



Greenwood Lake Union Free School District Financial Condition

Report of Examination

Period Covered:

July 1, 2010 – June 30, 2015

2016M-40



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2016

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 Greenwood Lake Union Free 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 Greenwood Lake Union Free School District (District) is located in the Town of Warwick in Orange 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 District financial affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with the Assistant Superintendent for Business and other administrative staff, for the District's day-to-day management and for developing and administering the budget.

The District operates two schools with approximately 870 students and 130 employees. The District's 2015-16 general fund appropriations totaled approximately \$25 million and were funded primarily with State aid and real property taxes.

Objective

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

- Did the Board adopt reasonable budgets and adequately manage the District's financial condition?

Scope and Methodology

We examined the District's financial condition for the period July 1, 2010 through June 30, 2015. Our review was limited to the District's general fund.

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 recommendations and indicated they planned to initiate corrective action.

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

A school district's financial condition is a factor in determining its ability to fund public educational services for students in the district. The responsibility for accurate and effective financial planning for the use of District resources rests with the Board, Superintendent and the Assistant Superintendent for Business. Fund balance represents the cumulative residual resources from prior fiscal years that can be used to provide funding for the ensuing fiscal year. The annual budget should be developed using the most current and accurate information available.

The Board and District management are responsible for accurately estimating revenues and appropriations in the District's annual budget. Accurate budget estimates help ensure that the real property tax levy is not greater than necessary. The estimation of fund balance is also an integral part of the budget process. The New York State Real Property Tax Law currently limits unrestricted fund balance to no more than 4 percent of the ensuing fiscal year's budget. Any surplus fund balance over this percentage can be used to fund operations in the upcoming fiscal year or may be placed in an appropriately established reserve fund.

The Board and District officials need to improve the budget process to ensure that adopted budgets are reasonable, allowing them to effectively manage the District's financial condition. The Board overestimated appropriations in the adopted budgets in four of the past five years. This generated almost \$4.3 million in combined operating surpluses from 2010-11 through 2014-15. While the Board used operating surpluses to fund various reserves and capital projects, they also appropriated an average of \$1.8 million in fund balance as a financing source in the annual budgets over this period. However, District officials used appropriated fund balance to fund operations in only one year. As a result, 84 percent of the amount appropriated was not needed due to operating surpluses. When the unused appropriated fund balance is added back to fund balance, the District's recalculated unrestricted fund balance ranged between 10 and 12 percent of the ensuing year's appropriations, exceeding the 4 percent limit in the last four fiscal years.

We compared the District's appropriations with actual results of operations for the 2010-11 through 2014-15 fiscal years and found that the District overestimated appropriations by \$9.6 million (8 percent) over this time, as shown in Figure 1.

Figure 1: Overestimated Appropriations

Fiscal Year	Appropriations	Expenditures	Difference	Percentage
2010-11	\$23,392,790	\$21,207,166	\$2,185,624	9%
2011-12	\$23,392,790	\$20,846,021	\$2,546,769	11%
2012-13	\$23,145,460	\$23,857,130	(\$711,670)	(3%)
2013-14	\$23,859,490	\$21,629,862	\$2,229,628	9%
2014-15	\$24,404,235	\$21,026,367	\$3,377,868	14%
Total	\$118,194,765	\$108,566,546	\$9,628,219	8%

Appropriations that were consistently overestimated included salaries (\$4 million or 10 percent of budgeted amount over the five years) and contractual expenditures (\$6 million or 14 percent of budgeted amount). Actual revenues were generally consistent with budgeted revenue estimates over the same period.¹

Due to the District's practice of overestimating appropriations it has experienced a cumulative operating surplus of almost \$2.5 million for the five-year period. District officials used the surpluses to fund various reserves and capital projects. While it is prudent to have some provision for unanticipated expenditures, it can be done by maintaining ample fund balance, using reserves or adopting a conservative budget. Doing all three of these results in a tax levy that is higher than necessary.

Figure 2: Unrestricted Fund Balance at Year-End

	2010-11	2011-12	2012-13	2013-14	2014-15
Total Beginning Fund Balance	\$10,826,415	\$11,878,502	\$12,734,938	\$10,887,642	\$11,200,565
Add/(Less): Prior Period Adjustments	(\$282,196)	(\$37,277)	\$5	\$0	\$0
Add: Operating Surplus/(Deficit)	\$1,334,283	\$893,713	(\$1,847,301)	\$312,923	\$1,761,368
Total Ending Fund Balance	\$11,878,502	\$12,734,938	\$10,887,642	\$11,200,565	\$12,961,933
Less: Restricted Funds	\$9,381,054	\$10,272,286	\$7,797,905	\$8,135,821	\$9,737,309
Less: Encumbrances	\$92,669	\$85,412	\$161,186	\$183,040	\$296,344
Less: Appropriated Fund Balance for the Ensuing Year	\$1,937,085	\$1,454,574	\$1,974,649	\$1,905,548	\$1,925,308
Total Unrestricted Funds at Year-End	\$467,694	\$922,666	\$953,902	\$976,156	\$1,002,972
Ensuing Year's Budgeted Appropriations	\$23,392,790	\$23,145,460	\$23,859,490	\$24,404,235	\$25,075,375
Unrestricted Funds as Percentage of Ensuing Year's Budget	2%	4%	4%	4%	4%

The District appropriated an average of \$1.8 million in fund balance as a financing source in each annual budget for 2010-11 through 2014-15. This appropriation of fund balance made it appear that the District's unrestricted fund balance was within the 4 percent statutory limit. However, the District only used the appropriated fund balance

¹ During the audit period, actual revenues on average exceeded budgeted estimates by less than 3 percent annually.

in one year. When unused appropriated fund balance was added back, the District's recalculated unrestricted fund balance exceeded the statutory limit in four years ranging between 10 and 12 percent of the ensuing year's appropriations, as indicated in Figure 3.

Figure 3: Unused Fund Balance					
	2010-11	2011-12	2012-13	2013-14	2014-15
Total Unrestricted Funds at Year-End	\$467,694	\$922,666	\$953,902	\$976,156	\$1,002,972
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	\$1,937,085	\$0	\$1,974,649	\$1,905,548	\$1,925,308
Total Recalculated Unrestricted Funds	\$2,404,779	\$922,666	\$2,928,551	\$2,881,704	\$2,928,280
Recalculated Unrestricted Funds as Percentage of Ensuing Year's Budget	10%	4%	12%	12%	12%

The result of these budgeting practices made it appear that the District needed to use fund balance to close projected budget gaps. The District's budgets resulted in operating surpluses in four of the five years reviewed. Furthermore, the District's practice of consistently appropriating fund balance that is not needed to finance operations is, in effect, a reservation of fund balance that is not provided for by statute and a circumvention of the statutory limit imposed on the level of unrestricted fund balance.

Recommendation

1. The Board and District officials should develop realistic estimates of appropriations and the use of fund balance in the annual budget.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



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Dr. Christine Ackerman
Superintendent of Schools

April 29, 2016

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

Dear Ms. Blamah:

The Greenwood Lake UFSD is in receipt of the Draft Financial Condition Report of Examination for the period of July 1, 2010 – June 30, 2015.

On behalf of the Board of Education and the District's administration, we would like to commend the NYS Comptroller's Office and the audit personnel for their professionalism and courtesy in undertaking their responsibilities and with their interactions with District staff.

The focus of the referenced examination was our Financial Condition, which resulted in recommendations regarding our budget preparation and maintenance of Fund Balance. We agree that sound budgeting, along with the managing of fund balance, supports the District's goals to maintain high quality educational programs, manage emergencies, address unexpected expenditures, and satisfy long-term financial obligations. The District faces many unknown factors when projecting expenditures at the time of budget development. We will look to improve on our estimates of expenditures in the future and we will monitor the usage of fund balance with more diligence and transparency.

As always we thank the Office of the State Comptroller for their insight and expertise. The District believes this is a fair representation of the information gathered. It is extremely helpful to have a critical eye focused on our work, and it will only serve to enhance the quality of that work in the future.

Sincerely,

Dr. Christine Ackerman
Superintendent of Schools

The Greenwood Lake Union Free School District is an Equal Opportunity Employer and does not discriminate on the basis of sex, race, religion, national origin, handicap, age or marital status; nor does it apply other arbitrary measure which would deprive persons of their constitutional rights.

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to evaluate the District's financial condition. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed District officials, made inquiries of Board members and reviewed documentation to determine the policies and procedures surrounding financial management.
- We reviewed Board minutes and interviewed officials to determine whether the District's management was involved in financial matters and whether Board members received and reviewed financial reports and otherwise monitored the District's financial condition.
- We reviewed the general fund's results of operations and analyzed changes in fund balance for the audit period.
- We compared adopted budgets to operating results to determine if budget assumptions were reasonable.
- We reviewed the appropriation of fund balance for the audit period.
- We reviewed expenditures and identified significant expenditures and analyzed trends within budget categories.
- We tested the reliability of the accounting records by comparing the District's independently audited financial statements to the annual financial reports filed with the Office of the State Comptroller. In addition, we reviewed Board minutes to determine if adopted budget amounts in the records were accurate.
- We reviewed budget and revenue status reports.

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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