



Haverstraw-Stony Point Central School District Financial Condition

Report of Examination

Period Covered:

July 1, 2012 — June 2, 2014

2014M-275



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	3
FINANCIAL CONDITION	4
Operating Results and Fund Balance	5
State Aid	7
Recommendation	8
APPENDIX A Response From District Officials	9
APPENDIX B Audit Methodology and Standards	12
APPENDIX C How to Obtain Additional Copies of the Report	13
APPENDIX D Local Regional Office Listing	14

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2014

Dear District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support school district operations. The Comptroller oversees the fiscal affairs of school 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 school district assets.

Following is a report of our audit of the Haverstraw-Stony Point 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 school 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 Haverstraw-Stony Point Central School District (District) is located in the Towns of Haverstraw and Stony Point, Rockland County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board President is the District's chief financial officer. 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 day-to-day District management under the Board's direction.

The District operates eight schools with approximately 8,000 students and 983 employees. For the 2014-15 fiscal year, the District's operating budget is approximately \$208 million, funded primarily with State aid and real property taxes.

Since early 2000, the District's financial condition has been negatively impacted by commercial property owners' successful tax certiorari claims against the District and related local governments. As a result, District officials issued debt in March 2007 to pay these claims. For example, one major commercial taxpayer had its real property tax liability reduced from approximately \$46 million to \$1.6 million in 2014 and each of the succeeding six years. This, along with reductions in federal and State aid and annual contractual increases in personal services and related employee benefits costs, created fiscal challenges that District officials have had to address when developing budgets.

Objective

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

- Did 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, 2012 through June 2, 2014. We extended our scope period back to July 1, 2009 to analyze the District's fund balance, budgeting and financial trends.

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 and indicated they planned 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 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

The Board and District officials are accountable to taxpayers for the use of District resources and for effectively planning and managing the District's financial operations. They are responsible for adopting budgets that include realistic estimates of expenditures and the resources available to fund them. Sound budgeting practices, coupled with prudent fund balance management, ensure that the District consistently generates sufficient, recurring revenues to finance anticipated expenditures. A proactive approach to fiscal management is especially important for districts with sizable operations that are largely funded with State aid and are experiencing declining financial positions.

Since early 2000, the District's financial condition has been negatively impacted by commercial property owners' successful tax certiorari claims against the District and related local governments. For example, one major commercial taxpayer had its real property tax liability reduced from approximately \$46 million to \$1.6 million in 2014 and each of the succeeding six years, ending in 2020. In 2007, District officials issued \$194 million in debt to pay tax certiorari claims. The repayment of this debt started in April 2008 and cost the District more than \$12 million the first year and will cost approximately \$11.5 million annually for each succeeding year through 2037. In addition, the District has received an average of 26 percent less in State Foundation aid since the 2009-10 fiscal year, which is a major source of its revenues. These increased costs and decreased revenues have deteriorated the District's financial condition.

To keep the District's financial condition from declining further, District officials told us they closely monitored expenditures and restricted departmental budgets each year. In addition, they consolidated the use of school buildings, closed two schools and reduced staff to help maintain the District's financial stability. District officials told us that they were able to accomplish these reductions in operating costs while maintaining crucial services to 8,000 students. Instead of significantly increasing property taxes, the Board maximized the use of fund balance each year and reduced the need for reserves. However, the District's fund balance has been consistently reduced each year. The District has enough restricted fund balance to pay for tax certiorari payments through June 2014. Going forward, District officials must carefully monitor the District's financial condition and determine new ways to increase revenues or reduce expenditures to maintain District operations.

Operating Results and Fund Balance

A key measure of the District's financial condition is its level of fund balance, which is the difference between revenues and expenditures accumulated over time. When maintained at reasonable levels, fund balance provides cash flow and can be used to help finance the next fiscal year's operations. The restricted portion of fund balance represents the amount that the District may use only for specific purposes. Unexpended surplus funds¹ are the portion of fund balance that may be appropriated to fund programs in the next year's budget. New York State Real Property Tax Law restricts unexpended surplus fund balance in school districts to 4 percent of the current year's appropriations.

The District had revenues totaling \$191,219,007 and expenditures of \$176,422,793 in the 2008-09 fiscal year which contributed to the 2009-10 opening fund balance of \$87.3 million. Since then, revenues declined by about 6 percent and remained at about \$180 million through 2012-13, while expenditures increased by a total of \$17 million, or 10 percent, from 2008-09 through 2012-13. Although actual expenditures increased each year, they were less than budgeted since 2009-10.

While District officials budgeted realistically, operating results steadily declined. Revenue from real property taxes declined from \$116 million in 2008-09 to \$112 million in 2012-13, or 3 percent. Further, the District's State aid was reduced, as discussed in more detail in the section entitled "State Aid." The District also incurred increased operating costs due to \$11.5 million annual debt service payments for bonds issued to settle certiorari judgments. District officials estimated revenues conservatively and relied on fund balance restricted for certiorari claims payments to fund the majority of the \$11.5 million annual bond repayments to settle these judgments.

In addition to debt service costs, the District incurred increases in personal service costs and related employee benefits. For example, instructional salaries for grades K through 6 increased from \$18.4 million in 2009-10 to \$26.3 million in 2012-13, or 43 percent, and teacher retirement benefit costs increased from \$5.4 million to \$9.3

¹ The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, committed, assigned and unassigned. The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, minus appropriated fund balance, amounts reserved for insurance recovery and tax reduction, and encumbrances included in committed and assigned fund balance (post-Statement 54).

million, or 72 percent, over the same period. Declining revenues and increased expenditures resulted in operating deficits in each of the four years from 2009-10 through 2012-13. As a result of the operating deficits, the District relied on fund balance to fund operations.

As indicated in Figure 1, total fund balance steadily declined each year, from \$87.3 million at the beginning of 2009-10 to \$51.6 million at the end of 2012-13, or 41 percent. Restricted fund balance also declined from \$60.5 million in 2009-10 to \$17.6 million in 2012-13, or 71 percent.

Figure 1: Fund Balance					
Fiscal Year	2009-10	2010-11	2011-12	2012-13	2013-14^a
Beginning Fund Balance	\$87,283,527	\$86,635,728	\$76,867,664	\$64,532,914	\$51,639,443
Prior Period Adjustments	\$1	\$129	\$2,296,981	(\$1)	
Revenues	\$181,456,237	\$180,148,078	\$178,015,811	\$180,811,943	\$191,540,715
Expenditures	\$182,104,037	\$189,916,271	\$192,647,542	\$193,704,952	\$197,980,944
Operating Surplus (Deficit)	(\$647,800)	(\$9,768,193)	(\$14,631,731)	(\$12,893,009)	(\$6,440,229)
Year-End Fund Balance	\$86,635,728	\$76,867,664	\$64,532,914	\$51,639,904	\$45,199,214
Less: Unexpended Surplus Funds Appropriated for the Next Fiscal Year	\$20,338,526	\$23,941,046	\$24,451,569	\$19,451,569	\$15,252,757
Designated for Specific Purposes ^b		\$4,681,124	\$4,606,639	\$6,308,829	\$4,781,160
Less: Restricted Fund Balance	\$60,467,149	\$42,737,116	\$27,418,118	\$17,626,274	\$7,304,311
Total Unexpended Surplus Funds^c	\$5,830,053	\$5,508,378	\$8,056,588	\$8,253,232	\$17,860,986

^a 2013-14 numbers are preliminary and subject to change.
^b This is the equivalent to assigned unappropriated fund balance.
^c Unexpended surplus funds are generally equivalent to unassigned fund balance.

Restricted fund balance comprised funds allocated for tax certiorari, debt service, employee benefits accrued liability, retirement benefit contributions and unemployment. The allocation for tax certiorari provided the main source of restricted fund balance that was appropriated to fund operations. In five years, the District expended \$46.9 million of restricted fund balance, or approximately \$9.3 million per year, for tax certiorari expenses. However, the District decreased the amount of fund balance restricted for tax certiorari expenditures each year, from \$44.8 million at June 30, 2009 to \$9.9 million at June 30, 2013, or 78 percent.² The District continued to allocate consistent amounts in the other restricted fund balance categories during this time. Therefore, at the rate which the District appropriates restricted fund balance on a yearly basis, it has enough in the allocation for tax certiorari for one more year, to June 30, 2014. If the District depletes

² The preliminary results of operations show that the District did not restrict fund balance for certiorari expenditures as of June 30, 2014.

the amount set aside for tax certiorari claims, it will have to find other sources of revenue to pay these claims.

Preliminary results of operations for the 2013-14 fiscal year showed that the District has unexpended surplus fund balance of \$17.8 million, which District officials stated will be used to help finance future budgets. In addition, due to the District's continued need to pay tax certiorari payments, the District will likely end the year with an operating deficit of approximately \$6.4 million, necessitating the use of fund balance to fund operations. District officials appropriated approximately \$15.3 million toward 2014-15 operations. District preliminary financial records showed a projected unexpended surplus fund balance of about \$5 million at June 30, 2015.

With the continued depletion of fund balance, District officials will have to identify new revenue sources or ways to reduce expenses so that the District's financial condition does not deteriorate any further.

State Aid

Real property taxes (RPT) are the District's largest source of revenue, representing about 60 percent of District revenue. State aid is the District's second largest source of revenue and represents approximately 25 percent. The State provides aid for various purposes such as operational needs, construction and equipment. Foundation aid is the largest unrestricted category of State aid and represents approximately 73 percent of the State's total aid provided to public schools.

Although the District received only \$2.3 million (1 percent) less than the total State aid budgeted allocation, it received approximately \$62 million (26 percent) less than the total Foundation aid³ during the last five fiscal years, 2009-10 through 2013-14, according to a New York State Education Department (SED) report. For example, in 2013-14 SED reported the District would receive total Foundation aid of \$52.8 million. However, the State budget included \$35.9 million in Foundation aid, approximately \$16.9 million (32 percent) less than SED reported.⁴ This reduced level of State aid has been the norm for the last five fiscal years. As shown in Figure 2, the District's unfulfilled

³ The total Foundation aid amount is based on an entitlement formula set by the State each year. The amount is then reduced, based on a formula using the total aidable students in each district, to the Foundation aid payable. Districts are then allocated these reduced amounts.

⁴ According to District officials, the total Foundation aid was established through a court settlement between the State and school districts throughout the State that claimed they were not receiving sufficient State aid. Starting in the 2007-08 fiscal year, the State was required to pay each district Foundation aid. However, the State decided that it was unable to pay the full amount so it made adjustments to reduce the amount actually paid based on the number of students affected in each district. The State makes these adjustments each year based on calculations including the number of students eligible for such aid.

Foundation aid ranged from \$6.3 million to \$16.9 million during the five years reviewed. This represents between 15 to 32 percent of the respective year’s expected aid. In addition, other State aid is adjusted downward with the gap elimination adjustment of approximately \$5 million each year.

Figure 2: Total Foundation Aid Versus State Budget Allocation

Fiscal Year	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Total Foundation Aid	\$42,900,000	\$44,300,000	\$49,800,000	\$52,100,000	\$52,800,000	\$241,900,000
Foundation Aid Allocated	\$36,600,000	\$35,500,000	\$35,800,000	\$35,800,000	\$35,900,000	\$179,700,000
Unfulfilled Foundation Aid	\$6,300,000	\$8,800,000	\$14,000,000	\$16,300,000	\$16,900,000	\$62,200,000
Percentage Unfulfilled	15%	20%	28%	31%	32%	26%

District officials stated that if they had received State aid according to the Foundation aid entitlement, they would not have had any form of fiscal stress and would not have needed some of the actions that were necessary to keep the District operating effectively. In addition, District officials told us that if they had not taken these measures to reduce costs, the District’s operating deficits would have been more and fund balance would have been eliminated at a faster rate.

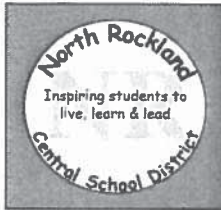
Recommendation

1. District officials should continue to closely monitor the budget and take necessary actions to maintain fiscal stability.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



NORTH ROCKLAND CENTRAL SCHOOL DISTRICT

Administrative Office Building

65 CHAPEL STREET, GARNERVILLE, NEW YORK 10923 (845)942-3002

Ileana Eckert
Superintendent of Schools

November 25, 2014

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

Dear Ms. Blamah:

This letter serves as the official response of the Haverstraw-Stony Point Central School District to the New York State Comptroller's Draft Audit Report on Financial Condition for the period of July 1, 2009 – June 2, 2014.

We greatly appreciate the Comptroller's thorough review of the District's Financial Condition and all the challenges which led to the decrease of the District's Fund Balance. By expanding the original scope of July 2, 2012-June 2, 2014, back to July 2009, a more complete understanding of the District's Annual Fund Balances, Budgeting and Financial Trends was revealed.

The District would also like to thank the NYS Comptroller's Office for recognizing the fiscal challenges that it faced especially the decrease in State Aid due to the gap elimination adjustment (\$28 million over 5 years) and reduction in promised State Foundation Aid (\$79 million over 6 years based on CFE). In order to address future revenue the District will continue to request that the State restore both the gap elimination adjustment and the decrease and promised CFE Foundation Aid.

Financial Condition

The District would also like to thank the NYS Comptroller's Office for identifying some of the various means that it has used to curtail costs over the past six years when it was faced with a \$224 million tax certiorari, which increased debt service by \$11.5 million a year. In addition to district efforts mentioned in Financial Condition Section of your report, we offer additional data on our effort to mitigate the effect on our taxpayer.

- 25% reduction of staff (328 positions) saving \$94 million over past 6 years
- Negotiating concessions on salary and health benefits (saving \$2 million)
- Closed two schools (10 to 8) and consolidation of administration space

- Rented closed building to BOCES
- Changed health insurance carriers (savings: \$8.2 million over 4 years)
- Changed dental insurance to self-funded (savings: \$85,000 annually)
- The combined and eliminated transportation runs (savings: \$1.4 million annually)
- Refunded Bonds (savings: \$4.5 million) over the remaining life of the Bonds
- Did Energy Performance Contract (\$7 million in roof and boiler repair at no cost to taxpayers)

We greatly appreciate the work performed by the NYS Comptroller's Office.

Respectfully,

Ileana Eckert
Superintendent of Schools

C: Board of Education
James B. Johnston, Assistant Superintendent for Business

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed appropriate District officials and employees, tested selected records and examined pertinent documents for the period July 1, 2012 through June 2, 2014.

Our examination included the following:

- We interviewed District officials and reviewed the meeting minutes, resolutions and budget brochures to gain an understanding of the District's budget development, including the fund balance process.
- We reviewed the general fund's results of operations for the fiscal years 2009-10 through 2012-13.
- We compared the general fund's budgeted revenues and expenditures to the actual revenues and expenditures for fiscal years 2009-10 through 2012-13 to determine if District officials were budgeting reasonably.
- We analyzed the general fund's trend in total fund balance and restricted fund balance, including the use of appropriated fund balance, for the fiscal years 2009-10 through 2012-13. We also compared the unrestricted fund balance to the ensuing year's budgeted expenditures to determine the availability of fund balance for future years.

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

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Osego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Bufferalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313