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April 8, 2015

Robert Dufour
Superintendent of Schools
Members of the Board of Education
Eldred Central School District
600 Route 55
Eldred, NY 12732

Report Number: B4-15-3

Dear Mr. Dufour and Members of the Board of Education:

Our Office has recently completed a review of the Eldred Central School District's (District) proposed budget for the 2015-16 fiscal year. The objective of the review was to provide an independent evaluation of the proposed budget. Our review addressed the following questions related to the District's proposed budget for the upcoming fiscal year:

- Are the significant revenue and expenditure projections in the District's proposed budget reasonable?
- Did the District take appropriate action to implement or resolve recommendations relating to expenditures, revenues and reliance on fund balance contained in the audit report issued in October 2014?

To accomplish our objectives in this review, we requested your proposed budget, salary schedules, debt payment schedules and other pertinent information. We identified and examined significant estimated revenues and expenditures for reasonableness with emphasis on significant and/or unrealistic increases or decreases. We analyzed, verified and/or corroborated trend data and estimates, where appropriate. We identified any significant new or unusually high revenue or expenditure estimates, made appropriate inquiries and reviewed supporting documentation to determine the nature of the items and to assess whether the estimate was realistic and reasonable. We also evaluated the amount of fund balance appropriated in the proposed budget to be used as a financing source and determined if the amount of fund balance was available and sufficient for that purpose. In addition, we inquired and checked whether applicable written recommendations from our Office's October 2014 audit were implemented or resolved and therefore, incorporated as part of the current year's budget.

The scope of our review does not constitute an audit under generally accepted government auditing standards (GAGAS). We do not offer comments or make specific recommendations on public policy decisions, such as the type and level of services under consideration to be provided.

The proposed budget package submitted for review for the fiscal year ended June 30, 2016 consisted of the following:

- 2015-16 Proposed Budget
- Supplementary Information

The proposed budget submitted to our Office is summarized as follows:

Fund	Appropriations and Provisions for Other Uses	Estimated Revenues	Appropriated Fund Balance	Real Property Taxes
General	\$16,611,427	\$6,236,192	\$529,483	\$9,845,752

Based on the results of our review, except for the matters described below, we found that the significant revenue and expenditure projections in the proposed budget are reasonable.

Our review disclosed the following findings which should be reviewed by the Board for appropriate action. Good management practices require that District officials take prompt action concerning our recommendations. We believe that prompt action by District officials will help improve the District’s financial condition.

State Aid

The District’s proposed budget for State aid revenues, totaling \$5,783,942, was prepared prior to the release of the New York State (NYS) preliminary estimate of the 2015-16 State aid projections. The recently released NYS preliminary estimate for the District totaled \$5,509,043. Therefore, the District’s proposed budget is \$274,899 higher than the NYS preliminary estimate. We recommend District officials reevaluate the State aid revenues in the proposed budget and amend them to be more in line with the NYS preliminary estimate.

Health Insurance

The District’s proposed budget for health insurance estimates exceeded the District’s supporting documentation relating to health insurance estimates, due to clerical errors. The District’s proposed budget for health insurance totaled \$1,930,000 which is \$164,625 greater than the District’s supporting documentation for health insurance estimates. We recommend the District amend the proposed budget for health insurance appropriations to be in agreement with the supporting documentation.

Prior Year Finding

Our Office performed an audit released in 2014 which had recommendations related to the District's budgeting process. Specifically, the Board adopted budgets that limited tax increases by balancing its budgets with appropriations of fund balance, thus depleting fund balance to a precariously low amount. The report recommended that the Board and District officials take steps to maintain the District's financial stability, including significantly decreasing expenditures or increasing real property taxes and monitoring the use of fund balance to ensure action is taken, if necessary, to identify other sources if fund balance is no longer available.

District officials' current projection for 2014-15 year-end expenditures is approximately \$16.4 million, which would be an increase of approximately \$579,000, or 3.6 percent, over 2013-14 reported expenditures. Although the District's 2015-16 proposed budget increases total appropriations by approximately \$323,000, or approximately 2 percent, from the 2014-15 adopted budget, the increases are largely in categories outside of District officials' control (i.e., payroll-related increases based on current contractual agreements). The District's proposed budget reduced appropriations relating to retirement, Board of Cooperative Educational Services (BOCES) and other miscellaneous items. Furthermore, the District's proposed budget increases real property taxes by approximately \$248,000, or 2.6 percent, compared to the 2014-15 adopted budget.

However, the District's 2015-16 proposed budget calls for appropriations of fund balance totaling \$529,483. If this amount of fund balance is used to fund operations, we project that available fund balance¹ will decrease to an amount less than 2 percent of 2015-16 budgeted appropriations, which would leave little cushion for unforeseen events or to provide for cash flow. In addition, the District's proposed budget does not account for the probable return of approximately \$200,000 in building aid² to the New York State Education Department (SED), which would further reduce fund balance. We recommend the Board and District officials make a provision for repayment of the building aid and continue to monitor the use of unexpended fund balance.

Tax Cap Compliance

The State Legislature and the Governor enacted Chapter 97 of the Laws of 2011 that established a tax levy limit on all local governments and school districts, which was effective beginning in the 2012 fiscal year. The law precludes a school district from adopting a budget that requires a tax levy that exceeds the prior year tax levy by more than 2 percent or the rate of inflation, whichever is less, and certain exclusions permitted by law, unless 60 percent of district voters approve a budget that requires a tax levy that exceeds the statutory limit.

The District's proposed budget complies with the tax levy limit because it includes a tax levy of \$9,845,752, which is within the limits established by law. In adopting the 2015-16 budget, the

¹ Our projection includes an anticipated operating deficit (use of fund balance) of approximately \$393,000 for the 2014-15 fiscal year, based on District officials' projections of 2014-15 year-end revenues and expenditures.

² District officials told us previously received building aid would need to be returned due to the District's failure to file year-end reports with SED in a timely manner.

Board should be mindful of the legal requirement to maintain the tax levy increase to no more than the tax levy limit as permitted by law, unless it obtains the proper voter approval to override the tax levy limit. It is imperative that District officials pay careful attention to school aid estimates and other guidance, and make appropriate changes to its budget and/or tax levy limit calculation as more information becomes available.

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, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education, and make the plan available for public review in the District Clerk's office. For guidance in preparing your plan of action and filing this report, please refer to the attached documents.

We request that you provide us with a copy of the adopted budget.

We hope that this information is useful as you adopt the upcoming budget for the District. If you have any questions on the scope of our work, please feel free to contact H. Todd Eames, Chief Examiner of the Binghamton Regional Office, at (607) 721-8306.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

cc: Larry Lawrence, Interim Business Official
Ruth Luis, District Treasurer
Bonnie Robertson, Clerk of the Board
Lawrence Thomas, District Superintendent of Sullivan County BOCES
Beth Berlin, Acting Commissioner, State Education Department
Maria Guzman, Director, Office of Audit Services, State Education Department
Andrew A. SanFilippo, Executive Deputy Comptroller