revenues	$58,365,585	$60,529,826	$62,742,300
Expenditures	$55,760,804	$50,515,252	$52,452,845
Transfers to other Funds [a]	$5,932,571	$6,591,416	$8,020,061
Operating Surplus/(Deficit)	($3,327,790)	$3,423,158	$2,269,394
Accumulated Fund Balance at Fiscal Year End	$941,844	$4,365,002	$6,634,396
Less: Unrestricted Appropriated for the Next Fiscal Year	$0	$0	$0
Less: Encumbrances [b]	$29,937	$532,751	$133,939
Less: Reserves	$2,068,001	$2,068,001	$3,915,801
Reported Unrestricted Fund Balance/(Deficit) at Fiscal Year End [c]	($1,156,094)	$1,764,250	$2,584,656
Less: Reduction for Long Term Interfund Receivable	($5,048,256)	($7,869,364)	($6,864,813)
Adjusted Unrestricted Fund Balance at Fiscal Year End	($6,204,350)	($6,105,114)	($4,280,157)
Cash Flow Borrowing Outstanding at Fiscal Year End [d]	$0	$0	$8,000,000

[a] For example, in 2013-14, the District transferred $7.7 million to the debt service fund.

[b] Encumbrances represent purchase orders, contracts or other commitments for the expenditure of money. Encumbrances are presented as a reservation of fund balance and do not represent expenditures or liabilities. The commitment will be honored and the expenditures will be recognized in a subsequent period that the liability is incurred or the commitment is paid.

[c] Includes all general fund net assets that do not meet the criteria of non-spendable, restricted, committed or assigned and are deemed to be available for the general use by the District

[d] Excludes cash flow borrowing, which consisted of Revenue Anticipation Notes and Tax Anticipation Notes, that was issued and redeemed within a fiscal year in the following amounts:
- 2013-14 - $13.6 million
- 2012-13 - $8 million
- 2011-12 - $4.6 million

The timely receipt of the State aid would help remedy the need to borrow for cash-flow purposes, but District officials were unsure when the State aid would be received. Since claims are submitted after the fiscal year end, there is at least an 18-month lag before the District gets reimbursed by the State. SED attributed the District's current two-year payment delay to processing the District's contract renewal and significant turnover with the District's business office staff, which have hindered the process. If the delay in the receipt of the State aid is a chronic problem, the District should consider reducing unrestricted fund balance to reflect the long term nature of the receivable due from the State.

From 2011-12 through 2013-14, the District has needed to borrow several million dollars for cash flow purposes due to the delay in the State aid payments. Despite its cash flow needs, the District transferred nearly $1.85 million of unrestricted fund balance to established reserves in 2013-14. We question why District officials would do this when the District is having significant cash flow issues, as cash in the reserves can only be used for the purpose of the applicable reserve.

Conservative budget estimates, along with a deliberate monitoring of operating results and the timely receipt of State aid, could help improve the District's financial condition and cash flow position.[5] The new administration

[5] The District's five-year financial projections indicate that District officials expect fund balance to steadily decline through June 30, 2019. The District's long-term planning model uses the 2014-15 tax levy increase of 4.8 percent and a 2 percent increase in subsequent years.

has implemented better budgeting practices, including tax increases, which are helping to improve the District's financial condition.

Debt Service Fund

The District accounts for and reports a debt service fund, which is separate from the general fund. Debt service funds are not required unless segregation of resources is legally mandated. For example, school districts are required to establish a debt reserve, which would be accounted for in the debt service fund, if there are proceeds from the sale of property on which debt is outstanding. School districts are also required to account for and restrict unexpended bond proceeds and related interest earnings in accordance with statutory provisions.

As of June 30, 2014 the District has approximately $5.6 million in the debt service fund, which is not being used for taxpayer benefit.

Safe School/Greenway Capital Project – As of June 30, 2014, the District reported approximately $2.2 million in Greenway money[6] in the debt service fund. In October 2010, District voters approved an $11.1 million Safe School/Greenway capital project. The Safe School portion allocated $5 million to be used for an assortment of repairs and technological improvements throughout the District and would be funded by taxpayers and State aid. The Greenway portion of the approved project consisted of a 2.1 mile bike path/nature trail, an outdoor classroom, a playground and a parking lot, and cost $6.1 million that, according to District officials, would use grant funding from the New York State Power Authority (NYPA) relicensing agreement along with State aid. Since the general fund financed a large portion of debt service costs, the Greenway grant money was not used to fund this project or the related debt service costs.

After the project was approved by voters, District officials obtained the required Greenway Commission and Host Community Committee approvals. The District received approximately $2.2 million in Greenway funds on March 5, 2013, when the project was substantially completed, and recorded the money in the debt service fund. On March 26, 2013, the District issued a 15-year serial bond for $10.6 million to pay for the project.[7]

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6 As part of a 2008 agreement with NYPA, the District annually receives $600,000 of "Host Community" money and $360,000 in "Greenway" money to be used to fund approved capital projects. The District is permitted to use Host Community money to pay for debt service on capital projects, while it must obtain prior approval from the Niagara River Greenway Commission and the Host Community Standing Committee for Greenway money funding approval. Greenway money is paid to the District after a project is approved.

7 Serial bond payments begin in 2013-14. Prior to the issuance of the permanent financing, the District issued a Bond Anticipation Note (BAN) for approximately $11.1 million in March 2012. The District paid off $515,000 of the BAN when it matured.

The District has not used any of the Greenway funds toward the project. As a result, the District has missed an opportunity to contain interest costs over the lifetime of the project bonds. If the $2.2 million Greenway money had been used to help finance the project, the District could have issued less debt and interest expense may have been reduced by over $500,000.[8] The District has also not used the money to pay related debt.

Other Debt Service Fund Cash – The District also reported an additional $3.4 million in cash in the debt service fund as of June 30, 2014. Most of this cash is "Host Community" money that the District has received annually since 2005 and can be used to pay debt service costs. In 2011-12 and 2012-13, some of this debt service money was used to pay for a portion of principal and interest payments on outstanding debt. However, in 2013-14, the District used general fund resources totaling $7.7 million to pay for all principal and interest costs, rather than using any of the cash in the debt service fund. In addition, the District budgeted a transfer of $7.7 million in the general fund to the debt service fund to pay for all 2014-15 debt service costs as well.

Had the District more prudently used funds in the debt service fund, it could have mitigated some of its cash flow issues in the general fund.

Recommendations

The Board and District officials should:

1. Closely monitor operating results and fund balances to ensure that the District has adequate cash flows.

2. Actively work with SED to ensure State aid is paid in a timely manner.

3. Ensure that Greenway grant money is properly used.

4. Consider using the available cash resources in the debt service fund to pay for appropriate debt service costs.

[8] The District can redeem the bonds no earlier than 2024. Our calculation assumed the bonds would not be redeemed prior to the stated maturity date.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Niagara Wheatfield Central School District
Administrative Offices
6700 Schultz Street
Niagara Falls, NY 14304

March 25, 2015

Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510

Dear Mr. Mazula:

On March 12, 2015, a meeting was held with representatives from the New York State Comptroller's Office, Board of Education President, Superintendent of Schools, Business Administrator and the District Treasurer to review their audit findings of the Niagara Wheatfield Central School District. This letter fulfills the District's responsibility to the Office of the New York State Comptroller to respond to the findings of this audit and also serves as the corrective action plan.

The District would like to extend its appreciation to the audit staff for their input and feedback regarding our current processes.

The audit did not find any instances of fraud or misappropriation of funds during the period which was audited.

The District generally agrees with the audit findings, but would like to recognize the following:

1. State aid, specifically Foundation aid and the Gap Elimination Adjustment, has decreased an average of over 23% per year for the last eight (8) years. Assuring that the District has adequate cash flow is an impossible task considering that the aid has been reduced so significantly and that the amount due for services provided is twelve (12) to eighteen (18) months delayed.
2. The District has always actively worked with New York State Department of Education to obtain the overdue aid and will continue to do so in order to maintain the level of programming for students.
3. The New York Power Authority grant funding can only be used for specific purposes as outlined in the contract with the Authority. In addition, portions of the funding must be preapproved.
4. Finally, it should be mentioned that there was extensive turnover in staffing and Administration during the period audited. While this could have resulted in major setbacks, the staff at Niagara Wheatfield Central School District worked diligently to maintain daily ongoing business processes.

The District responses and corrective action plans are as follows:

Recommendation #1 – Closely monitor operating results and fund balances to ensure that the District has adequate cash flows.

The audit confirms that significant delays in State Aid have negatively impacted the District's financial condition. The Niagara Wheatfield Central School District contracts with New York State to provide educational services to the Tuscarora Nation. While these expenditures are reimbursable, there is no cash received upfront and there is a significant delay in reimbursement. This has resulted in the need to borrow annually to maintain cash flow.

Appropriate budgeting and watchful spending resulted in the 2013-14 year ending with a fund balance allowing the District to increase the Unappropriated Unassigned Fund Balance to the maximum amount allowed by law thus improving the District's cash flow. The remaining fund balance was used to increase reserves including establishing a Retirement Reserve and a Transportation Reserve with the intent of reducing the impact on future budgets and the taxpayer by having reserves to offset the cost of both maintaining the District's bus fleet and the District's portion of retirement costs.

The District Business Administrator will continue to monitor the annual budget and work toward increasing reserves and fund balance so that the District will continue to have adequate cash flows to offset the delays in State revenues.

Recommendation #2 – Actively work with SED to ensure State aid is paid in a timely manner.

The District has been proactive in maintaining communication with the Native American unit of the New York State Department of Education. As a vendor providing services for New York State, we work diligently with the State to provide a quality education along with growth opportunities for Native American students and we have developed a good rapport in an effort to provide these services along with securing the State aid due to the District. Niagara Wheatfield Central School District administrators, along with administrators from other districts who are allocated aid for Native American students, continue to attend conferences and meet with New York State representatives in an effort to maintain open communication and dialog assuring timely State aid payments. Because of our efforts in communication, the 2013-14 payment due from the State was made in a more timely manner.

The District Superintendent, Business Administrator and staff will continue to maintain open communication with New York State including attending conferences and meetings with State representatives to ensure timely receipt of State aid. The Superintendent, Business Administrator, and Principal of the Tuscarora Indian School will be attending a meeting with State officials on April 22, 2015 in Syracuse, New York to continue the dialog regarding payments.

Recommendation #3 – Ensure that Greenway grant money is properly used.

In 2011, approval was granted by the Niagara River Greenway Commission for the District to utilize funds to complete a capital project. The Greenway project was completed in 2013 and Greenway funds were received to pay toward the completed bonded project. The District issued a 15 year serial bond to pay for that project in the same month as the request for the Greenway funds occurred. It should be noted that this was the first time the District had requested a draw of the Greenway funding. There was a timing issue between the anticipated date of actual receipt of the Greenway funds that were received, the closing of the bond to cover outstanding expenditures for the Greenway project and the turnover in administration which resulted in a bond being issued for the full amount of debt.

Because the Greenway funding is a fixed dollar amount allocated annually, it will continue to be received after the term of the bond. The District is currently working on a plan to strategically apply the Greenway funding to the long term debt associated with the 2011 Greenway approved capital project by applying it to future budgets. This funding will continue to be applied to future budgets as future receipts of the Greenway funding occur.

Recommendation #4 – Consider using the available cash resources in the debt service fund to pay for appropriate debt service costs.

The cash resources in the debt service fund are, and will be strategically applied to lessen the impact on the taxpayer, while maintaining their purpose as outlined in the District's contract with the New York Power Authority. The cash resources are currently being utilized to offset approved capital transportation expenditures.

The District will continue to strategically utilize the debt service fund cash to lessen the impact of future debt on taxpayers through the budget process. In the short term, the plan will be to continue using these resources to pay for capital transportation expenditures. In the long term, the District will use these resources to offset costs of future capital improvement projects.

See Note 1 Page 12

Respectfully,

Mr. Steven Sabo, School Board President

Dr. Lynn Fusco, Superintendent of Schools

Allison S. Brady, Business Administrator

APPENDIX B

OSC COMMENT ON THE DISTRICT'S RESPONSE

Note 1

Cash in the debt service fund should be used to pay debt. If the Board and District officials choose to use "Host Community" money to pay for purposes other than debt, then the related financial activity should be recorded in a different fund (e.g., general or capital projects fund). District officials should consult the State Comptroller's publication entitled *Accounting and Reporting Manual for School Districts* for additional guidance.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

- We reviewed financial condition-related policies and procedures.
- We interviewed District officials regarding the District's financial condition.
- We reviewed adopted budgets, financial statements, financial and long range planning reports and other relevant supporting schedules.
- We had discussions with staff from SED's Native American Unit to gain an understanding of the operating expenditure reimbursement process.
- We reviewed the NYPA agreement, Greenway project proposals and approvals, Host Community Standing Committee reports and bank statements.

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 D

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