



Bolton Central School District Financial Condition

Report of Examination

Period Covered:

July 1, 2009 — November 30, 2012

2013M-58



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 2013

Dear School 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 Bolton 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 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 Bolton Central School District (District) is located in Warren 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 and educational affairs. The Superintendent of Schools is the chief executive officer of the District and is responsible, along with the Business Manager, for the day-to-day management of the District under the direction of the Board.

There is one school in operation within the District, with approximately 200 students and 65 employees. The District's budgeted expenditures for the 2012-13 fiscal year were \$8.7 million, which were funded primarily with real property taxes, State aid, and grants.

Objective

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

- Does the Board properly manage District finances by ensuring budgets are realistic and supported?

Scope and Methodology

We examined the financial condition of the District for the period July 1, 2009, to November 30, 2012.

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 C of this report.

Comments of District Officials and Corrective Action

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

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

The Board is responsible for making sound financial decisions that are in the best interests of the District, the students it serves, and the taxpayers who fund the District's programs and operations. Sound budgeting practices based on accurate estimates, coupled 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. Accurate budget estimates also help ensure that the levy of real property taxes is not greater than necessary. Further, the Board should prepare a multiyear financial plan based on reasonable estimates that projects future revenues and expenditures and prepares for the fiscal challenges of future years.

Although the Board adopted budgets that were realistic and supported for revenues, expenditures were consistently and significantly over-estimated. In addition, although the Board appropriated more than \$690,000 of unexpended surplus funds¹ each year,² for a total exceeding \$2.1 million over a three-year period, to help finance the ensuing year's operations, the District actually used only \$266,732 of the fund balance during this period. As a result, the District has accumulated considerable unexpended surplus funds up to four times the amount allowed by statute. Although the District has developed a multiyear financial plan, the plan does not reduce the excessive unexpended surplus funds in a manner that benefits the taxpayers. Such uses could include, but are not limited to, increasing necessary reserves, paying off debt, financing one-time expenditures, or reducing property taxes.

General Fund Budget

The general fund is the District's main operating fund, in which the financial transactions for its education programs and other operating activities, which include the maintenance of buildings and grounds, transportation, and administration, are recorded. The general fund's financial condition depends on the Board's ability to develop realistic

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, 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, less any amounts appropriated for the ensuing year's budget (after Statement 54).

² The District appropriated unexpended surplus funds in the amount of \$696,168, \$748,105, and \$735,000 for fiscal years 2009-10, 2011-12, and 2012-13, respectively.

budgets and monitor the District’s financial operations throughout the fiscal year.

In preparing the general fund budget, the Board is responsible for estimating what the District will spend and what it will receive in revenue (e.g., State aid), estimating how much fund balance will be available at fiscal year-end to balance the budget, and determining what the expected tax levy will be. Accurate estimates help ensure that the levy of real property taxes is no greater than necessary. Real Property Tax Law allows a district to retain up to 4 percent of the ensuing year’s budget as unexpended surplus. Fund balance in excess of that amount must be used to fund a portion of next year’s appropriations, thereby reducing the tax levy, or used to fund legally established reserves.

Although the Board adopted budgets that were realistic and supported for revenues, expenditures were consistently and significantly over-estimated. We compared the District’s budgeted expenditures with actual results for fiscal years 2009-10 through 2011-12 and found that the District over-estimated expenditures by a total of \$2.8 million, as shown in Table 1. The over-estimated expenditures were spread throughout the budget line items, but the largest variances were for BOCES special education contractual expenditures, special education tuition, maintenance of plant contractual expenditures, and computer hardware, which were over-estimated by a total of \$145,000, \$433,000, \$262,000, and \$183,000, respectively.

Fiscal Year	Budgeted Expenditures	Actual Expenditures	Variance
2009-10	\$8,452,929	\$7,333,197	\$1,119,732
2010-11	\$8,545,419	\$7,758,341	\$787,078
2011-12	\$8,654,313	\$7,707,308	\$947,005
Totals	\$25,652,661	\$22,798,846	\$2,853,815

As shown in Table 2, during this three-year period, the District appropriated unexpended surplus funds totaling \$2,179,273 to fund the subsequent years’ operations, which should have resulted in annual operating deficits equal to the amounts of surplus funds appropriated. In reality, because of the large variances between budgeted and actual expenditures, the District realized an operating surplus for one year and much smaller operating deficits for the remaining two years. As a result, only a limited amount (\$266,732 of \$2,179,273) of the appropriated fund balance was actually used to finance operations.

Fiscal Year	Actual Revenues	Actual Expenditures	Operating Surplus/(Deficit)	Appropriated Surplus Funds in the Budget	Appropriated Surplus Funds Actually Used
2009-10	\$7,597,219	\$7,333,197	\$264,022	\$696,168	\$0
2010-11	\$7,532,786	\$7,758,341	(\$225,555)	\$748,105	\$225,555
2011-12	\$7,666,131	\$7,707,308	(\$41,177)	\$735,000	\$41,177
Total	\$22,796,136	\$22,798,846	(\$2,710)	\$2,179,273	\$266,732

Because District officials have consistently over-estimated expenditures and appropriated significant unexpended surplus funds that they did not use, the District’s unexpended surplus funds have exceeded the allowed statutory limit of 4 percent every year during our audit period.

Based on the unexpended surplus funds the District appropriated in the budgets for fiscal years 2009-10, 2010-11, and 2011-12, the excessive unexpended surplus fund balance percentages were 19.54 percent, 15.97 percent, and 15.72 percent³ of the ensuing year’s total appropriations, respectively. These budgeting practices continued to occur even though the last three management letters from the District’s independent auditors contained an audit comment to the Board stating that the District had exceeded the statutory limit for unexpended surplus funds. Although the District has developed a multiyear financial plan, it does not effectively reduce the excessive unexpended surplus funds that the District has accumulated.

**Multiyear
Financial Plan**

Multiyear financial planning is a tool school districts can use to improve the budget development process. Planning on a multiyear basis will enable District officials to identify developing revenue and expenditure trends, establish long-term priorities and goals, and consider the impact of near-term budgeting decisions on future fiscal years. It also allows District officials to assess the merits of alternative approaches (such as using unexpended surplus funds or establishing and using reserves) to finance its operations. Multiyear financial planning can also help District officials project the future costs of employee salaries and benefits provided for in collective bargaining agreements. Any long-term financial plan should be monitored and updated on a continuing basis to provide a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate.

³ The unexpended surplus fund balance percentages were calculated by dividing the end of the fiscal year’s unexpended surplus funds by the next year’s adopted budgeted appropriations. The 19.54 percent for 2010 was calculated as $(\$1,669,976/\$8,545,419)*100$, the 15.97 percent for 2011 was calculated as $(\$1,382,242/\$8,654,313)*100$, and the 15.72 percent for 2012 was calculated as $(\$1,335,750/\$8,499,541)*100$.

Although the District has a three-year financial plan for 2013-14, 2014-15, and 2015-16, that was developed by the Business Manager in September of 2012, the District's projections for future years appear to continue the practice of over-estimating expenditures and appropriating significant unexpended surplus funds that most likely will not be used. As a result, the District's excessive unexpended surplus funds will not be reduced. The failure to use realistic estimates in this multiyear financial plan inhibits the District's ability to effectively manage the it's finances.

Recommendations

1. The Board and District officials should develop and adopt budgets that include realistic estimates for expenditures based on contractual and historical data.
2. The Board should discontinue the practice of adopting budgets that result in the appropriation of unexpended surplus funds that will not be used.
3. The Board and District officials should ensure that unexpended surplus fund amounts are within statutory limits.
4. The Board and District officials should develop a multiyear plan that addresses the use of unexpended surplus funds in a manner that benefits District taxpayers. Such uses could include, but are not limited to:
 - Increasing necessary reserves
 - Paying off debt
 - Financing one-time expenditures
 - Reducing property taxes.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Bolton Central School District



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Raymond Ciccarelli, Jr., *Superin*
Michael J. Graney, *P*
Kathleen J. Dennin, *Business A*
Angelia M. Smack, *District Clerk*

April 17, 2013

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236

Dear Comptroller Office Staff members:

As required, we write to you in response to the Financial Condition report for the Bolton Central School District for the period covering July 1, 2009 through November 30, 2012.

The first area we wish to address is found on Page 7, in which you have claimed that the District overestimates expenditures. We disagree. The expenditures cited, such as, Special Education, Computer Hardware and Maintenance of Plant are examples. When the budget is composed, projected costs are based on reliable estimates.

See
Note 1
Page 12

In the area of Special Education, as the budget is being composed, we have a complete list of placements for District students. By the time that the school year starts in September, students have moved out, have been declassified or placements change for educational reasons. Also, a major employer in the community closed their year round operation, causing a significant drop in enrollment. This drop in enrollment occurred after the start of the school year decreasing the number of Special Education identified students. This drop in enrollment is documented in NYSED records.

See
Note 2
Page 12

In the area of Computer Hardware, our budget figures were completely accurate. After the adoption and successful voter approval of the budget, a grant was unexpectedly received which we used to purchase the hardware.

See
Note 3
Page 12

The situation in the Maintenance of Plant area was not significantly affected by the enrollment, however, it was affected significantly mild winter seasons, which lowered utilities costs to a noticeable level.

These are some examples of major expenses, which were realistic when composed. In the ensuing school year they did not materialize.

We wish to also respond to an item cited on Page 8 regarding the multi year and long range district planning. We disagree that our multi year plan overestimates expenditures and does not use surplus funds.

See
Note 4
Page 12

With the double digit increases in TRS, ERS and health insurance costs and given the parameters of the tax levy cap, it creates a most arduous scenario. This situation makes it very unlikely that budgeted monies would not be expended and surplus funds would not be used.

Our multi year plan will continue to monitor the use of surplus funds. In fact, our current projections indicate that any surplus funding will be nearly depleted by the 2016 - 2017 school year.

Our administration will continue working with the Board of Education to review and revise our fiscal planning, incorporating discussion emanating from reading your report. We thank you for the opportunity to progressively alter our methodology. Thank you.

Sincerely,

Raymond Ciccarelli, Jr.
Superintendent

Cc: K.J. Dennin, Business Manager

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

As indicated in Table 1, when the budgets are taken in total, budgeted expenditures have exceeded actual expenditures in the general fund by approximately \$2.8 million over the past three fiscal years (\$1,119,732 in 2009-10, \$787,078 in 2010-11, and \$947,005 in 2011-12).

Note 2

While changes may occur in student enrollment, it is clear that the District significantly over-estimated special education expenditures when considering annual expenditures on a year-to-year basis. During 2009-10, the District budgeted \$432,847 for special education but incurred expenditures of only \$245,982; during 2010-11, the District budgeted \$400,753 but incurred expenditures of only \$286,111; and during 2011-12, the District budgeted \$467,650 but incurred expenditures of only \$190,267. The District consistently over-estimated special education expenditures by approximately \$579,000 over the past three years.

Note 3

The fact that the District received grant proceeds to purchase computer hardware had no impact on the budgeted appropriations or corresponding expenditures because the grant proceeds were recognized as revenues. During 2009-10, the District budgeted \$66,222 to purchase computer hardware but incurred expenditures of only \$6,447; during 2010-11, the District budgeted \$84,413 but incurred expenditures of only \$15,549; and during 2011-12, the District budgeted \$68,059 but incurred expenditures of only \$12,720. The District consistently over-estimated computer hardware expenditures by a total of approximately \$184,000 over the past three years.

Note 4

The District's total expenditures for 2009-10 through 2011-12 annually increased by an average of 0.80 percent. However, without any supporting explanation, the District's multiyear financial plan projects increases in appropriations of 10.28 percent, 12.21 percent, 11.19 percent, and 12.82 percent for 2012-13 through 2015-16. Additionally, the District appropriated surplus funds for 2009-10 through 2011-12 in the amounts of \$696,168, \$748,105, and \$735,000; however, the District did not use any of the appropriated surplus funds in 2009-10, and only \$225,555 and \$41,177 in 2010-11 and 2011-12, because of the substantial over-estimation of expenditures. Furthermore, the District is projecting the use of surplus funds to finance operations for 2012-13 through 2015-16 in the amounts of \$1 million: \$700,000, \$650,000, and \$600,000. These projections are consistent with previous years when expenditures were over-estimated and appropriated surplus funds were not fully used as planned when the budgets were adopted.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to examine the District's financial condition for the period July 1, 2009, to November 30, 2012. To accomplish this, we performed an initial assessment so that we could design our audit to focus on those areas most at risk.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions, and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided on the reported objective and scope, and selected financial condition for further audit testing. Our procedures included the following:

- We interviewed District officials to gain an understanding of the District's financial operations.
- We compared the District's budgets for the 2009-10, 2010-11, and 2011-12 fiscal years to the actual results of operations to determine if the budgets were realistic.
- We reviewed budget-to-actual expenditures for the 2009-10, 2010-11, and 2011-12 fiscal years.
- We reviewed the District's actual results of operations for the 2009-10, 2010-11, and 2011-12 fiscal years to determine if the appropriation of unexpended surplus funds resulted in operating deficits.
- We reviewed the year-end unexpended surplus funds for the 2009-10, 2010-11, and 2011-12 fiscal years to determine if they exceeded the 4 percent limit.
- We review the multiyear financial plan for the 2013-14, 2014-15, and 2015-16 fiscal years to determine if it appeared reasonable.

We conducted this performance audit in accordance with generally accepted government auditing standards (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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