Goshen Central School District

Financial Condition

Report of Examination

Period Covered:
July 1, 2015 – January 9, 2017

2017M-46

Thomas P. DiNapoli
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Division of Local Government and School Accountability

June 2017

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 Goshen 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 Goshen Central School District (District) is located in the Village of Goshen, Orange County. The District serves students who reside in the Village of Goshen and the Towns of Goshen, Chester, Hamptonburgh, Wallkill and Wawayanda. 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 (Superintendent) 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 four schools with approximately 2,900 students and 437 employees. The District’s budgeted appropriations for the 2016-17 fiscal year were $67 million, which were funded primarily with State aid and real property taxes.

Objective

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

- Did the Board and District officials ensure that fund balance and reserves were maintained at reasonable levels and in accordance with statutory requirements?

Scope and Methodology

We examined the District’s financial condition for the period July 1, 2015 through January 9, 2017. We extended our audit scope period back to July 1, 2011 to evaluate 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 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 disagreed with certain findings in our report. Appendix B includes our comments on issues District officials raised in their 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 residents who fund the District’s programs and operations. 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. Currently, the amount of unrestricted fund balance that a school district can retain may not exceed 4 percent of the ensuing fiscal year’s budget.

Reserve funds provide a mechanism for legally saving money to finance all or part of future infrastructure, equipment and other requirements. There should be a clear purpose or intent for reserve funds that aligns with statutory authorizations. Combining a reasonable level of unrestricted fund balance with specific legally established reserve funds provides resources for both unanticipated events and other identified or planned needs.

In fiscal years 2011-12 through 2015-16, the Board appropriated fund balance totaling $4.9 million to fund operations. However, due to operating surpluses in four of the five years, $3.9 million of the appropriated fund balance (80 percent) was not used. The District did not use this appropriated fund balance because it had operating surpluses that resulted from overestimated expenditures. For example, for these five years, transportation salaries were overbudgeted by $1.5 million (19 percent) and retirement payments by $2 million (9 percent). District officials feel their budgeting practices are prudent and protect residents from fluctuating tax levies.

In addition, the Board has not adopted a plan that addresses accumulating and using reserve funds. Such a plan would help inform District residents about how resources will be used. The District’s tax certiorari reserve totaled approximately $8.5 million at the end of the 2015-16 fiscal year. District officials told us they put into the reserve 85 percent of the potential liability of all claims filed against the District. We reviewed all 44 judgments the District had during the last five fiscal years plus a $4.3 million judgment in October 2016 and determined that judgments were settled at approximately 60 percent of the original amount.

1 Judgments are final decisions by the court and state what the new amount of the tax assessment should be. From that assessment, a decreased tax amount is calculated based on the rate for that year.
We calculated the amount of reserve needed based on the 60 percent historical payments and determined the tax certiorari reserve was overfunded by approximately $2.1 million (25 percent) as of June 30, 2016.

When the unused appropriated fund balance and excess tax certiorari reserve amounts are added back, the District’s recalculated unrestricted fund balance ranged from 7 to 13 percent of the ensuing year’s budget, exceeding the 4 percent statutory limit (Figure 1).

![Figure 1: Recalculated Unrestricted Fund Balance](image)

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<td>Total Unrestricted</td>
<td>$3,085,927</td>
<td>$4,066,361</td>
<td>$5,046,795</td>
<td>$5,046,795</td>
<td>$6,027,229</td>
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<tr>
<td>Fund Balance at Year-End</td>
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<td>Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget</td>
<td>$980,434</td>
<td>$980,434</td>
<td>-</td>
<td>$980,434</td>
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<td>Add: Excessive Tax Certiorari Reserve</td>
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<td></td>
<td></td>
<td></td>
<td>$2,132,738</td>
</tr>
<tr>
<td>Total Recalculated Unrestricted Fund Balance</td>
<td>$4,066,361</td>
<td>$5,046,795</td>
<td>$5,046,795</td>
<td>$6,027,229</td>
<td>$9,140,401</td>
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<tr>
<td>Recalculated Unrestricted Fund Balance as a Percentage of Ensuing Year’s Budget</td>
<td>7%</td>
<td>8%</td>
<td>8%</td>
<td>9%</td>
<td>13%</td>
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</table>

Had the Board reviewed the historical data more closely to adjust some budget areas and used appropriated fund balance to finance operations as planned, it may have reduced the tax levy. Further, pursuant to New York State Education Law, tax certiorari funds that are not expended or that will not be reasonably required to pay any such judgment or claim must be returned to the general fund on or before the first day of the fourth fiscal year following their deposit.

**Recommendations**

The Board should:

1. Use surplus fund balance as a financing source for:
   - Funding one-time expenditures;
   - Funding needed reserves; and
   - Reducing property taxes.

2. Adopt budgets that represent the District’s actual needs and discontinue the practice of adopting budgets that appropriate fund balance that will not be used to fund operations.
3. Develop a written reserve fund policy that indicates the amount of funds to be reserved, how each reserve will be funded and when the balances will be used to finance related costs.

4. Review the tax certiorari reserve to determine whether the amounts reserved are justified, necessary and reasonable.
APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials’ response to this audit can be found on the following pages.
April 18, 2017

Ms. Tenneh Blamah  
Office of the State Comptroller  
Newburgh Regional Office  
33 Airport Center Drive, Suite 103  
New Windsor, NY 12553

Dear Ms. Blamah,

Thank you for the report on the Financial Condition of the Goshen Central School District for the period July 1, 2015 – January 9, 2017. We are pleased that the Comptroller’s Office found that the internal controls of the district are solid, that you found no fraud, waste or abuse and that you found us to be in sound financial condition without any fiscal stress.

This letter will serve as both a response and corrective action plan. Concerning your finding that the District does not use all of the appropriated fund balance it budgets and your recommendation that it do so. Please be advised that the District does not believe the practice of spending appropriated fund balance, is a good one, as to use appropriated fund balance means that the district has negative spending. Negative spending in our view is not a sound financial practice. In fact in a recent interview with Moody’s Investment the question was asked by Moody’s if the district uses its appropriated fund balance. They were glad when we said no.

It should also be noted that because of the sound conservative budgeting practices of the District. Moody’s upgraded the investment rating of the Goshen School District form AA3 to AA2. thus allowing the District to borrow money for the Goshen Public Library capital project at a much lower rate and thus less cost to the tax payers of Goshen.

Concerning your finding that the Board has not adopted a plan that addresses accumulating and using reserve funds. Please be advised that the Board of Education follows municipal law on the establishment, funding and use of reserve funds and therefore does not agree that it needs a policy on this. New York State Municipal law is the Board of Education’s policy.

As per your recommendation, the Board of Education has in the past and will continues to review the funding level of its Tax Certiorari Reserve. It feels that its present level of funding is prudent.
The District feels that funding the Tax Certiorari Reserve at or below the total potential liability of the tax certiorari is in the best interest of the District. Our Auditor has recommended 85% throughout the past years and that is what we have followed. It would be a financial burden to the district and its tax payers if the district budgeted 60% of its filed tax certiorari petitions and they actually settled for 85% or even a 100%. Moving end of year surplus funds to the Tax Certiorari Reserve has served the district well as in the last five years the district has paid out more than $5,000,000 in refunds on settled tax certiorari claims. If the district did not use conservative budgeting practices and have excess funds to put in the tax certiorari reserve at year end the district would be in the red on any given year that the tax certiorari was settled. The District believes it is in the best interest of the District to have this reserve and to fund it when prudent. We believe the current level of the reserve is appropriate.

Likewise, the Capital Reserve has served the district well with $4.6 million dollars worth of completed capital projects and an additional $9.0 million in the works at no additional cost to the district and the District having earned or will earn 40% state aid on that investment. The district in its financial planning takes the whole picture in mind. We concentrate not only on the General Fund but on all funds and all needs, facility, Tax Certiorari and program. All while keeping the budgets and tax levy increases of the district small and even.

We take exception to the value of the overstated surplus in the example used by the Comptroller’s Office for the appropriated fund balance. The figure used by the Comptroller’s office for the transportation salary budgeted overage is way overstated as the Comptroller’s office did not consider the budgetary transfers in its calculation nor did it count all the transportation salary expense. We also take exception to the Comptroller’s office reworking the Unrestricted Fund Balance and conveying in the report, “a could have been number” and ignoring the 4% “actual number” on our audited financial statements.

We do agree that going forward beginning with the 17-18 year that the district does not need to put as much in reserves as it has in the past as many of the large tax certiorari proceedings have been settled and the District’s immediate capital project needs have been satisfied with the passing of $30.5M capital project. The district still has a vision to do a capital project every four years with surplus funds placed in a capital reserve so as to have no impact on taxes when the next capital project comes before the voters. The Board of Education and Administration will work together to come up with ways to increase the predictability of accurate budgetary appropriations, particularly in regard to labor contract language, and better educating the building leaders and department heads so that budgeted money is more efficiently used and more services can be provided to students.

Sincerely,

Daniel T Connor
Superintendent

Judith Green
Board of Education President

GOSHEN CENTRAL SCHOOL DISTRICT
227 MAIN STREET
GOSHEN, NEW YORK 10924
APPENDIX B

OSC COMMENTS ON THE DISTRICT’S RESPONSE

Note 1

If the District does not believe in the practice of spending appropriated fund balance, District officials should not consistently appropriate fund balance to balance the budget. District officials presented budgets to residents that overstated appropriations and appropriated fund balance that District officials did not intend to use. These practices are misleading and not transparent.

Note 2

It is our view that school districts should develop plans to help better inform residents as to the Board's intended funding and projected use of reserve funds. Also, Education Law was amended, effective July 1, 2017, to require that school districts’ annual Real Property Tax Report Cards include a schedule of reserve funds setting forth the name of each reserve fund, a description of its purpose, the balance as of the close of the third quarter of the current fiscal year and a brief statement explaining any plans for use of the fund for the ensuing fiscal year.

Note 3

The District settled 44 tax certiorari claims between 2011-12 and 2015-16 at 36 percent of the original claim amount. In addition, the District settled an unusually high claim in October 2016. We took this claim into consideration when determining that reserving 60 percent of outstanding tax certiorari potential liabilities was a conservative amount and would provide the District sufficient resources to pay any judgments. Further, transferring budget surpluses to fund the tax certiorari reserve without budgeting for it is not transparent to residents.

Note 4

It is important that each individual line item in a budget be estimated as accurately as possible when preparing a budget. By using actual historical data, the District can help eliminate large differences between budgeted and actual expenditures. The District had 632 individual appropriation line items in the 2015-16 budget, of which 439 were overbudgeted and 155 were underbudgeted, some for significant amounts, others for immaterial amounts. However, total appropriations were overbudgeted by $5.8 million (9 percent). We used transportation salaries and retirement payments as examples because they were appropriation line items that were significantly overbudgeted for all five years reviewed.

Note 5

The District’s unrealistic budgeting practices led to surplus funds annually, which created a situation where appropriated fund balance was not used in four of the five years. The unused appropriated fund balance should have been reported as unrestricted fund balance. The $2 million that the tax
certiorari reserve is overfunded by also should be returned to unrestricted fund balance. Therefore, the unrestricted fund balance was really about $9 million, which is 13 percent of the ensuing year’s budget, 9 percentage points ($6.4 million) more than permitted by law.
APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed District officials to gain an understanding of the processes and procedures in place over the District’s budgeting.

- We tested the accounting records’ reliability by comparing them to the annual financial report filed with the Office of the State Comptroller, the District’s independently audited financial statements and trial balances.

- We analyzed the general fund’s trend in total and restricted fund balances, including the use of appropriated fund balance for fiscal years 2011-12 through 2015-16. We also compared the unrestricted fund balance to the ensuing year’s budgeted expenditures to determine the fund balance availability for future years.

- We recalculated the District’s unrestricted fund balance using unused appropriated fund balance and the overfunded tax certiorari reserve amount in fiscal year 2015-16.

- We tested all judgments settled during the fiscal years ended 2012-2016, including a large judgment of $4.2 million from 2016-17, to determine whether the amount in the tax certiorari reserve was in line with the percentage of judgments.

- We reviewed budget-to-actual reports to determine operating surpluses or deficits.

- We reviewed the general fund results of operations and analyzed changes in fund balance for the period July 1, 2011 through June 30, 2016.

- We reviewed monthly financial reports provided to the Board.

- We reviewed Board minutes to verify the approved budget amounts.

- We analyzed revenue from July 1, 2011 through June 30, 2016 to determine whether budget to actual figures were reasonable.

- We analyzed appropriations from July 1, 2011 through June 30, 2016 to determine whether appropriations were overestimated and whether there were accounts that were consistently overestimated.

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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## APPENDIX E

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#### DIVISION OF LOCAL GOVERNMENT AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller  
Gabriel F. Deyo, Deputy Comptroller  
Tracey Hitchen Boyd, Assistant Comptroller

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