



# Ithaca City School District Financial Condition

## Report of Examination

Period Covered:

July 1, 2013 — May 8, 2015

2015M-318



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

February 2016

Dear 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 Ithaca City School District, entitled Financial Condition. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the 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 Ithaca City School District (District) is located in the City of Ithaca and encompasses eight towns in Tompkins County and two towns in Tioga County. The District is governed by the Board of Education (Board), which is composed of nine elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. The District's Chief Operations Officer plays a key role in the budget development process and the daily Business Office administration. The District's budgeted appropriations for the 2015-16 fiscal year were \$115 million, which were funded primarily with State aid and real property taxes.

The District differs from the rural school districts of Tompkins County and most of the Southern Tier region. With its student population of 5,166, it is more than three times larger than the next biggest school district in Tompkins County (the Dryden Central School District), and with a combined wealth ratio<sup>1</sup> of 1.175, it is 15 percent wealthier than the next wealthiest district (Lansing), and more than double some of the others. The District compares favorably on a number of wealth, poverty and tax base indicators with both its neighbors and other similarly-sized upstate city school districts. This appears to be the case despite an unusually high percentage of its property being exempt from property taxes.<sup>2</sup>

## Objective

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

- Did District officials properly manage fund balance?

## Scope and Methodology

We examined the District's budgeting practices and the use of fund balance and reserve funds for the period July 1, 2013 through May 8, 2015. To analyze the District's financial condition and budgeting trends, we extended our audit scope back to the 2010-11 fiscal year and forward through June 30, 2015.

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<sup>1</sup> A measure of income and property wealth within a district (benchmarked against a statewide average of 1.000). The higher a district's ratio, the more credit it receives in the socioeconomic climate formula.

<sup>2</sup> The City and Town of Ithaca both have some of the highest percentage of tax exempt properties in New York State, primarily due to Cornell University's and Ithaca College's locations within their boundaries.

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 agreed with our recommendation and indicated they plan to initiate corrective action.

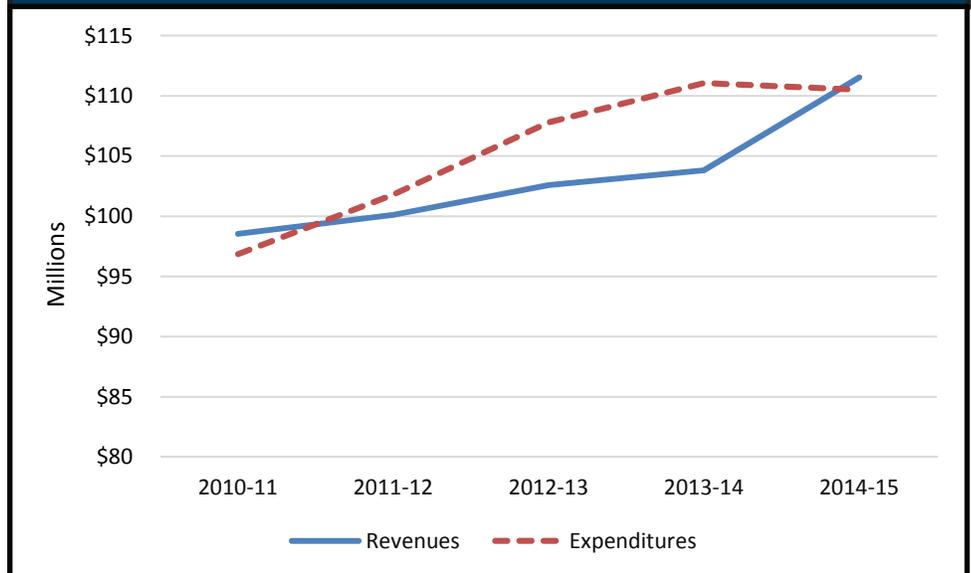
The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3) (c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings 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 should 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 represents resources remaining from prior fiscal years that can be used to lower real property taxes for the ensuing fiscal year. New York State Real Property Tax Law currently allows a district to retain fund balance in the amount of 4 percent of the ensuing year's appropriations. When maintained at reasonable levels, fund balance provides a cushion for unexpected fluctuations in operations, assists with cash flow fluctuations and can be used to help finance the next year's operations. It is essential that District officials develop reasonable, structurally balanced<sup>3</sup> budgets to balance recurring expenditure needs with recurring revenue sources. The adopted budgets also should provide desired services on a continuing basis and manage fund balance responsibly.

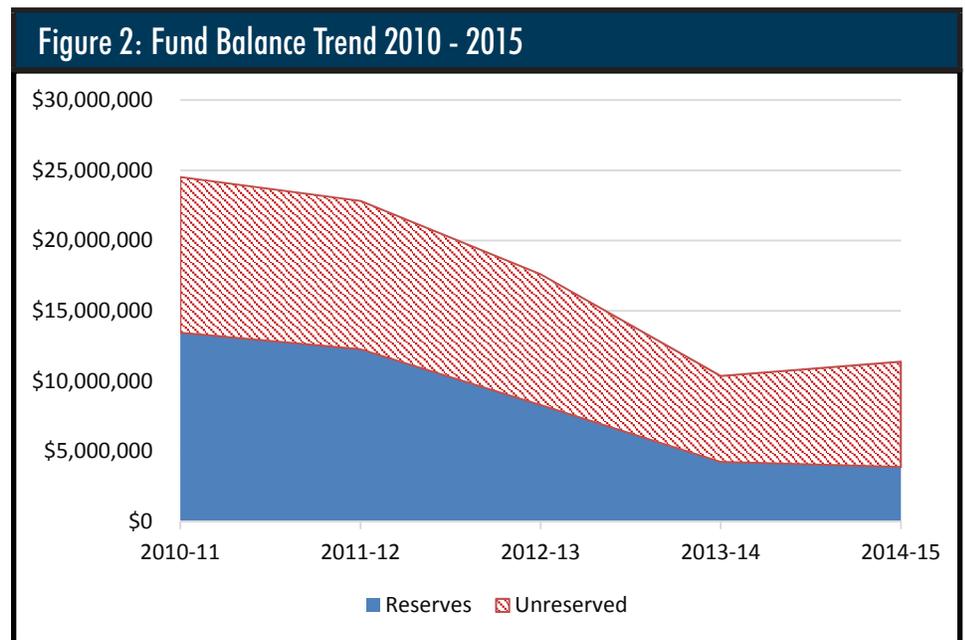
Prior to fiscal year 2011-12, the District built up fund balance by adopting conservative budgets. At the end of fiscal year 2010-11, the District's unrestricted fund balance was \$7.3 million or 7 percent of the ensuing year's appropriations. While this amount was in excess of the statutory limit, the District had to rely on it to fund budget gaps when it began to experience financial challenges. Beginning in fiscal year 2011-12, expenditures began to outpace revenues, as indicated in Figure 1, and the District began incurring operating deficits.

Figure 1: Revenues and Expenditures



<sup>3</sup> Structurally balanced budgets include tax levies that equal the difference between non-tax recurring revenues and recurring expenditures.

The District's deficits, averaging \$4.7 million from fiscal years 2011-12 through 2013-14, increased as expenditures continued to increase by 9 percent during the same time. The expenditure increases were primarily driven by employee-related benefits, which increased by 26 percent from fiscal years 2011-12 through 2013-14. During the same time, the District's total revenues increased by 4 percent and were not sufficient to fund the expenditure increases. For example, the District's amount of State aid received remained relatively flat after a 9 percent decrease in 2010-11. In addition, the real property tax cap was implemented in 2012, limiting the annual amount of increase in the real property tax levy the District could budget for.<sup>4</sup> In total, these two revenue sources consistently comprised more than 92 percent of the District's expenditures from 2010-11. As a result, the District increased its use of fund balance to support operating expenditures, and total fund balance was significantly reduced by \$13.1 million or 54 percent from fiscal years 2010-11 through 2014-15, as indicated in Figure 2.



District officials recognized their use of fund balance as a financing source could not continue. Although no single action or event helped District officials develop better budgets, the District did achieve some cost savings which removed certain operating expenditures from its budget. Specifically, from fiscal years 2013-14 through 2014-15, the District saved \$3 million<sup>5</sup> by reducing staff through attrition and position consolidation. The District also moved information technology services to its Board of Cooperative Educational Services,

<sup>4</sup> The tax cap limits a local government's tax levy increase to the lesser of the rate of inflation or 2 percent with some exceptions, including a provision that allows local governments to override the cap.

<sup>5</sup> This figure includes salaries and estimated benefits.

realizing a savings of \$664,000 from 2013-14 through 2014-15. Both of these cost savings measures are positive steps in the effort to use recurring revenues to support recurring expenditures.

To avoid potential fiscal stress, for the 2014-15 fiscal year, the Board adopted a budget funded with a 9 percent increase in the real property tax levy. This budget required an override of the real property tax cap by the District's residents. The voters approved the budget and the District's operations generated a small surplus of less than 1 percent of its expenditures. This real property tax increase helped align the District's operating expenditures with a recurring revenue source. We also reviewed the District's 2015-16 adopted budget and determined that revenue and expenditure estimates were reasonable.

We commend District officials for taking positive steps to budget responsibly during financially challenging times.

**Recommendation**

District officials should:

1. Continue to examine cost savings opportunities to further aid the District in funding recurring expenditures with recurring revenues.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



# ITHACA CITY SCHOOL DISTRICT

400 Lake Street, P.O. Box 549, Ithaca, New York 14851-0549

***Luvelle Brown, Ed.D.***  
Superintendent of Schools

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February 18, 2016

H. Todd Eames, Chief Examiner  
Office of the State Comptroller  
State Office Building, Room 1702  
44 Hawley Street  
Binghamton, New York 13901-4417

Dear Mr. Eames,

Please accept this correspondence as the official response from Ithaca City School District relating to the Report of Examination on the Financial Condition (2015M-318) conducted by your office for the period of July 1, 2013 through May 8, 2015. The Ithaca City School District is extremely grateful to have worked with your staff during the time that they were conducting the audit. We also welcome the recommendation made by your office to continue to examine cost savings opportunities to further aid the District in funding recurring expenditures with recurring revenue.

To that end, the Board of Education has accepted a Project Charter submitted by the business office that commits efforts to a year round budgeting process that informs choices among the buildings, programs, efforts and opportunities competing for finite yet variable resources. The prior utilization of fund balance as a financing source is recognized as a short term solution that should be avoided with intentional long term planning. Analysis and evaluation of the efficacy and funding of current operations and programming, along with a rigorous analysis of potential revenue sources will be integral for the future success of the District, both financially and pedagogically.

The Board of Education in collaboration with the District staff have also committed to a budget process that clearly communicates all aspects of the past, present and future budgets transparently to all stakeholders. Strategies include, but are not limited to: educational budget sessions at all Board of Education Meetings; accurate and easy to find information posted on the website; professional development sessions for staff regarding budget concepts; budget advisory committee that seeks community stakeholder input; and in-depth trainings for principals and directors. It is the belief of the Ithaca City School District that an educated stakeholder group will be more likely to critically examine cost saving methods and support proposed changes to achieve necessary efficiencies.

The Board of Education and the District Administration remain committed to maintaining and improving the financial condition of the District. Over the next few months, the District will develop the required corrective action plan based upon the recommendations made by your office.

Sincerely,

Dr. Luvelle Brown  
Superintendent of Schools

Mr. Robert Ainslie  
President, BOE

*ICSD: 6000+ Thinkers*

## 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 June 30, 2015. We extended our scope back to July 1, 2010 and forward to June 30, 2015 for trend analysis. We also performed the following procedures:

- We interviewed District officials to gain an understanding of the budgeting process, including the rationale for determining the amount of unexpended surplus funds available for appropriation.
- We compared the general fund estimated revenues and budgeted appropriations with actual revenues and expenditures for fiscal years 2012-13 through 2014-15 to determine if the District's budget estimates were reasonable.
- We calculated the decline in fund balance and in reserves from June 30, 2011 through June 30, 2015, and the operating deficit for fiscal years ending June 30, 2011 through June 30, 2015.
- We calculated the amount of recurring revenues versus recurring expenditures to determine if the District was funding operating expenditures with fund balance.
- We determined the amount of cost savings the District realized by reducing the number of staff and moving information technology services to the Board of Cooperative Educational Services Regional Information Center.
- We reviewed adopted budgets for fiscal years 2012-13 through 2015-16 to determine the tax levy increases proposed.
- We calculated the unreserved fund balance as a percentage of the ensuing year's budgeted appropriations from fiscal years 2010-11 through 2014-15.
- We determined the trend in revenues and expenditures for fiscal years 2010-11 through 2014-15.

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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