West Seneca Central School District

Financial Condition

Report of Examination

Period Covered:

July 1, 2009 — January 14, 2015

2014M-381

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

April 2015

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 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 district assets.

Following is a report of our audit of the West Seneca 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 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

State of New York
Office of the State Comptroller

EXECUTIVE SUMMARY

The West Seneca Central School District (District) is located in the Towns of West Seneca, Orchard Park, Hamburg and Cheektowaga, in Erie County (County). The District is governed by the Board of Education (Board), which comprises seven elected members. The Board is responsible for the general management and control of the District's financial affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with the District Treasurer and other administrative staff, for the District's day-to-day management and for the development and administration of the budget.

There are 10 schools in operation within the District, with approximately 6,800 students and 1,100 full- and part-time employees. The District's 2013-14 general fund expenditures totaled approximately $105 million and were funded primarily with real property taxes, sales tax and State and federal aid.

The Office of the State Comptroller's (OSC) Fiscal Stress Monitoring System[1] monitors local governments and school districts for indications of fiscal stress, such as declining liquidity and available unrestricted cash. The District was identified as experiencing significant fiscal stress because it had virtually no unexpended surplus fund balance[2] or cash available to fund operations as of June 30, 2014 and had incurred significant operating deficits in fiscal years 2010-11 through 2012-13.

Objective

The objective of our audit was to examine the District's financial condition for the period July 1, 2009 through January 14, 2015. Our audit addressed the following related question:

- Were the District's fund balance levels adequate, and were cash flows sufficient to fund operations?

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1 For more information on the Fiscal Stress Monitoring System, see the OSC website at: http://osc.state.ny.us/localgov/fiscalmonitoring/index.htm

2 The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted and unrestricted, comprising committed, assigned and unassigned funds. 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, reserves and encumbrances included in committed and assigned fund balance (post-Statement 54).

Audit Results

The District is experiencing significant fiscal stress. The District had no operating cash on hand and very little fund balance at the end of the 2013-14 fiscal year to manage unforeseen events. From fiscal years 2010-11 through 2012-13, the District experienced operating deficits totaling $14.8 million, which were financed with appropriated fund balance. As a result, unexpended surplus funds have declined from more than $4 million (4 percent of the ensuing year's budget) as of June 30, 2010 to approximately $379,000 as of June 30, 2014, or less than 1 percent (0.35 percent) of the ensuing year's budget. Given the District's size of operations, this amount is dangerously low.

The District's available cash has significantly decreased; as of June 30, 2010, the District's cash balances exceeded current liabilities by almost $5 million. However, as of June 30, 2014, the District had no operating cash and $1.9 million in restricted cash, which was only enough cash to satisfy approximately 24 percent of its current liabilities. Because of its limited cash flow, the District issued a tax anticipation note (TAN) for $9.9 million in August 2013 to fund the first two payrolls in 2013-14 and a TAN for $12 million in July 2014 to fund the first two payrolls in 2014-15.

A separation incentive offered to District employees in September 2012 also contributed to the District's financial condition problems. The District paid out approximately $4.6 million to 132 employees who elected to resign from the District under the terms of the separation incentive. Although the separation incentive payments were paid out over two fiscal years (2012-13 and 2013-14),[3] the District expensed the entire $4.6 million in the 2012-13 fiscal year. However, the separation incentive payments were not included in the 2012-13 adopted budget.

At fiscal year-end, the District improperly recognizes certain expenditure-driven[4] State aid, such as textbook aid and transportation aid, as current year revenue even though the funds will not be received until March of the ensuing year (nine months into the next fiscal year). The District's accounting for State aid in this manner has contributed to the District's cash flow issues and financial condition problems.

Since 2008-09, the District's tax levy has increased $8.3 million, but revenue from other sources, including State aid, have decreased by approximately $3 million over the same time period, resulting in a net increase in revenue of $5.3 million over the past six years. At the same time, general fund appropriations have increased by about $6.7 million, which forced the District to rely on fund balance to fund operations. Now, with fund balance depleted, the Board has limited options available to fund any increases in operating costs.

Comments of District Officials

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 generally agreed with our findings and recommendations and indicated that they planned to take corrective action.

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[3] The District paid approximately $2.7 million in separation incentives during 2012-13 and the remaining $1.9 million during 2013-14.

[4] An established aid ratio is applied to eligible or approved expenditures to generate aid.

Introduction

Background

The West Seneca Central School District (District) is located in the Towns of West Seneca, Orchard Park, Hamburg and Cheektowaga in Erie County (County). The District is governed by the Board of Education (Board), which comprises seven elected members. The Board is responsible for the general management and control of the District's financial affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with the District Treasurer (Treasurer) and other administrative staff, for the District's day-to-day management and for the development and administration of the budget.

There are 10 schools in operation within the District, with approximately 6,800 students and 1,100 full- and part-time employees. The District's 2013-14 general fund expenditures totaled approximately $105 million and were funded primarily with real property taxes, sales tax and State and federal aid.

The Office of the State Comptroller's (OSC) Fiscal Stress Monitoring System[5] monitors local governments and school districts for indications of fiscal stress, such as declining liquidity and available unrestricted cash. The District was identified as experiencing significant fiscal stress because it had virtually no unexpended surplus fund balance or cash available to fund operations as of June 30, 2014 and had incurred significant operating deficits in fiscal years 2010-11 through 2012-13.

Objective

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

- Were the District's fund balance levels adequate, and were cash flows sufficient to fund operations?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2009 through January 14, 2015.

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 is included in Appendix B of this report.

[5] For more information on the Fiscal Stress Monitoring System, see the OSC website at: http://osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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 generally agreed with our recommendations and indicated they planned to take corrective action.

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 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 is responsible for making sound financial decisions in the best interests of the District, the students it serves and the taxpayers who fund its programs and operations. Sound budgeting practices, together with prudent fund balance management, ensure that sufficient funding will be available to sustain operations, address unexpected occurrences and satisfy long-term obligations or future expenditures. A structurally balanced budget ensures that appropriations are funded with recurring revenues. The amount of fund balance retained at year-end serves as a financial cushion for unexpected events and maintaining cash flow. District officials should monitor available fund balance throughout the year and ensure that it is not depleted to a dangerous level.

The District is experiencing significant fiscal stress. It had no operating cash on hand and very little fund balance at the end of the 2013-14 fiscal year to manage unforeseen events. The District incurred significant operating deficits in fiscal years 2010-11 through 2012-13 and reported $379,000 of unexpended surplus funds[6] as of June 30, 2014, which is less than 1 percent of the ensuing year's operations. Given the size of the District's operations, fund balance has been reduced to a dangerously low level.

The District is also experiencing cash flow problems. The District issues short-term debt to provide temporary cash flow and has improperly used a total of $7.5 million in reserve fund cash to help with cash flow in fiscal years 2012-13 and 2013-14. Furthermore, the District improperly recognized certain State aid long before it was received, which further impacted the District's cash flow and financial condition.

According to District officials, the Board has relied on fund balance to finance operating expenditures because the Board did not want to raise taxes or reduce services, despite reductions in State aid. The

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[6] The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted and unrestricted, comprising committed, assigned and unassigned funds. 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, reserves and encumbrances included in committed and assigned fund balance (post-Statement 54).

District relies on State aid to help fund its operations (approximately 40 percent) and has to manage its finances within the constraints of the property tax cap. The Board has approved moderate tax increases each year in order to help provide sufficient resources for annual budget increases and rising employee benefit costs but relied on appropriated fund balance to balance the budget each year, including the 2014-15 fiscal year.

Fund Balance

Although the Board can designate fund balance to help finance the next year's budget, it should ensure that the level of unexpended surplus funds[7] remaining is sufficient to provide adequate cash flow and address unforeseen circumstances, such as unanticipated expenditures or revenue shortfalls.

As indicated in Figure 1, the District reported $379,000 of unexpended surplus funds as of June 30, 2014.

Figure 1 - General Fund Operating Results and Unexpended Surplus Funds

	2009 10	2010 11	2011 12	2012 13	2013 14
Beginning Total Fund Balance	$19,328,379	$20,677,225	$15,643,656	$11,838,197	$5,809,746
Actual Revenues	$102,710,935	$98,486,942	$98,329,890	$102,093,525	$105,397,624
Actual Expenditures	$101,362,089	$103,520,511	$102,135,349	$108,121,976	$104,759,107
Operating Surplus/(Deficit)	$1,348,846	($5,033,569)	($3,805,459)	($6,028,451)	$638,517
Year End Total Fund Balance	$20,677,225	$15,643,656	$11,838,197	$5,809,746	$6,448,263
Less: Nonspendable Fund Balance	$308,882	$351,396	$382,878	$283,263	$260,800
Less: Restricted Fund Balance	$9,144,747	$7,161,074	$4,800,930	$3,323,274	$1,842,033
Less: Appropriated Fund Balance Surplus Funds	$4,985,859	$5,413,099	$3,298,656	$0	$0
Less: Appropriated Fund Balance Reserve Funds	$2,225,682	$2,329,879	$2,856,600	$2,231,019	$3,966,058
Unexpended Surplus Funds as of June 30	**$4,012,055**	**$388,208**	**$499,133**	**($27,810)**	**$379,372**
Operating Cash Balance as of June 30	$128,097	$119,907	$0	$0	$0
Restricted Cash Balance as of June 30	$11,154,989	$9,493,679	$6,215,387	$1,869,936	$1,963,617

Unexpended surplus funds have declined from more than $4 million (4 percent of the ensuing year's budget) as of June 30, 2010 to approximately $379,000 as of June 30, 2014, or less than 1 percent (0.35 percent) of the ensuing year's budget.

From fiscal years 2010-11 through 2012-13, the District experienced operating deficits totaling $14.8 million, which were financed with

[7] New York State Real Property Tax Law currently limits unexpended surplus funds to no more than 4 percent of the ensuing fiscal year's budget.

appropriated fund balance. Total appropriations for the 2014-15 fiscal year are $4 million more than the prior year's expenditures. Although the District increased the 2014-15 tax levy by almost $1.1 million (the maximum allowable amount under the tax cap legislation[8]), the Board needed to appropriate more than $3.9 million from various reserves to balance the budget. As of January 2015, the Treasurer anticipated that the District would expend about $2 million less than budgeted because he had overestimated 2014-15 appropriations by approximately $2 million. Therefore, the District may incur an operating deficit of about $1.9 million for the 2014-15 fiscal year. The District's total fund balance may decrease by about $1.9 million, to $4.5 million at June 30, 2015.

Another factor that contributed to the District's financial condition problems was the separation incentive offered to District employees in September 2012. The Board authorized a $35,000 separation incentive to employees who resigned from their positions by August 30, 2013. The District paid out approximately $4.6 million to 132 employees who elected to resign from the District under the terms of the separation incentive. The cash payments were spread over two fiscal years (2012-13 and 2013-14)[9] but the District expensed the entire amount in 2012-13. However, the Board did not budget for the $4.6 million separation incentive payments in the 2012-13 adopted budget. As a result, the District used existing fund balance, including reserve fund cash, to pay out the $4.6 million separation incentive. Therefore, the District had no operating cash on hand at the end of 2013-14 and very little financial cushion for managing unforeseen events. Although some restricted fund balance could remain at the end of 2014-15, these funds are statutorily restricted for specific purposes and cannot be used to fund operating costs or to provide temporary cash flow.

The reported variances between budgeted and actual revenues over the five-year period reviewed were minimal.[10] However, we found that the District improperly budgeted and accounted for certain State aid. At fiscal year-end, the Treasurer recognizes certain expenditure-driven[11] State aid, such as textbook aid and transportation aid, as current year revenue, even though the funds will not be received until

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[8] With some exceptions, the State's property tax cap limits the amount local governments and most school districts can increase property taxes to the lower of 2 percent or the rate of inflation.

[9] The District paid approximately $2.7 million in separation incentives during 2012-13 and the remaining $1.9 million during 2013-14.

[10] Total revenues were underestimated by $567,500 over the five-year period reviewed, or less than 1 percent (0.51 percent) of the District's total estimated revenues.

[11] An established aid ratio is applied to eligible or approved expenditures to generate aid.

March of the ensuing year (nine months into the next fiscal year). Given the length of time before the State aid will be received, the recognition of this revenue should be deferred at fiscal year-end or budgeted as a revenue in the ensuing fiscal year. For example, as of June 30, 2014, the Treasurer recognized $3.9 million in transportation aid and $717,000 in textbook, software and hardware aid as revenue, but the State will not disburse these funds to the District until March 2015.

Using the modified accrual basis of accounting, revenues in governmental funds[12] are recognized when they are susceptible to accrual − that is, when they are both measurable and available. Revenues are measurable when the amount of the revenue is subject to reasonable estimation. To be considered available, the revenues must be received within the current period, or soon enough after, to pay current liabilities outstanding at the end of the current period. The Treasurer stated that he budgets for and recognizes these revenues in the year in which the related expenditures were incurred regardless of when the revenues will be received or available. The District has been budgeting and accounting for State aid in this manner since 2004-05. Prior to this time, State aid was recognized only when measurable and available. The financial impact of the District's accounting for these revenues before they will be available, i.e., received in cash, is significant, because the funds will not be received soon enough after year-end to satisfy current liabilities. The improper recognition of State aid revenue has contributed to the District's cash flow issues and financial condition problems. Had the District properly accounted for these transactions, the District would have likely reported a fund deficit of approximately $4.2 million as of June 30, 2014.

Cash Flow

Adequate cash flows allow the District to liquidate its obligations in a timely manner, without needing to rely on short-term cash flow borrowing. The amount of fund balance retained at year-end generally serves as a financial cushion for unexpected events and maintaining cash flow. There is no authority for a District to borrow cash from reserve funds for cash flow purposes.

District officials prepare cash flow statements regularly to monitor cash flow and ensure that they will have enough cash to pay current liabilities. We compared available cash to current liabilities at the end of the last five fiscal years (2009-10 through 2013-14)[13] and noted a significant decrease in cash available to fund liabilities. For example, as of June 30, 2010, the District had more than enough cash to satisfy

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[12] Governmental funds are used to account for most typical governmental functions.

[13] We analyzed fiscal year-end cash balances when they are usually at their lowest level. Real property taxes are generally collected at the beginning of the fiscal year and spent down as the year progresses.

all its current liabilities, as cash balances exceeded current liabilities by almost $5 million. However, as of June 30, 2014, the District had no operating cash and $1.9 million in restricted cash, which was only enough cash to satisfy approximately 24 percent of its current liabilities.

The Treasurer improperly used reserve fund cash balances for cash flow purposes. The District had five general fund reserves,[14] totaling more than $5.5 million as of June 30, 2013. However, the corresponding reserve cash balances totaled approximately $1.9 million at that date. The Treasurer used reserve fund cash to fund approximately $2.7 million of the $4.6 million separation incentive payments made during 2012-13. The Treasurer stated that he temporarily borrowed reserve fund cash for cash flow purposes, but the funds would be returned to the reserves as soon as the District started collecting taxes in September 2013. Although the Treasurer may have temporarily returned the cash to the reserves during the year, the District still had insufficient cash to support its reported reserve balances as of June 30, 2014. The District's five general fund reserves totaled $5.8 million at that date, but the District had approximately $2.0 million in cash to support the reserves.

The Treasurer told us that the District has found it increasingly difficult to fund payroll costs without borrowing cash from reserves or issuing debt for cash flow purposes. In fact, the District issued a tax anticipation note (TAN) for $9.9 million in August 2013 to fund the first two payrolls in 2013-14 and a TAN for $12 million in July 2014 to fund the first two payrolls in 2014-15. The Treasurer also stated that the District has had cash flow problems because of changes in the timing of lottery aid[15] from the State and sales tax from the County. While these items may represent a contributing factor, a significant cause of the District's cash flow problem is poor planning and budgeting practices.

As revenue from State aid decreased, the District relied on fund balance and increases in real property taxes to finance operations. Specifically, since 2008-09, the District's tax levy has increased $8.3 million, but revenues from other sources, including State aid, have decreased by approximately $3 million over the same time period, resulting in a net increase in revenue of $5.3 million over the past six years. At the same time, general fund appropriations have increased by about $6.7 million, which forced the District to rely on fund balance to fund operations. Now, with fund balance depleted, the Board has

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[14] Reserve funds are mechanisms to legally restrict and accumulate funds for future allowable purposes and should be supported by cash or an investment.

[15] Prior to 2011-12, lottery aid was paid to school districts prior to September 1; however, the State changed the disbursement date to on or before September 30.

limited options available to fund any increases in operating costs. If the Board chooses to address budget shortfalls through an increase in property taxes, the increase could be significant and require a voter-approved override of the property tax cap. Otherwise, the Board will have to identify new revenue sources or use a combination of increased revenues and decreased expenditures to balance the annual budget.

Recommendations

The Board should:

1. Adopt realistic budgets that include accurate estimates of revenues and expenditures.

2. Develop a realistic plan to accumulate unexpended surplus funds, within the legal limit, so that cash is available to fund unexpected expenditures or revenue shortfalls.

3. Ensure that the annual budget reflects the funding plan of any severance packages offered to employees.

4. Properly recognize State aid receivable only when the amount is both measurable and available.

The Treasurer should:

5. Only use reserve fund cash balances as allowed by statute.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

WEST SENECA CENTRAL SCHOOL DISTRICT

Administrative Offices ▪ 1397 Orchard Park Road ▪ West Seneca, NY 14224

Telephone: (716) 677-3100 ▪ Facsimile: (716) 674-0522

Mark J. Crawford, Ed.D.
Superintendent of Schools

Brian L. Schulz
District Treasurer

April 13, 2015

Mr. Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, NY 14203-2510

Dear Mr. Mazula,

The following constitutes the West Seneca Central School District's response to the Report of Examination issued by your office entitled "Financial Condition." The Report of Examination covers the District's fiscal operations during the period July 1, 2009 through January 14, 2015.

We would first like to express our appreciation for the professional and courteous manner in which your staff conducted its audit responsibilities.

The District's Board of Education and Administration remains committed to ensuring that the District's financial operations are conducted with the highest level of integrity and that the interests of the District's taxpayers are properly protected.

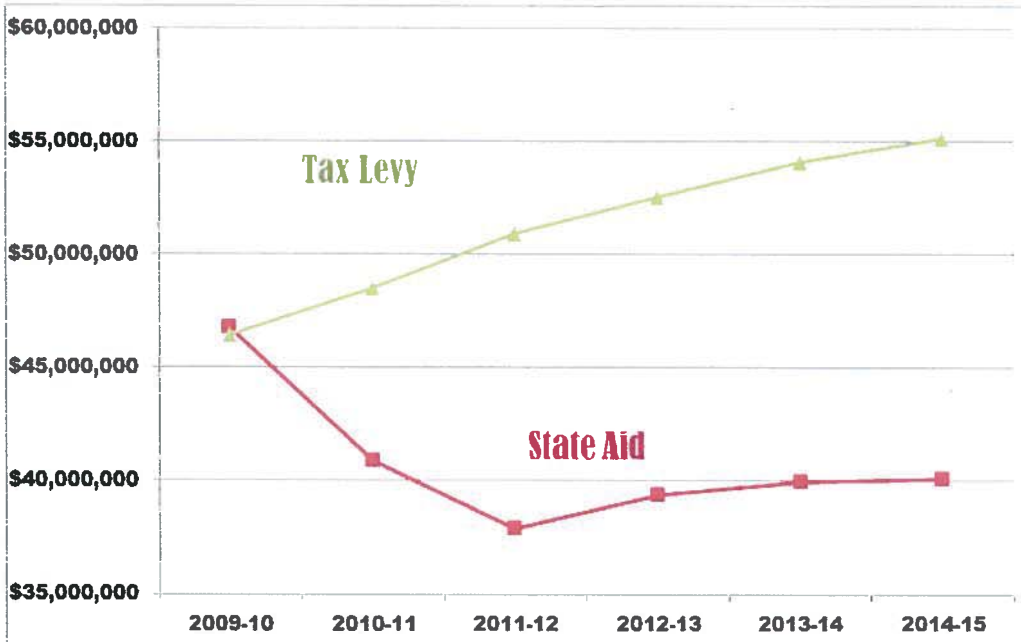
The District is currently in the process of preparing its Corrective Action Plan to fully address the findings and recommendations in the Report of Examination, and that Plan will be filed within the timeline specified by law. The District does, however, wish to take this opportunity to respond to certain aspects of the Report of Examination, which are as follows:

Item #1: *The Board should adopt realistic budgets that include accurate estimates of revenues and expenditures.*

Response: The District has and continues to utilize a multiyear budget model to identify revenue and expenditure trends, establishing both short and long term priorities and assessing the impact of current budgeting decisions on future budgets. Actual revenues and expenditures are continually compared to estimates to ensure that the budgets developed are both realistic and accurate.

Item #2: *The Board should develop a realistic plan to accumulate unexpended surplus funds, within the legal limit, so that cash is available to fund unexpected expenditures or revenue shortfalls.*

Response: During the audit period covered by this report, the District experienced extraordinary fiscal challenges with the reduction of State aid through the Gap Elimination Adjustments.



There have been increased regulatory requirements, unfunded mandates and major increases to pension costs. At the same time, the District faced the limitation of property tax revenue increases with the imposition of the Property Tax Cap and the related property tax freeze that is tied to staying within the Property Tax Cap. As a result, the District, as recommended by the governor, relied on the use of its healthy fund balance to balance its budget and complied with his subsequent signing of the Tax Cap Legislation. This decision to utilize our fund balance was made so the District could continue to provide a quality education to its students.

During this time period, the District already had implemented several strategies to reduce its overall expenditure level in recognition that the promised Gap Elimination funding may never be returned and to increase the fund balance to an appropriate level. Some of the steps already taken by the Board of Education were the closing of two elementary buildings, one alternative education program, the elimination of the summer school program, the reduction of 250 staff members in the past five years and the increased reliance on an outside contracted bus service.

Staffing Changes Since 2009-10
(as of June 30)

	2009-10	2010-11	2011-12	2012-13	2013-14	Projected 2014-15	Net change
Administrators	26	27	25	24	23	21	-5
Teachers	628	602	592	576	555	548	-80
CSEA	603	584	568	514	447	443	-160
All Other	28	24	24	22	24	23	-5
Totals	1285	1237	1209	1136	1049	1035	-250

The District certainly is well aware of its fiscal situation and continues, each and every day, the work started over five years ago to look for ways to reduce cost and to compensate for the loss in State aid revenue. In contrast, in our opinion, the State Audit Report appears to be more about the State distancing itself from the impact caused by the above noted State aid reductions, unfunded mandates and State pension cost increases.

Item #3: *The Board should ensure the annual budget reflects the funding plan of any severance packages offered to employees.*

Response: The decision to offer a separation incentive was made in conjunction with the decision to close an elementary building and alternative education program. The closing of these two programs necessitated the elimination of staff positions. The decision to offer an incentive rather than lay off employees was made for both financial and non-financial reasons. As the District is self insured, the cost to lay off employees offset the additional cost of the incentive. During this time frame, laid off employees were potentially eligible for up to 99 weeks of unemployment benefits. Although the incentive payments were not budgeted because the decision was made after the budget was adopted, sufficient funds were available to accrue most of the cost to the 2012-2013 year budget, and recognizing that savings from the unfilled positions would be realized in future years. The salaries and benefits of the 132 employees who elected the incentive was $8,916,599.

Item #4: *The Board should properly recognize State aid receivable only when the amount is both measurable and available.*

Response: The District changed its method of recording revenues in part to apply the matching principal and recognize the revenue to the related expense in the year the expense was incurred; in addition, we considered them available if collected within one year after the end of the fiscal year. This decision was reached after a period of consultation with our auditors, school board and administrators in the District. It involved review of the matching principal, measurement focus and changes to conform with Governmental Accounting Standards Board changes including GASB 34. This change was made effective July 1, 2004 and was fully disclosed within the notes to our audited financial statements and has been consistently applied since. Our external auditors have never noted this practice as imprudent nor has the New York State Comptroller's Office had issue with this in our previous audit in 2008. As has been required by New York State, we have filed our audited financial statements with the State Comptroller's office every year, including the 2004-2005 fiscal year of the change. We maintain that the consistent application and disclosure of accounting policies and practice (which is the responsibility of District management) is the most relevant factor in producing fairly stated financial statements. We will consult with our independent auditor for further guidance on this recommendation.

Item #5: *The Treasurer should only use reserve fund cash balances as allowed by statute.*

Response: The District recognizes that one of the consequences of reducing its fund balance is the impact on cash flow. In addition to this, cash flow is affected by the timing of receipt of its state aid and property tax revenues that are collected between September 15 and October 15 each year. It has been the District's practice to borrow for short term cash flow needs for the shortest time period possible, thereby minimizing the interest cost incurred. In the future, the District will borrow funds sooner and in sufficient amount so the reserve cash balances are maintained as per the statute, regardless of the additional interest cost incurred and required to be paid by our taxpayers.

Once again, the District's administration and Board of Education wish to express their appreciation for the Comptroller's Office assistance in recognizing the fiscal stress the District has faced. It has been reassuring to know that after the several months spent in our office, your audit serves to reinforce the impact revenue reductions have had on our financial operation. We will continue to work toward a balance between fiscal prudence and serving the educational needs of our children.

Sincerely,

Mary Busse
President, Board of Education

Dr. Mark J. Crawford
Superintendent of Schools

Janice Dalbo
Vice President, Board of Education

NICOLE C. LATZA
Notary Public, State of New York
Qualified in Erie County
My Commission Expires July 1, 2017

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to assess the District's financial management and condition. To accomplish the objective of our audit and obtain valid audit evidence, our procedures included the following:

- We interviewed District officials to determine what processes were in place for budgetary practices and to gain an understanding of the District's current financial position.
- We reviewed Board minutes, annual budget notices and policies and procedures for developing and reporting information relevant to financial and budgeting activities.
- We compared the District's accounting records to the annual update document (ST-3) and the audited financial statements.
- We reviewed and analyzed the District's financial records and reports, including balance sheets, budget reports and statements of revenues and expenditures.
- We evaluated the reasonableness of budget estimates by comparing the adopted budgets to actual revenues and expenditures for the past five fiscal years.
- We reviewed the District's 2014-15 adopted budget for reasonableness and to ensure it is structurally balanced.
- We reviewed and analyzed changes in fund balance as a result of operations and the District's budgeting practices.
- We reviewed the District's tax levy for the last five fiscal years (2009-10 through 2013-14), including documentation and/or schedules supporting State aid estimates, fund balance projections and tax levy projections and calculations.
- We reviewed and analyzed cash balances reported at year-end to assess the District's ability to liquidate current liabilities from available cash.
- We reviewed the District's 2012-13 separation incentive payments and cost savings projections provided by the Treasurer to determine the total amount paid, verify eligibility requirements and determine the incentive's financial impact.
- We interviewed District officials to determine if the District developed a multiyear operational plan and prepared cash flow analyses on a regular basis.

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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APPENDIX D

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