



New Rochelle City School District

Financial Condition

Report of Examination

Period Covered:

July 1, 2010 — June 30, 2013

2013M-377



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of District Officials and Corrective Action	3
FINANCIAL CONDITION	5
Recommendation	6
APPENDIX A Response From District Officials	7
APPENDIX B Audit Methodology and Standards	9
APPENDIX C How to Obtain Additional Copies of the Report	10
APPENDIX D Local Regional Office Listing	11

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2014

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage district 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 operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the New Rochelle 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 General Municipal Law.

This audit's results and recommendation 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 New Rochelle City School District (District) is located in the City of New Rochelle in Westchester County. The District is governed by the Board of Education (Board), which comprises 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 the Assistant Superintendent for Business and other administrative staff, for the District's day-to-day management and for the development and administration of the budget.

The District operates 11 schools, with 11,068 students and 2,146 employees. During the 2012-13 fiscal year, the District had operating expenditures of \$229.5 million, funded primarily with real property taxes and State aid. The District's budgeted expenditures for the 2013-14 fiscal year were \$239.4 million.

Objective

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

- Does the Board adopt realistic budgets that are structurally balanced?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2010 through June 30, 2013.

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 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.

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

A school district's financial condition is a primary factor in determining its ability to continue providing public educational services for students in the district. The Board, Superintendent and Assistant Superintendent for Business are accountable to taxpayers for the use of District resources and are responsible for effective financial planning and management of District operations. A key measure of a district's financial condition is its level of fund balance. When maintained at reasonable levels, fund balance can provide cash flow, help finance the next fiscal year's operations or help manage unexpected costs. Therefore, it is essential that District officials develop reasonable budgets and manage fund balance responsibly.

An appropriation of fund balance is the use of unexpended resources from prior years to finance budgeted appropriations. It is considered a nonrecurring financing source that is an acceptable practice when a school district has accumulated an adequate level of surplus fund balance. However, when a school district has operating deficits each year, it gradually depletes the unappropriated fund balance until it turns into a deficit fund balance, thereby leaving nothing available to be used for financing successive budgets. This will result in the need to either increase revenues (e.g., property taxes) and/or decrease appropriations (e.g., services) to adopt a structurally balanced budget. It is prudent to maintain enough unrestricted, unappropriated funds to protect against unforeseen circumstances or to budget conservatively.

We reviewed budget-to-actual results for fiscal years 2010-11 through 2012-13 and found that District officials adopted budgets with realistic revenue and expenditure estimates. However, District officials have relied heavily on appropriated fund balance as a financing source in the annual budgets, which has reduced the District's unrestricted, unappropriated funds. In each of the three fiscal years, the Board has budgeted for planned operating deficits by appropriating fund balance to help finance the budgets. As a result, as shown in Table 1, total unrestricted unappropriated fund balance has declined from \$7.2 million in fiscal year 2010-11 to \$5.4 million in fiscal year 2012-13, which is a 25 percent decline. The District is considered to be susceptible to fiscal stress due to three years of operating deficits and low unassigned fund balance.

Table 1: Fund Balance			
	FY 2010-11	FY 2011-12	FY 2012-13
Total Fund Balance	\$19,461,182	\$17,034,192	\$15,102,669
Total Unrestricted, Unappropriated Fund Balance	\$7,163,894	\$6,148,964	\$5,370,371
Subsequent Year's Budget	\$230,872,398	\$234,174,978	\$239,484,030
Unrestricted, Unappropriated Fund Balance as a Percentage of Next Year's Budget Appropriations	3.1%	2.6%	2.2 %

As shown in Table 2, the District incurred planned operating deficits for the last three fiscal years,¹ ranging from \$3.6 million in fiscal year 2011 to \$1.9 million in fiscal year 2013, and appropriated \$6 million of fund balance to finance the deficit for each year. While planned operating deficits have declined, the District's fund balance has also declined to low levels.

Table 2: Results of Operations			
	FY 2010-11	FY 2011-12	FY 2012-13
Operating (Deficit)	(\$3,634,764)	(\$2,426,993)	(\$1,931,523)
Appropriated from Previous Year	\$6,000,000	\$6,000,000	\$6,000,000
Variance	\$2,365,236	\$3,573,007	\$4,068,477

In the 2013-14 budget, the District also planned for an operating deficit and appropriated \$4.7 million of unrestricted fund balance to finance the planned deficit. However, because the District's unrestricted unappropriated fund balance at June 30, 2013 was less than \$5.4 million, District officials must use caution regarding the amount of fund balance to appropriate going forward. The District's continued use of fund balance does not ensure that a reasonable level of unrestricted unappropriated funds will be maintained to provide a financial cushion in the event of unforeseen financial circumstances. The District is at risk of financial instability as a result of its reliance on appropriated fund balance to finance its recurring expenditures and balance its budget.

Recommendation

1. The Board should closely monitor the District's use of unrestricted, unappropriated fund balance to ensure that action is taken, if necessary, to identify other funding sources that can be used if these moneys are no longer available to fund District operations.

¹ A planned deficit is when appropriations exceed revenues and fund balance is used as a financing source to close the gap between the appropriations and revenues.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



CITY SCHOOL DISTRICT OF NEW ROCHELLE
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JEFFREY KOROSTOFF, Ed.D.
INTERIM SUPERINTENDENT OF SCHOOLS

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March 27, 2014

Ms. Tenneh Blamah
Regional Chief Examiner
33 Airport Center Drive, Suite 103
New Windsor, NY 12553-4725

Dear Ms. Blamah:

This letter serves as the official response of the City School District of New Rochelle to the NYS Comptroller's Draft Audit Report on the District's Financial Condition for the period of July 1, 2010 through June 30, 2013. We have reviewed this report and agree with the findings, but believe that these other factors should also be taken into account:

- The actions taken by the Administration and the Board regarding the fund balance level during this time were a planned response to the current financial environment in order to maintain a stable educational program.
- New Rochelle's debt load is the lowest it has been in at least 17 years.
- Because of the size of our budget, a 2.2% Unappropriated Fund Balance is still a large dollar amount (\$5,370,372).

In addition, we are very pleased that New Rochelle's risk rating was upgraded after your audit from that of "Moderate Stress" to "Susceptible to Stress".

We greatly appreciate the work conducted by the NYS Comptroller's Office and believe that the oversight provided benefits all taxpayers.

Respectfully,

Jeffrey Korostoff, Ed.D.
Interim Superintendent of School

cc: Board of Education Members
John Quinn – Assistant Superintendent, Business
Lynda Greenbaum – Deputy Business Manager

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates local governments based on financial and environmental indicators. These indicators are calculated using a local government's annual update document² and information from the United States Census Bureau, New York State Department of Labor and the New York State Education Department, among other sources. The District was selected for audit due to concerns about operating deficits and a declining fund balance.

Our overall goal was to examine 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.
- We reviewed the District's budget process.
- We interviewed District officials to determine what processes were in place and to gain an understanding of the District's financial situation and budget.
- We evaluated the District's operating results and resulting fund balance for the audit period.
- We calculated the unrestricted, unappropriated fund balance as a percentage of the ensuing year's budgeted appropriations for the audit period.

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.

² Required to be submitted annually by the District to the Office of the State Comptroller

APPENDIX C

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