



# Minisink Valley Central School District Financial Condition

## Report of Examination

Period Covered:

July 1, 2011 – June 30, 2015

2016M-26



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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

May 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 Minisink Valley 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 Minisink Valley Central School District (District) is located in the Towns of Greenville, Minisink, Mount Hope and Wawayanda in Orange County and in parts of the Towns of Wallkill (Orange County) and Mamakating (Sullivan County). The District is governed by a Board of Education (Board) that 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 (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 five schools with approximately 3,900 students and 600 employees. The District's budgeted expenditures for the 2015-16 fiscal year were approximately \$94 million, which were funded primarily with State aid and real property taxes.

## Objective

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

- Did the Board ensure that fund balance was within statutory limits?

## Scope and Methodology

We examined the District's financial condition for the period July 1, 2011 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 B 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 generally agreed with our recommendations and indicated they planned to take 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

The Board is responsible for adopting budgets that contain estimates of actual and necessary expenditures that are funded by realistic revenues. Sound budgeting provides sufficient funding for necessary operations and helps to ensure that the real property tax levy is not greater than necessary. Prudent fiscal management includes establishing reserves needed to address long-term obligations or planned future expenditures. Once the Board has addressed those issues, any remaining fund balance, exclusive of the amount allowed by law to be retained to address cash flow and unexpected occurrences,<sup>1</sup> should be used to fund operations.

During our audit period, the Board and District officials did not develop reasonable budgets or effectively manage the District's financial condition to ensure that the general fund's unrestricted fund balance was within the statutory limit. The Board overestimated appropriations in the 2011-12 through 2014-15 budgets, which caused the District to realize operating surpluses totaling nearly \$10.5 million during those four years.

We compared the District's appropriations with actual results of operations for the 2011-12 through 2014-15 fiscal years and found that the District overestimated expenditures by a combined total of \$32.8 million (9 percent) in these budgets (Figure 1).

Figure 1: Overestimated Appropriations					
	2011-12	2012-13	2013-14	2014-15	Totals
Appropriations	\$85,893,534	\$85,425,656	\$89,129,643	\$92,317,143	<b>\$352,765,976</b>
Expenditures	\$74,672,925	\$81,162,509	\$81,503,816	\$82,641,640	<b>\$319,980,890</b>
Difference	\$11,220,609	\$4,263,147	\$7,625,827	\$9,675,503	<b>\$32,785,086</b>
Percentage	13%	5%	9%	10%	<b>9%</b>

Appropriations that were consistently overestimated included employee benefits (\$12 million, or 37 percent), salaries (\$11.8 million, or 36 percent), Board of Cooperative Educational Services (BOCES) services (\$5.9 million, or 18 percent) and contractual expenditures (\$3.4 million, or 10 percent). Actual revenues were generally consistent with budgeted estimates over the same period.

<sup>1</sup> New York State Real Property Tax Law limits the amount of fund balance that can be legally retained by District officials to no more than 4 percent of the next fiscal year's budgeted appropriations.

The District's Business Official told us that the Board budgets conservatively to ensure appropriations will be available for unanticipated expenditures. For example, District officials usually budget for approximately 10 additional staff members because they do not know whether new special education students will move into the District, which will require more resources. However, District officials could have estimated these expenditures more realistically by referring to available information, including contracts and collective bargaining agreements, prior to preparing the budget.

In addition, during the same four-year period, the District's budgets included appropriated fund balance totaling nearly \$32.7 million (an average of approximately \$8.2 million annually), which should have resulted in planned operating deficits. However, because the District overestimated expenditures in its budgets, it realized operating surpluses of \$10.5 million. Therefore, none of the appropriated fund balance was actually used (Figure 2).

**Figure 2: Unrestricted Fund Balance at Year End**

	2011-12	2012-13	2013-14	2014-15
Total Beginning Fund Balance	\$17,149,797	\$23,449,191	\$23,505,247	\$24,448,733
Add: Operating Surplus	\$6,299,394	\$56,056	\$943,472	\$3,152,182
Total Ending Fund Balance	\$23,449,191	\$23,505,247	\$24,448,719	\$27,600,915
Less: Restricted Funds	\$6,704,732	\$7,024,153	\$6,029,113	\$6,993,883
Less: Encumbrances	\$1,068,942	\$807,475	\$544,240	\$1,793,857
Less: Appropriated Fund Balance for the Ensuing Year	\$8,345,467	\$8,299,429	\$8,998,762	\$7,060,094
<b>Total Unrestricted Funds at Year End</b>	<b>\$7,330,050</b>	<b>\$7,374,190</b>	<b>\$8,876,604</b>	<b>\$11,753,081</b>
Ensuing Year's Budgeted Appropriations	\$85,425,656	\$89,129,643	\$92,317,143	\$94,160,154
Unrestricted Fund Balance as a Percentage of the Ensuing Year's Budget	8.6%	8.3%	9.6%	12.5%

By not using the appropriated fund balance, the District's unrestricted funds significantly exceeded the statutory maximum of 4 percent of the ensuing year's budget. When unused appropriated fund balance is added back, the District's recalculated unrestricted fund balance was between 17 and 20 percent of the ensuing year's appropriations, which is about five times the statutory limit (Figure 3). The District appropriated \$94.2 million for the 2015-16 budget, which included \$7.06 million in appropriated fund balance. However, we project that it will not be needed. As a result, we expect that the District's unrestricted fund balance will continue to exceed the statutory limit.



Figure 3: Unused Fund Balance				
	2011-12	2012-13	2013-14	2014-15
Total Unrestricted Funds at Year End	\$7,330,050	\$7,374,190	\$8,876,604	\$11,753,081
Add: Appropriated Fund Balance Not Used to Fund Ensuing Year's Budget	\$8,345,467	\$8,299,429	\$8,998,762	\$7,060,094
<b>Total Recalculated Unrestricted Funds</b>	<b>\$15,675,517</b>	<b>\$15,673,619</b>	<b>\$17,875,366</b>	<b>\$18,813,175</b>
Recalculated Unrestricted Funds as Percentage of Ensuing Year's Budget	18.3%	17.6%	19.4%	20.0%

The result of these budgeting practices made it appear that the District needed to both raise taxes and use fund balance to close projected budget gaps. However, the District's budgets resulted in operating surpluses in all four years reviewed. While the District has realized operating surpluses and retained excessive fund balance, it also continued to increase the real property tax levy during each of the four years.<sup>2</sup>

A Board member told us that each year at budget time, the Board received the previous budget and the projected budget. The Board member told us that the Board has decided that, going forward, it will request budget-versus-actual amounts to help it make more informed decisions.

Our findings in this report are similar to that of a previous audit that we performed at the District in 2008.<sup>3</sup> However, despite indicating that they would take corrective action in response to the prior audit, District officials did not prepare budget estimates based on prior years' experience and available information or develop a plan to reduce the unreserved fund balance in the general fund to comply with the statutory limit. As a result, the District's unrestricted fund balance has increased significantly since that time.

It is inappropriate for the Board to consistently adopt budgets that result in the appropriation of fund balance that will not be used. The District retained unrestricted fund balance in excess of the amount allowed by law and levied more real property taxes than was necessary.

## Recommendations

The Board should:

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

<sup>2</sup> The District levied \$34,425,821 for the 2011-12 fiscal year, \$35,428,837 in 2012-13, \$37,039,568 in 2013-14 and \$37,984,804 in 2014-15.

<sup>3</sup> *Minisink Valley CSD – Internal Controls Over Budget Estimates* (2008M-221)



2. Develop a plan for the use of the excess fund balance in a manner that benefits the District. Such uses could include, but are not limited to:

- Using surplus funds as a financing source;
- Funding one-time expenditures;
- Funding needed reserves; and
- Reducing District property taxes.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

## **Minisink Valley Central School District**

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P.O. Box 217, Route 6  
Slate Hill, NY 10973-0217  
Phone: 845-355-5110 Fax: 845-355-5119

Office of the State Comptroller  
33 Airport Center Drive – Suite 103  
New Windsor, NY 12553

Dear Tenneh Blamah:

The Minisink Valley Central School District would like to thank the New York State Comptroller's Office for their time and effort in reviewing the district's financial condition during their most recent audit. The staff was very respectful, courteous and professional during the audit. We believe the report accurately depicts the district's financial condition.

The recommendations to the district included developing realistic estimates of expenditures and the use of fund balance in future budgets; and develop a plan for unassigned fund balance including reducing property taxes, financing one-time expenditures, funding reserves to finance future obligations or paying off existing debt.

The district began implementing a plan to reduce unassigned fund balance by establishing a worker's compensation reserve (\$1.6 million) in June 2015. For 2016-17, the district is contemplating the outright purchase of \$1 million in buses, rather than issuing bonds, to avoid interest and issuance costs for the buses proposed in this year's budget vote.

During the 2014-15 school year and the 2015-16 school year the district refinanced bonds that resulted in budgetary savings over the remaining repayment terms of \$4 million and \$1 million, respectively. The bond refunding/refinancing lowered operating costs and in some cases shortened the repayment terms of the bonds. Much of the savings achieved by the refunding was attributable to the "AA stable" bond rating the district received from Standard and Poor's in large part due to the financial stability of the district and the level of reserves maintained by the district.

This year the district has placed a proposition on the ballot asking the voters to establish a capital reserve fund up to \$5 million for the purpose of covering the portion of future capital improvement projects not covered by the 75% building aid provided by New York State. The reserve will allow the district to maintain and improve the quality of our schools while at the same time protect our community's investment in our schools.

Lastly, as result of the legislature's ability to restore the remaining Gap Elimination Adjustment funding in our state aid for 2016-17, the board of education has adopted a budget that provides for a 2% reduction in the tax levy for the residents of our community.

The 2016-17 restoration of the remaining \$876,000 in Gap Elimination funding, which started out in 2009-10 as a reduction of state aid to our district of \$5.2 million, has allowed the district to incrementally restore approximately 20 full-time staffing positions as well as other instructional programming and support services in recent budgets. The district intends to monitor its revenues, expenditures and reserve levels to ensure the district can maintain financial stability while delivering the necessary programs and services to our students.

Thank you for providing the district with the opportunity to provide this response. Our formal corrective action plan will be submitted within the required 90 day period.

Sincerely,

Brian C. Monahan  
Superintendent of Schools  
Minisink Valley Central School District

## **APPENDIX B**

### **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 meeting minutes and resolutions and the District's policy manual to gain an understanding of the process and procedures governing the District's financial management.
- We reviewed the results of operations in the general fund for the 2011-12 through 2014-15 fiscal years.
- We analyzed the fund balance trends, including the use of appropriated fund balance, in the general fund for the 2011-12 through 2014-15 fiscal years. We compared appropriated fund balance to the same year's operating results to determine whether the appropriated fund balance was actually used.
- We calculated the unrestricted fund balance in the general fund as a percentage of the ensuing year's appropriations to determine whether the District was within the statutory limitation during the 2011-12 through 2014-15 fiscal years. We adjusted the unrestricted fund balance for the unused appropriated fund balance to determine the District's year-end unrestricted fund balance as a percentage of the next year's budgetary appropriations.
- We compared budgeted revenues and appropriations to actual revenues and expenditures for the general fund for the 2011-12 through 2014-15 fiscal years to determine whether the District's budgets 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 C**

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