

OFFICE OF THE NEW YORK STATE COMPTROLLER



DIVISION OF LOCAL GOVERNMENT
& SCHOOL ACCOUNTABILITY

Berkshire Union Free School District

Financial Condition

Report of Examination

Period Covered:

July 1, 2011 — August 12, 2015

2015M-310



Thomas P. DiNapoli

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State of New York

Office of the State Comptroller

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 Berkshire Union Free 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 Berkshire Union Free School District (District) is a special act school district located on the grounds of the Berkshire Farm Center – the District’s sponsoring agency – in the Town of Canaan, Columbia County. The District is governed by the Board of Education (Board), which is composed of five members¹ – three executives of the Berkshire Farm Center and two members of the voting public who are appointed by the New York State Commissioner of Education. The Board is responsible for the general management and control of the District’s financial and educational affairs. The Superintendent of Schools 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 operates two schools, serving grades 7 through 12, with approximately 120 students and 60 employees. The District’s budgeted appropriations for the 2015-16 fiscal year are approximately \$6.7 million, which are funded primarily by tuition charged to students’ home school districts and sending agencies.² The New York State Education Department (SED) Rate Setting Unit establishes and the New York State Division of Budget approves the rates that the District may bill for student tuition.

Objective

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

- Do District officials adequately monitor the District’s financial condition and take appropriate actions to maintain the District’s financial stability?

Scope and Methodology

We examined the District’s financial condition for the period July 1, 2011 through August 12, 2015. We extended our scope to September 30, 2015 to obtain enrollment figures for the current school year.

¹ The Board currently has two vacancies which would normally be filled by executives from the Berkshire Farm Center.

² Sending agencies place students in special act school districts under Article 81 of New York State Education Law. Sending agencies include family courts, local social services districts, the New York State Office of Children and Family Services and the New York State Office of Mental Health. Local public school districts, based on the recommendations of their committees on special education, may also place students with disabilities in special act school districts for day or residential services. These sending agencies are subsequently billed for the tuition for each student placed in the District.

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 C 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 recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the District's response letter.

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 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 expenditures with recurring revenue sources, while providing desired services on a continuing basis. A school district in good financial condition generally maintains adequate service levels during fiscal downturns and develops resources to meet future needs. Conversely, a school district in poor financial condition usually struggles to balance its budget, may suffer through disruptive service level declines, has limited resources to finance future needs and has minimal cash available to pay current liabilities as they become due. As a special act district, the District is not allowed to maintain a fund balance, which makes the monitoring of financial condition, the timely collection of tuition and the minimizing of accounts receivable and notes payable crucial to maintaining its financial condition.

District officials did not adequately monitor the District's financial condition. The District reported fund balance deficits for four consecutive fiscal years, in part due to shortfalls in budgeted tuition revenue resulting from SED's tuition rate methodology. Further, the District's student population has declined and collections of billed tuition are not timely. This has led to a decline in the District's cash position from 2011-12 through 2014-15 from \$1.2 million to \$531,992, a decrease of 57 percent. Over the same period, the District's current liabilities have increased from \$3.2 million to \$4 million, an increase of 27 percent. To alleviate the cash flow difficulties, District officials issued revenue anticipation notes (RANs) each of the past four fiscal years, with a total of \$2.2 million for 2014-15. In 2014, the District only found one bidder for a \$1.7 million RAN and the terms were undesirable, requiring the RAN to be payable within two months. The lack of bidders placed District operations at risk.

Results of Operations — To ensure financial stability, it is important that District officials monitor activity throughout the year to ensure that there are sufficient revenues to fund expenditures. When expenditures exceed revenues, operating deficits occur. Persistent and recurring operating deficits are usually indicative of a structurally imbalanced budget and financial stress.

We analyzed the District's financial condition from 2011-12 through 2014-15. The District had operating deficits totaling \$583,283 for 2011-12 and 2012-13 and operating surpluses totaling \$529,264 for 2013-14 and 2014-15. The deficits were primarily due to shortfalls in budgeted tuition revenue. As a result, the District has reported

fund balance deficits for four consecutive fiscal years as illustrated in Figure 1:

Figure 1: Operating Results

	2011-12	2012-13	2013-14	2014-15
Beginning Fund Balance	\$8,591 ^a	(\$102,869)	(\$574,692)	(\$248,362)
Revenues	\$6,886,632	\$5,868,796	\$6,886,051	\$7,359,524
Expenditures	\$6,998,092	\$6,340,619	\$6,559,721	\$7,156,590
Operating Surplus/(Deficit)	(\$111,460)	(\$471,823)	\$326,330	\$202,934
Ending Fund Balance	(\$102,869)	(\$574,692)	(\$248,362)	(\$45,428)

^a Prior period adjustment \$1

The pattern of operating deficits followed by surpluses is primarily due to the reimbursement cost methodology for billing tuition and a subsequent change in the accounting method for delayed reimbursements.³ The District initially bills tuition based on the rates approved by SED for students enrolled who have been referred by sending agencies. The initial rates are based on the District's prior year's costs but are subsequently adjusted after the District's current year's costs are known by SED. There can be several rates after adjustment before the final tuition billing rate is established. District officials stated that the delay in the receipt of the final tuition billing rates from SED's Rate Setting Unit and the Division of Budget significantly contributes to shortfalls in budgeted tuition revenue. The delay creates an inherently unstructured budget when tuition rates increase because a portion of the revenues necessary to fund budgeted expenditures are not available within the school year. When adjustments are made and the adjustments are billed and collected they result in additional tuition revenues.

In addition, the District's student population declined by 20 students or 14 percent between 2011-12 and 2012-13. The decline equated to approximately \$1.1 million in tuition revenues. Similarly, from 2014-15 to 2015-16, the student population declined by 27 students or 21 percent, resulting in a decrease in the average annual tuition of \$1.5 million. District officials stated that if this trend persists, it could severely harm the District's long-term viability.

Other factors contributing to the District's poor financial condition include slow collections of tuition billings, which adversely affect the District's cash position. We tested the collection of all billings for 2014-15 and found that it took, on average, over 50 days to collect

³ District officials stated that the surpluses in 2013-14 and 2014-15 were caused by a change in an accounting method that required District officials to recognize anticipated back billing revenues.

tuition billed from nine of 54 entities billed. District officials stated that the District does not contract with these nine entities billed. Instead, several entities will only remit payments to the Berkshire Farm Center, due to contracts held with the sponsoring agency. The Berkshire Farm Center would then withhold tuition payments from the District for long periods of time, causing a further delay in the receipt of cash. This slow collection process significantly impacts the District's cash position, compelling the District to fund its operations through other means.

In spite of the operating surpluses during the past two fiscal years, the combination of the past operating deficits, decline in enrollment and poor collections have caused the District's cash position to significantly decrease from 2011-12 through 2014-15, reducing its total cash from \$1.2 million to \$531,992. Over the same period, the District's current liabilities have increased from approximately \$3.2 million to \$4 million largely due to the issuance of a \$500,000 RAN. District officials told us there are several factors contributing to the District's decline in cash position, including declining enrollment, the tuition rate reimbursement methodology and grant programs that require the District to expend cash up front to be reimbursed in the future.

To alleviate cash flow difficulties, District officials issued RANs to help finance operations. In 2011-12, District officials reissued a RAN of \$1.7 million which District officials stated had been routinely reissued each year over the last 20 years. District officials then issued an additional \$500,000 RAN in 2012-13, increasing the RAN balance to \$2.2 million in 2012-13. That balance was maintained through reissuance of RANs in 2014-15. District officials recently attempted to reissue the \$1.7 million RAN and found it difficult to attract bidders. In 2014, the District only found one bidder for the \$1.7 million RAN and the terms required the RAN to be paid in two months. The lack of bidders placed the District at risk of insolvency. Berkshire Farm Center – the District's sponsoring agency – purchased the RAN to keep the District out of insolvency. However, District officials have not developed a plan for paying the RAN. The District's repeated reissuance of RANs with no plan for repayment has resulted in annual interest expenses ranging from \$31,000 to \$46,000 during our audit period, further weakening the District's financial condition.

Recommendations

District officials should:

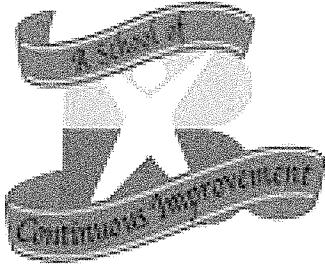
1. Monitor revenues and expenditures throughout the year and take corrective action when necessary to avoid incurring expenditures in excess of available revenues.

2. Consider contracting directly with sending agencies to help ensure tuition is collected in a timely manner and paid directly to the District.
3. Develop a plan to repay outstanding RANs.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Berkshire Union Free School District

13640 Route 22, Canaan, NY 12029 (518) 781-3500 Fax (518) 781-4890

Bruce Potter, Superintendent ext.3545

Berkshire Jr-Sr High School

Michael Mitchell, Principal ext. 3533

Columbia-Greene Partnership Academy

Daniel Kalbfleisch, Principal ext.3600

February 16, 2016

Office of the State Comptroller

Tenneh Blamah

Division of Local Government and School Accountability

110 State Street

Albany, NY 1223-0001

Re: Audit Report 2015M-310

Dear Ms. Blamah:

On behalf of the Berkshire Union Free School District I would like to thank you for the opportunity to respond to the draft report of examination on Financial Condition audit report for period July 1, 2011 – August 12, 2015. The District acknowledges the recommendations but will take this opportunity to explain the inaccuracy led to the conclusion of the audit.

District officials do adequately monitor the District's financial condition. While we are a public school, we are not tax based. We are rate based. There is an approved budget passed by the Board and it is monitored closely throughout the year based on fluctuating census. At year end the final budget is then board approved again. The Rate Setting Unit of the NYS Education Department (RSU) is the department that sets our rate. Through 2011-2012, the school had a rate that was not sufficient enough to cover all of the costs of the program and starting with 2012-2013 the District would need a new rate in order to cover the summer program. All parties were aware of this. The District sent the appropriate waiver request materials to RSU in order to receive a Prospective Tuition Rate for 2012-2013 to try and avoid the current situation. The District did not receive that new rate until July 15, 2015. Therefore, the operating deficits are a direct result of the delay in the waiver request, not a decline in census.

See
Note 1
Page 11

The surplus in 2013-2014 was not due to a rate difference. The District was advised by our external auditors to book 90% of the estimated tuition revenues that would be received once the waiver was approved by RSU.

See
Note 2
Page 11

The slow collections were a slight problem in 2014-2015 due to entities sending the payments to the Berkshire Farm Center (BFC) and then it being held up. The District has worked hard at establishing relationships with these entities and any new ones to make sure they are aware that we are a separate entity from BFC. The District also struggled with one entity in regards to established payment due to their own eternal problems and lack of staff. All of the collections issues have been resolved.

The cash flow difficulties directly related to the slow waiver process is the reason the District had to seek the \$500,000 RAN, however, that is not the case with the \$1.7 million RAN. That is not a true RAN as the District has no intentions of paying it off, it is simply bad debt from prior administration over 20 years ago. The \$1.7 million RAN that was purchased by BFC, is currently down to \$1 million. BFC has planned to write off the rest of the RAN over the next two years (\$700,000 in 2015-2016 and the remaining \$300,000 in 2016-2017).

As mentioned in the beginning, the District does monitor the revenues and expenditures throughout the year and makes the necessary changes to ensure a balanced budget based on the current years rate. The collection problems have been resolved between BFC and the District, as well as, maintaining/establishing relationships with the entities billed to ensure more timely collections. Lastly, there is a plan in place to ensure the \$1.7 million RAN is written off as to ensure the District financial condition is strengthened.

The District would like to thank the auditors for their time spent reviewing areas in which the District may be able to maintain its financial condition.

Sincerely,

Bruce Potter
District Superintendent

Cc: Jim Dennis, Board President

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

District officials did not ensure the timely collection of billed receivables. As a result, the District's cash position has deteriorated to the point of requiring short-term borrowing (the issuance of RANs) to fund operations. District officials should consider actions such as adopting a balanced budget based on the current billable rate.

Note 2

District officials provided us with additional information regarding the waiver request, tuition rate methodology and change in accounting methodology subsequent to our audit fieldwork. We amended our audit report accordingly.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials and reviewed Board meeting minutes, resolutions and budget brochures to gain an understanding of the District's budget development and monitoring process.
- We tested the reliability of District computer-generated data by tracing June and July 2015 cash receipts and disbursements reports to bank statements and evaluated the reports for accuracy. The months traced were selected with no expectations as to the outcome of our review using professional judgement. We selected the two most recent completed months.
- We reviewed the general fund's results of operations from 2011-12 through 2014-15.
- We compared the general fund's budgeted revenues and expenditures to the actual revenues and expenditures from 2011-12 through 2014-15 to determine if District officials were budgeting reasonably.
- We reviewed the District's policies and procedures for developing and reporting information relevant to the financial and budgeting activities. This included obtaining information on the fiscal responsibilities of District officials.
- We reviewed and analyzed tuition collected and respective care days billed on a monthly basis by verifying rates and enrollments for 2014-15.
- We reviewed the District's financial records and reports for all funds, including trial balances, balance sheets, budget reports and statements of revenues and expenditures for 2011-12 through 2014-15.
- We reviewed the District's student enrollment data for 2013-14 through the beginning of 2015-16 to identify trends that could affect the District's financial condition.

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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