



# Ellenville Central School District Financial Condition

## Report of Examination

Period Covered:

July 1, 2012 – June 30, 2015

2015M-330



Thomas P. DiNapoli

# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	1
<b>INTRODUCTION</b>	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	2
<b>FINANCIAL CONDITION</b>	4
Budgeting Practices	4
Fund Balance	5
Recommendations	7
<b>APPENDIX A</b> Response From District Officials	8
<b>APPENDIX B</b> OSC Comments on the District's Response	11
<b>APPENDIX C</b> Audit Methodology and Standards	12
<b>APPENDIX D</b> How to Obtain Additional Copies of the Report	13
<b>APPENDIX E</b> Local Regional Office Listing	14

# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

March 2016

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage district resources 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 Ellenville 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*

# Introduction

## Background

The Ellenville Central School District (District) is located in the Towns of Wawarsing and Rochester in Ulster County and the Town of Mamakating in Sullivan County. The District is governed by the Board of Education (Board), which is composed of nine 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 District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. The Treasurer has custody of, and is responsible for disbursing, all District funds. The Business Administrator is the Board-designated purchasing agent.

The District operates three schools with approximately 1,700 students and 386 employees. The District's budgeted appropriations for the 2015-16 fiscal year are \$48.6 million, which are funded primarily with State aid, real property taxes and grants.

## Objective

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

- Did District officials ensure budget estimates were reasonable and that fund balance was maintained in accordance with statutory requirements?

## Scope and Methodology

We examined the District's financial condition for the period July 1, 2012 through June 30, 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 are included in Appendix C of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

## Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials disagreed with some of our findings. Appendix B includes our comments on issues raised in the District's response.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, Responding to an OSC Audit Report, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

## Financial Condition

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 along with prudent fund balance management help ensure that sufficient funding will be available to sustain operations, address unexpected expenditures and satisfy long-term obligations or future expenditures. Accurate budget estimates also help ensure that the real property tax levy is not greater than necessary. Fund balance represents resources remaining from prior fiscal years. A district may retain a portion of fund balance but must do so within the limits established by New York State Real Property Tax Law (RPTL). Currently, the amount of fund balance that the District can retain may not be more than 4 percent of the ensuing fiscal year's budget. Districts may use the remaining resources to lower real property taxes or establish reserves to restrict a reasonable portion of fund balance for a specific purpose.

Over a three-year period, the Board appropriated almost \$14.7 million of fund balance, which should have resulted in planned operating deficits each year. Because the Board adopted budgets which overestimated expenditures by a total of over \$11 million in those budgets, most of the appropriated fund balance was not used. When the unused appropriated fund balance is added back, the District's recalculated fund balance as a percentage of the ensuing years' appropriations ranged between 9.2 percent and 13.5 percent and was in excess of the legal 4 percent limit. Hence, the District actually retained more fund balance than was legally allowable. Budgeting practices which result in the District maintaining fund balance in excess of the amount allowed by law results in real property tax levies that are greater than necessary to fund operations.

### **Budgeting Practices**

The Board and District officials are responsible for preparing and adopting reasonable budgets based on historical or known trends for appropriations and revenues. In preparing the budget, the Board and District officials are responsible for using the most reliable and up-to-date information available at the time.

We reviewed the District's 2012-13 through 2014-15 budgets and found that actual general fund expenditures were less than the budgeted appropriations for each year. District officials overestimated expenditures by over \$11 million from 2012-13 through 2014-15.

<b>Figure 1: Overestimated Expenditures</b>				
	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>Three-Year Total</b>
Budgeted Appropriations	\$42,107,685	\$45,482,183	\$49,098,553	\$136,688,421
Actual Expenditures	\$39,126,224	\$42,333,895	\$44,087,556	\$125,547,675
Overestimated Expenditures	\$2,981,461	\$3,148,288	\$5,010,997	\$11,140,746
Percentage Difference	7.1%	6.9%	10.2%	8.2%

Certain expenditures were consistently overestimated each year. For example, the District overestimated salaries by \$2,697,200 in 2012-13, \$1,622,827 in 2013-14, and \$1,806,472 in 2014-15. Because these costs are established by contract, they should be reasonably predictable and budget estimates should be close to actual expenditures.

District officials and Board members believed their budgeting practices were appropriate based on the unpredictability of State aid revenues and the steady declines in aid since the 2008 fiscal crisis. In addition, officials stated that the District’s financial consultant projected that the District’s available fund balance would be depleted at the end of the 2015-16 fiscal year. We reviewed those projections and found they were unrealistic as they were based on no increases in State aid and inaccurate expenditure projections when compared to historical trends. The District has experienced steady increases in State aid during the audit period. For fiscal years 2012-13 through 2014-15, the District’s total aid increased from \$15.8 million to \$18.3 million, nearly \$2.5 million or 16 percent.

Budgeting practices that continually overestimate expenditures and result in the accumulation and retention of excess funds can result in tax levies that are greater than necessary.

**Fund Balance**

RPTL requires school districts to maintain their unrestricted fund balance at or below 4 percent of the ensuing year’s appropriations. Any unrestricted funds that exceed the statutory limit may be transferred to legally established reserve funds or used to pay one-time expenditures, pay down debt or to fund the next year’s appropriations to reduce the tax levy. District officials should not appropriate unrestricted funds that will not be used to fund operations.

For the fiscal years 2012-13 through 2014-15, the Board adopted budgets that included appropriated fund balance to finance District operations that totaled almost \$14.7 million. However, the amounts appropriated were not fully used because the District overestimated expenditures. As shown in Figure 2, we found that, after adjusting the beginning fund balance for the year-end operating results, restricted funds,<sup>1</sup> encumbrances<sup>2</sup> and fund balance appropriated to offset

ensuing year expenditures, the District reported unrestricted funds within the statutory limits in each year during our audit period.

<b>Figure 2: Unrestricted Fund Balance at Year-End</b>			
	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Total Beginning Fund Balance <sup>a</sup>	\$12,648,279	\$13,002,442	\$10,978,839
Add: Operating Surplus/(Deficit)	\$354,163	(\$2,023,603)	(\$1,360,921)
Total Ending Fund Balance	\$13,002,442	\$10,978,839	\$9,617,918
Less: Restricted Funds	\$6,919,249	\$2,875,706	\$3,132,100
Less: Encumbrances	\$134,318	\$132,024	\$343,312
Less: Appropriated Fund Balance for the Ensuing Year	\$4,488,678	\$6,007,167	\$4,197,441
Total Unrestricted Funds at Year End	\$1,460,197	\$1,963,942	\$1,945,065
Ensuing Year's Budgeted Appropriations	\$42,842,183	\$49,098,553	\$48,626,951
Unrestricted Funds as Percentage of Ensuing Year's Budget	3.4%	4.0%	4.0%

<sup>a</sup> The 2012-13 beginning fund balance is restated to include prior period decrease of \$170,252.

However, because the District continuously appropriated fund balance that it did not use to finance operations,<sup>3</sup> it was able to circumvent the statutory limitation of unrestricted fund balance. When the unused appropriated fund balance is added to the unrestricted funds at year-end for the three years, the District's unrestricted funds actually represented between 9.2 percent and 13.5 percent of the ensuing year's budget, or up to more than three times the statutory allowable limit.

<b>Figure 3: Unused Fund Balance</b>			
	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Total Unrestricted Funds at Year End	\$1,460,197	\$1,963,942	\$1,945,065
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	\$2,465,075	\$4,646,246	\$4,197,441 <sup>a</sup>
Total Recalculated Unrestricted Funds	\$3,925,272	\$6,610,188	\$6,142,506
Recalculated Unrestricted Funds as Percentage of Ensuing Year's Budget	9.2%	13.5%	12.6%

<sup>a</sup> Amount is based on the assumption that there is not an operating deficit in 2015-16

The Board's continued practice of adopting unrealistic budgets that contained overestimated expenditures resulted in the District not

<sup>1</sup> Restricted funds consist of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors or laws and regulations of other governments, or through constitutional provisions or enabling legislation.

<sup>2</sup> Encumbrances are appropriations that have been committed but not yet expended. They are commitments that are often related to unperformed executed contracts for goods or services.

<sup>3</sup> This was the result of the District's continued practice of overbudgeting expenditures while appropriating accumulated fund balance as a funding source. Because not all the expenditures were actually incurred, the appropriated fund balance was not used.



using fund balance that was appropriated as planned. As a result, the Board and District officials have withheld more than \$11.1 million from productive use, unnecessarily levied taxes and compromised the transparency of District finances to District residents.

## **Recommendations**

The Board should:

1. Adopt general fund budgets that include realistic estimates for expenditures.
2. Discontinue the practice of adopting budgets that result in the appropriation of fund balance that will not be used.

District officials should:

3. Develop realistic budget estimates based on the most reliable and up-to-date financial information available.
4. Develop a plan for the use of the additional unrestricted funds identified in this report in a manner that benefits District residents. Such uses could include, but are not limited to:
  - Paying off debt.
  - Financing one-time expenditures.
  - Reducing District property taxes.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

# Ellenville Central School District

28 Maple Avenue

Ellenville, New York 12428

Phone: 845-647-0100 • Fax: 845-647-0105

Lisa A. Wiles  
Superintendent of Schools

## Response to the Draft Report of Examination

March 3, 2016

Tenneh Blamah, Chief Examiner  
Office of the State Comptroller  
33 Airport Center Drive, Suite 103  
New Windsor, New York 12553-4725

This letter is in response to the Draft Report of Examination for the Ellenville Central School District by the NYS Office of the State Comptroller for the period covering July 1, 2012 – June 30, 2015. The District appreciates the opportunity to reflect on its findings regarding the District's Financial Condition.

The Ellenville Central School District takes its fiduciary responsibility to the taxpayers of our District very seriously. The District's strong commitment to prudent fiscal management practices has resulted in stabilizing District finances at a time it has suffered significant losses of State Aid, including the Gap Elimination Adjustment (GEA) and Foundation Aid formula modifications. In addition, The Board of Education and District Administration strive to follow the highest standards of fiscal management and agree to support and implement improvements in our operations recommended by the Office of the Comptroller.

See  
Note 1  
Page 11

However, we wish to share our concerns about some of the auditing team's findings, in particular: The conclusion that the District actually retained more fund balance than was legally allowable and that the District's budgeting practices resulted in the District maintaining fund balance in excess of the amount allowed by law resulting in real property tax levies that are greater than necessary to fund operations:

1. As we discussed with the Comptroller's Auditing Team, \$1.3 million, of the "overestimated expenditures" include Federal Fund expenditures, which are budgeted in the General Fund budget. The District's budgeting practice has been to include all expenditures in the budget to ensure that all stakeholders are fully apprised of the total amount expensed by the District.
2. While, in the Comptroller's report, on page 6, figure 1: Overestimated Expenditures, the budgeted appropriations include approximately \$1.3 million, each year, of Federal Fund expenditures, the line of actual expenditures does NOT include the actual Federal

See  
Note 2  
Page 11

See  
Note 2  
Page 11

# Ellenville Central School District

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Lisa A. Wiles  
Superintendent of Schools

## Response to the Draft Report of Examination

- expenditures, hence we believe the three year average is overstated by approximately \$3.9 million.
3. While the review indicated that the actual General Fund expenditures were less than the budgeted appropriations it is clearly noted on page 8, figure 2: Unrestricted Fund Balance at year end, line 2, that for the 2012-13 through the 2014-15 school years the District had a **cumulative operating deficit** of \$3,030,361 which was a result of the loss of State Aid and was offset by the use of reserves and fund balance.
  4. The District's fund balance from 2012-13 to 2013-14 went from \$12, 647,279 to \$9,617,918, a decrease of \$3,030,361.
  5. The District had already begun to align the budgeted appropriations more closely to the actual expenditures, as evidenced by a decrease in the 2015-16 budget in the amount of \$471,602. The projected 2016-17 budget will reflect additional reductions. (It should be noted that the Comptroller's audit did not include the 2015-16 budget)

In closing, the District has, and will, continue to implement and strengthen its current practices to ensure it meets all appropriate legal and contractual recommendations.

Sincerely,

Lisa A. Wiles  
Superintendent of Schools

## APPENDIX B

### OSC COMMENTS ON THE DISTRICT'S RESPONSE

#### Note 1

The District has experienced steady increases in State aid throughout the audit period. For fiscal years 2012-13 through 2014-15, the District's total aid increased from \$15.8 million to \$18.3 million, or 16 percent.

#### Note 2

We used the actual expenditures and interfund transfers recorded in the District's general fund, which we obtained directly from the District's annual financial report (ST-3). Budgeted appropriations agree with the adopted budget. Our report identified a three-year total of overestimated expenditures of \$11,140,746 or 8.2 percent. If these federal fund expenditures are removed from our calculation, the District would still have overestimated expenditures by \$7,240,746 or 5.3 percent.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials and reviewed Board minutes to gain an understanding of the budgeting process for the general fund, including the rationale for determining the amount of unrestricted funds available for appropriation and the procedures for monitoring and controlling the budget.
- We calculated the general fund's unrestricted fund balance as a percentage of the ensuing years' appropriations to determine if the District was within the statutory limitation during fiscal years 2012-13 through 2014-15.
- We compared the budgeted revenues and appropriations to the actual revenues and expenditures for 2012-13 through 2014-15 to determine if the District's budget estimates were reasonable.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## APPENDIX D

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