Pulaski Academy and Central School District

Financial Condition

Report of Examination

Period Covered:
July 1, 2014 – November 30, 2015

2016M-81

Thomas P. DiNapoli
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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 Pulaski Academy and 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 Pulaski Academy and Central School District (District) is located in the Towns of Richland, Sandy Creek and Albion in Oswego County. The District is governed by the Board of Education (Board), which is composed of 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 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 District operates two schools with approximately 1,100 students and about 200 employees. The District’s budgeted appropriations for the 2015-16 fiscal year are $24.1 million, funded primarily with State aid and real property taxes.

Objective

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

- Did the Board develop realistic budgets and adequately manage the District’s financial condition?

Scope and Methodology

We examined the District’s financial records for the period July 1, 2014 through November 30, 2015. We extended our audit scope period back through the 2012-13 fiscal year to analyze historical fund balance, budget estimates 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 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.

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, Superintendent and Business Official are responsible for making sound financial decisions in the best interest of the District, the students it serves and the residents 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 occurrences and satisfy long-term obligations and future expenditures. Fund balance represents resources remaining from prior fiscal years. A school district may retain a portion of fund balance within the limits established by New York State Real Property Tax Law (RPTL). RPTL limits the amount of fund balance a school district can retain to no more than 4 percent of the next year’s budget appropriations.

Reserve funds may be established by the Board in accordance with applicable laws to provide financing for specific purposes. Prudent fiscal management includes establishing reserves needed to address long-term obligations or planned future expenditures. The Board should fund reserves appropriately, monitor reserve amounts and use reserves as intended for planned expenditures. When District officials establish a reserve, it is important they develop a formal policy for the use of the reserve, including how and when disbursements should be made, optimal or targeted funding levels and why these levels are justified. When conditions warrant (subject to legal requirements), the Board should reduce reserve funds to reasonable levels or liquidate and discontinue a reserve fund that is no longer needed or whose purpose has been achieved.

The Board consistently overestimated appropriations in the District’s adopted budgets. Although the District reported year-end unrestricted general fund balance at levels that essentially complied with the 4 percent statutory limit, the Board adopted budgets which included appropriated fund balance and reserves that were not needed as funding sources because the Board and District officials overestimated appropriations by an average of 8.8 percent over the last three fiscal years. These budgeting practices resulted in the District experiencing an operating surplus in 2012-13 and operating deficits in 2013-14 and 2014-15 that were significantly less than planned. When the unused appropriated fund balance was added back, recalculated unrestricted fund balance averaged about 8 percent of the ensuing year’s appropriations, exceeding the legal limit. In addition, the Employee Benefit Accrued Liability Reserve (EBALR) was overfunded by $1.39 million, which was nearly 40 times the amount of compensated absences reported by the District.
Budgeting and Fund Balance – The Board and District officials overestimated appropriations when they prepared and adopted budgets for the last three fiscal years, 2012-13 through 2014-15. We compared the District’s general fund budgeted revenues and appropriations with actual results of operations for this period. The District’s revenue estimates generally were close to the actual revenues received. However, District officials consistently presented, and the Board approved, budgets which overestimated appropriations. As a result, each year the District spent an average of approximately $2 million less than planned, and about $1.8 million of appropriated fund balance and reserves1 were unneeded. The District’s budget variances for expenditures are shown in Figure 1.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Appropriations</th>
<th>Expenditures</th>
<th>Difference</th>
<th>Percentage Difference</th>
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<tr>
<td>2012-13</td>
<td>$22,088,000</td>
<td>$20,015,294</td>
<td>$2,072,706</td>
<td>9.4%</td>
</tr>
<tr>
<td>2013-14</td>
<td>$22,860,000</td>
<td>$21,110,700</td>
<td>$1,749,300</td>
<td>7.7%</td>
</tr>
<tr>
<td>2014-15</td>
<td>$23,620,000</td>
<td>$21,405,079</td>
<td>$2,214,921</td>
<td>9.4%</td>
</tr>
<tr>
<td>Totals</td>
<td>$68,568,000</td>
<td>$62,531,073</td>
<td>$6,036,927</td>
<td>8.8%</td>
</tr>
</tbody>
</table>

The majority of overestimated appropriations during the three-year period were for regular and special education, consisting primarily of personal services costs ($1.5 million, or 7 percent) and employee benefits ($1.35 million, or 18 percent); plant operations ($1.2 million, or 30 percent); transportation ($645,000, or 22 percent); and debt service interest ($500,000, or 100 percent).

District officials told us that they prefer to budget for additional special education costs in case the number of special needs students increases during the school year. This includes employee benefits, which are a function of salaries, so they were estimated based on higher salary appropriations. Officials said they had better than expected energy costs and that they budget conservatively for plant operations to leave room for repairs. As for the variance in transportation costs, District officials stated that this was primarily due to decreased fuel costs. Officials also estimated borrowing costs for revenue anticipation loans each year that were not needed and for a capital project that did not start as early as budgeted.

Consistently overestimating appropriations would normally result in an increased fund balance. However, because the District simultaneously budgeted to use appropriated fund balance and reserves that were largely unneeded, the District’s fund balance has remained relatively flat. District officials stated that they continue to include these additional financing sources in the budget in case they are needed. Nevertheless,

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1 Appropriated reserves for fiscal years 2012-13 through 2014-15 were $575,000, $850,000 and $850,000, respectively.
adopting budgets that include unrealistic estimates is not a transparent budget process.

The District has reported year-end unrestricted fund balance at levels that were close to or at the 4 percent statutory limit for fiscal years 2012-13 through 2014-15. This was accomplished, in part, by appropriating fund balance each year. District officials appropriated $3 million of fund balance over the past three fiscal years (about $1 million each year), which should have resulted in operating deficits each year and reduced the year-end fund balance. However, the District experienced an operating surplus in 2012-13 and relatively small deficits in 2013-14 and 2014-15. Because the District overestimated appropriations, very little of the appropriated fund balance and none of the appropriated reserves were actually used to finance operations.

The District’s practice of consistently planning operating deficits by appropriating fund balance that was not needed to finance operations, in effect, caused the District to exceed the statutory limitation of fund balance (see Figure 3.) When unused appropriated fund balance was added back, the District’s recalculated unrestricted fund balance exceeded the statutory limit, at 7.7 and 8.4 percent of the ensuing year’s appropriations at the end of the 2012-13 and 2013-14 fiscal years, respectively. During 2014-15, the District appropriated $1,035,000 for the 2015-16 budget; however, we project that it will not be needed. As such, we expect the District’s recalculated unrestricted fund balance will continue to exceed the statutory limit.
Reserves – As of June 30, 2015, the District has four reserve funds totaling $2.5 million, including worker’s compensation ($35,000), EBALR ($1.42 million), capital bus purchases ($424,643) and retirement contribution ($605,000). We analyzed these reserves for reasonableness and adherence to statutory requirements. The Board has not developed a written policy that establishes the optimal funding level for each reserve or the conditions under which the reserves will be used. The balances in the retirement contribution, workers’ compensation and capital bus purchase reserves appear reasonable. The EBALR is overfunded by as much as $1.39 million.

An EBALR is authorized to be used for the cash payment of accrued and unused sick, vacation and certain other leave to employees upon separation from service and expenditures related to the administration of the reserve. We reviewed the District’s calculated liability associated with this reserve and determined that the EBALR had a balance at the end of the 2014-15 year of $1.42 million. Total compensated absences reported by the District as of June 30, 2015 were $35,047. Therefore, the District has overfunded its EBALR by about $1.39 million.

District officials told us that they established and funded the EBALR to pay for the District’s share of retiree health insurance; however, the payment of retiree health insurance is not a permissible use of an EBALR.

By maintaining excess funds in the EBALR reserve and not using most of the fund balance appropriated in adopted budgets, District officials are withholding significant funds from productive use and may be levying more taxes than necessary to sustain District operations. District officials told us they plan to take corrective action and welcome the opportunity for improvement.

**Recommendations**

The Board and District officials should:

1. Develop realistic estimates of appropriations and the use of fund balance in the annual budget.

2. Develop a formal reserve fund policy that outlines targeted funding levels for each reserve and the conditions under which the funds will be used.

3. Ensure that reserve fund balances are maintained at reasonable levels. Take appropriate action, in accordance with statute, to reduce excess funds in the District’s EBALR.

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2 The District does not specify within most of its employee contracts whether or not employees are entitled to be compensated for the value of their accrued vacation upon separation from the District; however, based on the District’s past practice, they may have accrued vacation liabilities up to this amount ($35,047).
APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials’ response to this audit can be found on the following pages.
May 11, 2016

Ms. Rebecca Wilcox  
Chief Examiner  
Office of the State Comptroller  
Syracuse Regional Office  
State Office Building, Room 409  
333 East Washington Street  
Syracuse, New York 13202-1428

Dear Ms. Wilcox:

Pulaski Academy and Central School is in receipt of the draft report, Financial Condition for the audit period of July 1, 2012 – November 30, 2015. On behalf of Pulaski Academy, I would like to say “Thank you” to [Name] and the rest of your team for the level of professionalism and collegiality exercised throughout the audit process. [Name] was very respectful of our staff and their time. He represented you and your office in fine fashion.

The District values the thorough examination conducted. We take our fiduciary responsibility to the community and school district very seriously, and thus, appreciate the feedback that will afford the District the opportunity to improve its financial stewardship of public resources, in addition to its policies and procedures.

Due to sound and efficient budget planning, Pulaski Academy and Central School has successfully maintained quality programming and educational experiences for its students. The financial stability of the District is due the hard work of the Board of Education and Administration, both past and present. Standard and Poor’s Ratings Services maintained its A+ long-term rating and stable outlook to Pulaski Academy and Central School in February 2016. They highlighted the District’s fund balance as a “strong” fiscal management attribute, in addition to awarding the District and A+ credit rating.

Forecasting revenues and expenditures over time is a difficult task for small rural districts given the unpredictability of the fiscal landscape both in education and the economy at large. These factors require conservative budgeting and vigilant monitoring of our revenue and expenditures each year. By law, the District may not overspend its budget. State law allows for contingency appropriations of up to 10% for counties, towns, and villages, while Education Law does not contain such provisions relative to school district contingency accounts and no State agency has established guidance.

A significant strategic planning principle in developing long-term public school budget plans is to ensure that the district has adequate reserves to maintain fiscal stability over time, while operating within the budget approved by the community’s voters. The comments in the report are taken under

“To prepare all students for a constantly changing future by providing the highest quality education in partnership with their parents, staff and community”
advisement and the data offers evidence that the District’s unappropriated fund balance has decreased over time. Although explained in the report, Figure 1 on page 7 implies that the difference between the appropriations and expenditures is cumulative when, in fact, the monies are the same. Additionally, inconsistent state aid formulas, unpredictable special education expenses, fluctuating energy costs, the New York State Tax Cap, and many other variables inform our decision making and responsible budget planning practices. Nevertheless, Pulaski Academy and Central School has made it a priority to strictly adhere to the laws and regulations of our governing agencies. We will continue to monitor and review our budget data when calculating appropriations for future budgets.

The District and the Board of Education are communicating with the Erie 1 B.O.C.E.S. and their policy service to update their entire policy book including Policy 5512 – Reserve Funds. Although not a mandated policy, the District recognizes and agrees that such a policy will provide guidance that will promote appropriate funding levels of reserve accounts in the future.

Additionally, Section 6-p of the General Municipal Law allows school districts the right to establish an Employee Benefit Accrued Liability Reserve (EBALR) for the purpose of making payments to employees for accrued leave time due to them upon separating from the school district. After reviewing the draft report, the District affirms that the analysis accurately reflects the condition of said account. The District is currently working with the Board of Education to determine the appropriate course of corrective action.

Pulaski Academy and Central School District appreciates the thorough effort and honest communication through the audit process. We are committed to the efficient, effective and thoughtful use of taxpayer resources, and are pleased that no fraud, waste or abuse was detected during this examination. The perspective garnered through the process provides significant guidance that we will use in making critical fiscal decisions that are in the best interest of our children and community.

Sincerely,

Brian K. Hartwell, Ed. D.
APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed District officials and employees, tested selected records and examined pertinent documents for the period July 1, 2014 through November 30, 2015. To analyze the District’s historical fund balance, budget estimates and financial trends, we extended our audit scope period back through the 2012-13 fiscal year. Our examination included the following procedures:

• We interviewed District officials to gain an understanding of their budget development process and monitoring procedures and to determine whether the District adopted long-term financial and capital plans and a reserve fund policy.

• We reviewed the results of operations and analyzed changes in fund balance for the general fund, including the use of reserves for the period July 1, 2012 through June 30, 2015.

• We compared the adopted budgets to the actual operating results for the period July 1, 2012 through September 30, 2015 to determine if the budget assumptions for revenues and expenditures were reasonable. We interviewed District officials to identify reasons for significant budget variances.

• We reviewed the appropriation of the District’s fund balance for the period July 1, 2012 through June 30, 2015.

• We reviewed adopted budgets and tax warrants to identify the trend in real property tax levies for the 2012-13 to 2015-16 fiscal 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

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