



Tioga Central School District Financial Condition

Report of Examination

Period Covered:

July 1, 2013 — May 5, 2015

2015M-168



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2015

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 Tioga 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 recommendation 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 Tioga Central School District (District) provides educational services for the Towns of Tioga, Nichols, Barton and Candor located in Tioga County. The Board of Education (Board) is composed of seven elected members and is responsible for the general management and control of the District's financial and educational affairs, including developing, monitoring and controlling the budget. The Board President acts as the chief financial officer. The Superintendent of Schools is the chief executive officer and has the responsibility, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The Treasurer is responsible for administering District finances and maintaining accounting records and reports.

The District operates three buildings with approximately 1,000 students and 150 employees. The District's budgeted appropriations for the 2014-15 fiscal year totaled \$17.3 million, funded primarily with State aid and real property taxes.

In addition, the District's fund balance has been reduced by approximately \$1.3 million over the last three fiscal years and the District's approved budget for the 2015-16 fiscal year includes a 17 percent tax increase.

Objective

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

- Did District officials establish structurally balanced budgets?

Scope and Methodology

We examined the District's financial condition from July 1, 2013 through May 5, 2015. We extended the scope back to July 1, 2012 and forward to June 30, 2015 for trend analysis.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**Comments of
District Officials and
Corrective Action**

The results of our audit and recommendation 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 recommendation and indicated they have initiated corrective action

The Board has responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3) (c) of 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 finding and recommendation in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Financial Condition

Financial condition may be defined as a school district's ability to balance recurring expenditure needs with recurring revenue sources, while providing desired services on a continuing basis. A district in good financial condition generally maintains adequate service levels during fiscal downturns and develops resources to meet future needs. Conversely, a district in fiscal stress usually struggles to balance its budget, suffers through disruptive service level declines and has limited resources to finance future needs. To fulfill fiscal responsibilities, it is essential that District officials develop reasonable, structurally balanced budgets¹ and manage fund balance responsibly.

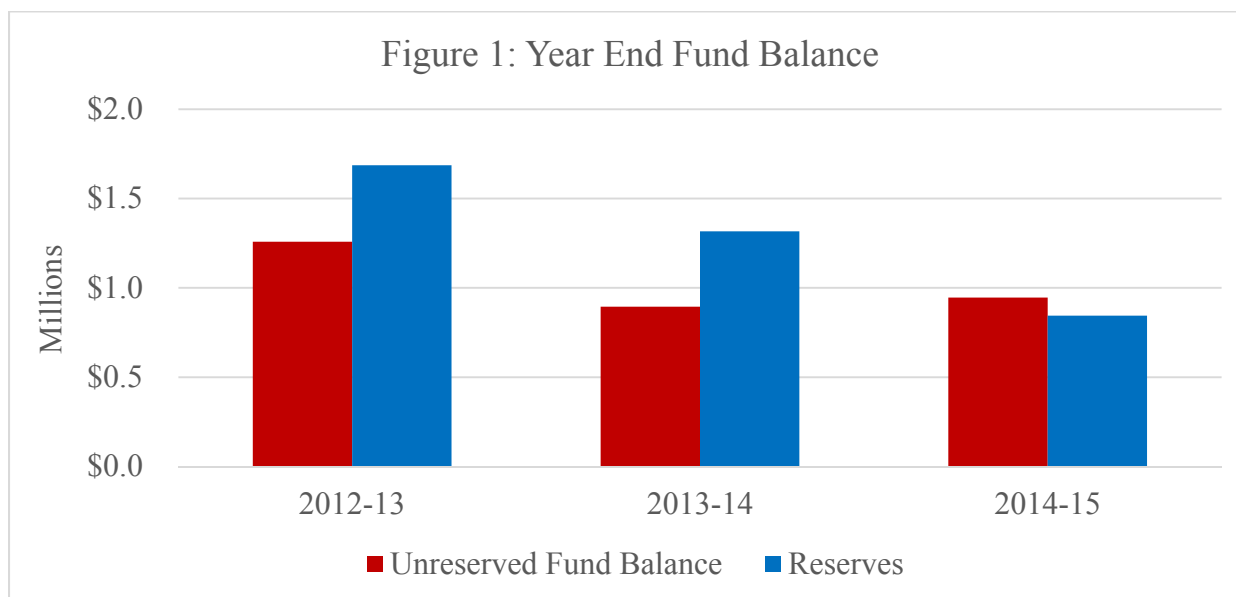
Over the last three fiscal years, District officials have not established structurally balanced budgets. This resulted in artificially low tax levies since at least the inception of the tax cap² made possible by the use of \$1.3 million in fund balance. The District's original 2015-16 proposed budget included a 30 percent tax increase to maintain its current level of services. The voters did not approve this budget but upon re-vote, approved a 17 percent tax increase made possible by budget cuts of \$89,000 and a \$294,000 donation. The failure to establish structurally balanced budgets will lead to possible future cuts in services and the continued deterioration of the District's fund balance.

Although District officials' budgetary estimates were reasonable,³ they designed budgets that continually relied on fund balance to fund operations instead of finding other viable revenue sources. The recurring revenues were consistently lower than recurring expenditures in the last three adopted budgets. As a result, the District had general fund operating deficits that consumed approximately \$1.3 million of fund balance:

¹ Structurally balanced budgets include tax levies that equal the difference between non-tax recurring revenues and recurring expenditures.

² The New York State Legislature and Governor enacted Chapter 97 of the Laws of 2011 that established a tax levy limit on all local governments and school districts, which was effective beginning in the 2012 fiscal year. The law precludes a school district from adopting a budget that requires a tax levy that exceeds the prior year's tax levy by more than 2 percent or the rate of inflation, whichever is less, and certain exclusions permitted by law, unless 60 percent of district voters approve a budget that requires a tax levy that exceeds the statutory limit.

³ We defined "reasonable" to be if total budgeted revenues or appropriations were within 10 percent of the total actual revenues or expenditures. We tested the last five completed fiscal years. The average difference for revenues was 1.6 percent and the average difference for expenditures was 4.5 percent.



Over the last three fiscal years, the operating deficits used almost 40 percent of the District’s total fund balance, including almost half of its reserves. However, during the 2014-15 fiscal year, the District used \$473,000 of its reserves which brought the unassigned fund balance up to 3.9 percent of ensuing year’s appropriations⁴ as of June 30, 2015.

District officials told us it was their plan to use fund balance instead of raising taxes to meet District needs when State aid decreased during the recent economic downturn. As a result, they used more than \$1.3 million in fund balance, which represented about 15.6 percent of the real property tax levy for the last three fiscal years, to temporarily shield the need to increase real property taxes. This resulted in an artificially low tax levy that necessitated a large increase in real property taxes in the 2015-16 budget to offset the past use of fund balance to finance District operations after fund balance became severely depleted.

District officials wanted to maintain a low tax levy for District taxpayers because they felt the taxpayers’ ability to pay more school taxes was low. However, the District has a combined wealth ratio (CWR)⁵ that is comparable to other school districts in Tioga County,

⁴ The law allows school districts to have 4 percent of the ensuing year’s appropriations in unassigned fund balance.

⁵ The CWR is often used to measure the taxpayers’ ability to pay taxes. The CWR seeks to define an area’s wealth (which in turn shows the taxpayers’ ability to pay taxes) and is an average of two ratios: the ratio of a district’s property wealth per pupil to the statewide average property wealth, and the ratio of the district’s income per pupil to the statewide average income. The statewide average is one and the ratio is based on this scale. Therefore, the District, with a CWR of 0.461, is less wealthy than an average district in the State.

yet has the lowest effective tax rate⁶ of any district in the County and a general fund tax levy as a proportion of its total expenditures (as of June 30, 2014) than other local schools:⁷

Figure 2: Ability to Pay Versus Taxes Levied by District			
District	CWR	Effective Tax Rate	Levy / Expenditures
Tioga	0.461	\$9.70	17.4%
Candor	0.459	\$21.80	32.0%
Newark Valley	0.474	\$19.19	31.8%
Spencer-Van Etten	0.512	\$17.75	33.9%
Waverly	0.447	\$14.65	23.2%

Furthermore, District expenditures per pupil are the lowest compared to other school districts in Tioga County. District officials stated they would not be able to reduce costs any further without making significant cuts to services. For 2015-16, the District initially proposed a 30 percent tax levy increase in the budget, which was defeated by taxpayer vote. District officials informed us that if the re-vote failed, they would have to make approximately \$950,000 in cuts to all extracurricular and co-curricular programs to stay within their available financial resources. The District then proposed a modified budget for a second public vote that included a significant private donation of \$294,000,⁸ budget cuts of approximately \$89,000 and a 17 percent tax levy increase, which the voters approved.

District officials have been using multiyear planning to project and manage the District's financial condition; however, their financial condition will not recover without structurally balanced budgets. District officials plan to use the private donation to finance recurring expenditures in the 2015-16 school year. This only serves as a substitute for their past fund balance usage that has temporarily allowed them to forego the need to increase real property taxes or reduce operational expenditures further. Instead, District officials should be cautious and, when preparing the 2016-17 budget, consider the donation a non-recurring revenue to be used for non-recurring expenditures. The failure to establish structurally balanced budgets will lead to possible future cuts in services and the continued deterioration of the District's fund balance.

⁶ The effective tax rate, also known as the full value tax rate, is the amount of tax levied on \$1,000 of assessed real property value.

⁷ We compared all Tioga County, Town, Fire District, and Village taxes; we found that the non-school tax burden of the District's taxpayers overall was comparable to the non-school tax burden of the residents of other districts in the County.

⁸ This donation was contingent on voter approval of the budget and will be given to the District again next year to help fund its 2016-17 budget.

Recommendation

District officials should:

1. Establish structurally balanced budgets with tax levies that equal the difference between recurring revenues and recurring expenditures.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Tioga Central School

TIOGA CENTER, N.Y. 13845

The following response to the Report of Examination conducted by the Office of the State Comptroller will also include Tioga Central School District's Corrective Action Plan.

While the Tioga Central School District does not dispute the findings of this audit, there are several factors that played significant roles in the district's current financial situation. It is important to understand Tioga's history when considering increases to the school tax levy. Most important is the impact the reduction in state aid has had during the economic downturn on fiscally conservative school districts such as Tioga. In addition, the implementation of the tax cap in New York has further complicated the ability to offset loss in aid with an increase to local tax revenue to support expenditures.

Tioga Central typically has been well funded with state aid. Proposed levies were determined based on what was needed to support a structurally balanced budget. During the economic downturn that impacted schools and the communities that support them, the local tax levy was kept at a level school officials felt would be manageable to taxpayers, and that taxpayers could support. This was accompanied by cost containment and reductions over several years, including closure of Nichols Elementary School, a 20% reduction in staff, program reductions, and an increase in use of reserves and fund balance. These measures were meant to be short term while the economy began to improve.

During the economic recovery period, Tioga continued to see insufficient state aid. (The aid Tioga will receive in 2015-16 is on par with 2009-10 aid levels) The promise of Foundation Aid as a result of the Campaign for Fiscal Equity lawsuit has been under funded. In addition, Tioga experienced an additional decrease in aid due to the Gap Elimination Adjustment (GEA) that was levied against districts to balance the state budget. In total from 2009-10 through 2014-15, Tioga Central should have received an additional \$25,762,903 in aid had Foundation Aid been fully funded and if the G.E.A. did not get implemented.

Because the District had already taken significant measures to reduce and contain costs, Tioga chose not to make further reductions in staff and programming that could lead towards educational insolvency. District officials chose to use a combination of reserves and fund balance while staying under the tax cap to support school operations while the state economy continued to improve. However, that approach is not sustainable if the district is to remain educationally and fiscally solvent. The decision to

ask the public to support a significant levy increase for the 2015-16 school year provided Tioga Central with the local revenue needed to support current student programming while better positioning the District to build a tax base that allows revenues to support expenditures.

Tioga Central is at a crossroad. As district officials continue to work to contain costs, funding relies on two main streams, state aid and tax levy to fund operations. It is unknown when, or if, school districts across the state will see full funding of Foundation Aid. Tioga Central can no longer be reliant on reserves, fund balance, or private donations, to build structurally balanced budgets. If we are to continue to provide a quality educational experience for our school community it is important that the District follow the recommendation of this report.

Tioga Central School

TIOGA CENTER, N.Y. 13845

Tioga Central School District Financial Condition Report Examination 2015 M-168

Audit Recommendation:

District officials should:

Establish structurally balanced budgets, with tax levies that equal the difference between recurring revenues and recurring expenditures.

Implementation Plan of Action:

The District will use long term fiscal planning to project recurring expenditures over time.

The District will use long term fiscal planning to project recurring revenues received in state aid.

The District will determine proposed tax levies necessary to build structurally balanced budgets based on the difference of actual recurring expenditures and actual recurring revenues.

Implementation Date:

July 1, 2015

Person Responsible for Implementation:

Tioga Central Board of Education
Scot E. Taylor, Superintendent

Signed:

Scot E. Taylor, Superintendent

10/7/15

Date

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to examine the District's financial condition and determine if District officials established structurally balanced budgets. We examined financial records and reports and annual audit reports. We also interviewed District officials and conducted a budget analysis for the general fund from July 1, 2013 through May 5, 2015. We extended our scope back to July 1, 2012 and forward to June 30, 2015 for trend analysis. We also performed the following procedures:

- We interviewed District officials to determine their views of the District's financial situation and to gain an understanding of their budget process.
- We calculated the decline in fund balance and in reserves from June 30, 2013 through June 30, 2015, the operating deficit for fiscal year ending June 2015 and the level of unassigned fund balance as a percentage of ensuing year's appropriations as of June 30, 2015.
- We reviewed and analyzed the District's adopted general fund budgets, including calculating the amount of recurring revenues versus recurring expenditures. We also compared the adopted budgets to the results of operations to determine whether the adopted budgets were reasonable (our criteria was 10 percent).
- We compared the District's reliance on taxes, general fund expenditures per pupil, CWR and effective tax rate to those of four neighboring districts; we excluded the Owego-Apalachin Central School District because it has a significantly higher budget and enrollment than other Tioga County schools.
- We reviewed the 2015-16 proposed and adopted budgets to determine the tax levy increases proposed.
- We reviewed the 2015-16 proposed budget presentation to gain an understanding of the District officials' multiyear financial planning intentions.

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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

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