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July 2025

Dr. John Bell, Superintendent
Members of the Board of Education
Port Jervis City School District
150 Pike Street
Port Jervis, NY 12771

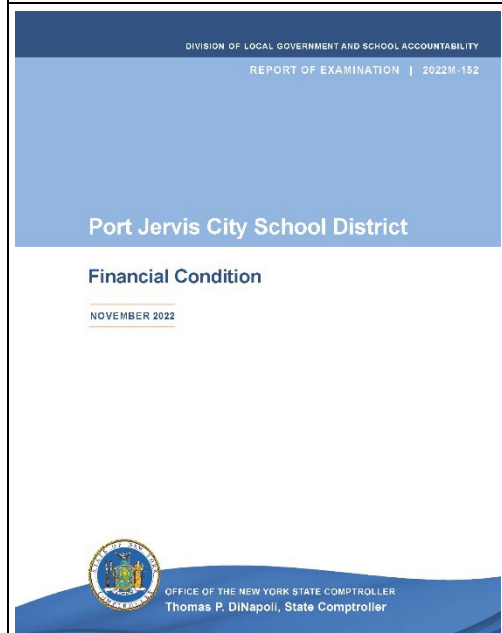
Report Number: 2022M-152-F

Dear Superintendent Bell and Members of the Board of Education:

One of the Office of the State Comptroller's primary objectives is to identify areas where school district officials can improve their operations and provide guidance and services that will assist them in making those improvements. The Office also works to develop and promote short-term and long-term strategies to enable and encourage school district officials to reduce costs, improve service delivery and to account for and protect their school district's assets. In accordance with these objectives, we conducted an audit of the Port Jervis City School District (District) to assess the District's financial condition. As a result of our audit, we issued a report, dated November 23, 2022, identifying certain conditions and opportunities for the Superintendent and Members of the Board of Education's (Board's) review and consideration (Figure 1).

To further our policy of providing assistance to school districts, we revisited the District in February/March 2025 to review progress in implementing our recommendations. Our follow-up review was limited to interviews with District personnel and inspection of certain documents related to the issues identified in our report. Based on our limited procedures, we determined that the District has made some progress implementing corrective action. Of the six audit recommendations, one recommendation was fully implemented, two recommendations were partially implemented, and three recommendations were not implemented.

Figure 1: Port Jervis City School District 2022 OSC Audit Report



[Port Jervis City School District – Financial Condition \(2022M-152\)](#)

Recommendation 1 – Reasonable Budgets

The Board and District officials should develop and adopt budgets that include reasonable estimates for appropriations and the amount of fund balance that will be used to fund operations.

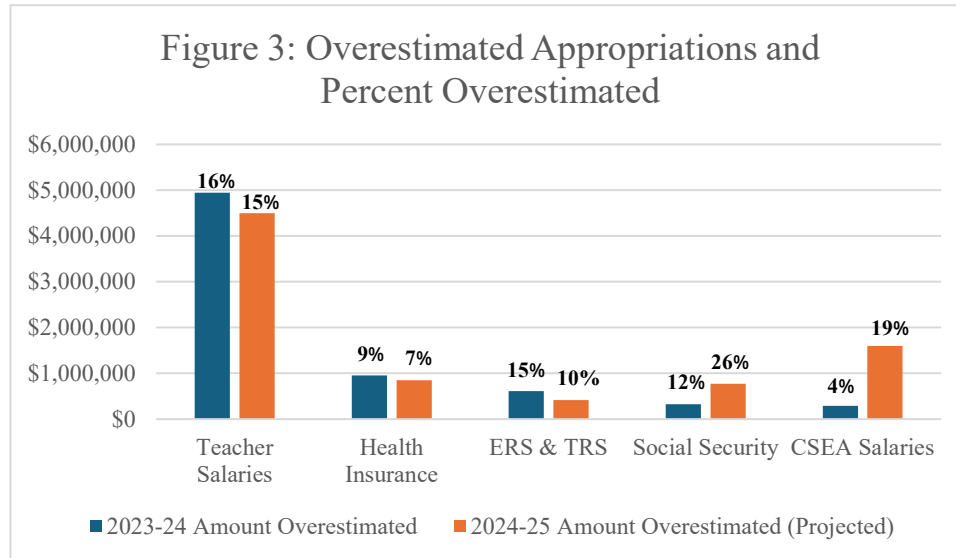
Status of Corrective Action: Not Implemented

Observations/Findings: The District's 2023-24 budget included overestimated appropriations by \$5.7 million (6 percent) and an unrealistic estimate for appropriated fund balance. Specifically, the District's budget included \$948,000 in appropriated fund balance that was not needed to fund operations because the District had an operating surplus totaling \$7.2 million in the 2023-24 fiscal year. We also reviewed the specific appropriations addressed as overestimated in the audit report (Figure 2).

Figure 2: Budget-to-Actual Comparison				
Appropriation	2023-24 Budget	2023-24 Actual	Difference	Percentage Overestimated/ (Underestimated)
Teacher Salaries	\$30,339,486	\$25,397,692	\$4,941,794	16%
Health Insurance	\$11,014,517	\$10,058,989	\$955,528	9%
BOCES ^a	\$11,058,454	\$10,272,872	\$785,582	7%
ERS & TRS ^b	\$4,117,000	\$3,507,705	\$609,295	15%
Social Security	\$2,814,600	\$2,486,343	\$328,257	12%
CSEA ^c Salaries	\$7,261,503	\$6,971,043	\$290,460	4%
Transportation	\$4,512,752	\$4,591,970	(\$79,218)	(2%)
a) Board of Cooperative Educational Services				
b) State and Local Retirement System & Teachers Retirement System				
c) Civil Service Employees Association				

Overall, we determined that the appropriations for all but one account reviewed were still being overestimated in the 2023-24 fiscal year. There were also instances where appropriations were significantly overestimated in comparison to the period reviewed during our audit. For example, teacher salaries were overestimated by an average of approximately \$900,000 during our audit period (2017-18 through 2020-21) compared to more than \$4.9 million in 2023-24.

For the 2024-25 fiscal year, we reviewed those same expenditures and project that five of the seven appropriations will be overestimated (Figure 3).



According to one of the nine Board members, the Board receives financial documents during the budgeting process to review and any significant changes or appropriations are explained by the Assistant Superintendent for Business (Assistant Superintendent). Overall, the Board member believed that enough information is provided to help the Board make informed budgeting decisions. However, the Board continued to adopt unrealistic estimates for appropriations. Going forward, the Board should use historical trends to adopt realistic appropriation estimates.

The Assistant Superintendent stated that since the audit, his goal has been to focus on calculating salaries to ensure they are accurate. However, we determined that for the 2023-24 and 2024-25 years, salaries were overestimated more than during the prior audit. He was aware that the fund balance was higher than necessary in previous years and intends on using the surplus fund balance¹ for capital projects which was voted on by the public during the 2024-25 budget vote.

Recommendation 2 – Appropriating Fund Balance

The Board and District officials should discontinue the practice of appropriating fund balance that is not needed or used to fund operations.

Status of Corrective Action: Partially Implemented

Observations/Findings: We reviewed the District’s annual financial report for the 2023-24 fiscal year and the 2024-25 adopted budget and determined that in the 2023-24 fiscal year, District officials appropriated \$948,000 of fund balance that was not used to fund operations because the District realized an operating surplus of \$7.2 million. For the 2024-25 fiscal year, District officials did not appropriate fund balance.

¹ Surplus fund balance is defined as unrestricted fund balance minus appropriated fund balance and encumbrances included in committed and assigned fund balance. Refer to our accounting bulletin at <https://www.osc.state.ny.us/files/local-government/publications/pdf/gasb54.pdf>.

Recommendation 3 – Surplus Fund Balance

The Board and District officials should develop a plan to reduce surplus fund balance to comply with the statutory limit. Surplus funds can be used for:

- Reducing District property taxes,
- Funding one-time expenditures such as capital projects,
- Funding needed reserves, and
- Paying off debt.

Status of Corrective Action: Partially Implemented

Observations/Findings: During the 2023-24 budget process, District officials put forth multiple propositions on the use of fund balance and establishment and funding of a new reserve (see Recommendation 5). However, while District officials planned to reduce the surplus fund balance as of 2023-24 by \$14.5 million, they only reduced it by \$650,000. Even though District officials transferred funds to a capital reserve and used \$4.5 million of fund balance to fund the current phase of a capital project, the District had a \$7.2 million surplus in 2023-24. The District officials' budgetary practice of overestimating appropriations and levying more taxes than were needed to meet the District's operational needs negated their efforts to decrease fund balance. The District's surplus fund balance compared to the ensuing year's budgeted appropriations remains over the 4 percent limit by 12 percentage points (Figure 4).

Figure 4: Fund Balance and Ensuing Year's Budgeted Appropriations Comparison		
	2022-23	2023-24
Surplus Fund Balance	\$16,339,969	\$15,749,657
Ensuing Year's Budgeted Appropriations	\$90,578,206	\$96,493,575
Surplus Fund Balance Percentage	18%	16%
Percentage Points of Surplus Fund Balance Over 4% Statutory Limit	14%	12%

One Board member stated that the Board and District officials discussed the plans to use the excess fund balance, including using the fund balance to help fund the multiple capital projects that the District has recently undertaken. District officials should continue to take meaningful actions to reduce the District's surplus fund balance to the maximum 4 percent statutory limit.

Recommendation 4 – Review Reserves

The Board and District officials should review all reserves and determine whether the amounts reserved are necessary and reasonable. To the extent that they are not, transfers should be made to

surplus fund balance, where allowed by law, or to other reserves established and maintained in compliance with statute.

Status of Corrective Action: Not Implemented

Observations/Findings: Although the Board and District officials made some withdrawals and transfers from reserve funds, they did not review reserves to determine whether the amounts reserved were necessary and reasonable. The Board also did not revise their reserve fund policy to include guidance on optimal funding goals for each reserve (see Recommendation 6).

One Board member told us that they are provided updates on the status and use of the capital reserve accounts maintained by the District. However, District officials did not review the other reserves with the Board.

We reviewed all District reserve accounts, which includes three capital reserve accounts, workers' compensation, tax certiorari, and employee benefit accrued liability reserve. We determined that two of the capital reserve accounts had minimal activity, and the workers' compensation account was overfunded.

As of June 30, 2024, the workers' compensation reserve had a \$2.5 million balance. The District's average annual workers' compensation expenditures over the previous five years were approximately \$400,000. The amount in this reserve was sufficient to cover more than six years of the annual average of workers' compensation expenditures.

While District officials made a one-time withdrawal of \$750,000 from the workers' compensation reserve fund in May 2023, they continued to budget for and expend funds from general fund appropriations. For the 2022-23 and 2023-24 fiscal years combined, District officials budgeted \$650,000 and expended \$1.0 million from the general fund's operating appropriations. Further, the 2024-25 budget included an appropriation of \$450,000. As such, this reserve remains overfunded.

On June 25, 2024, District officials transferred \$1.4 million from the 1993 dormant capital reserve fund identified during the audit to the capital projects fund to fund ongoing projects. However, approximately \$56,000 remained in the dormant reserve fund after the transfer. On May 2, 2025, the Treasurer completed an authorization form to close two capital reserve accounts with approximately \$92,000 in dormant funds.

Had the Board and District officials reviewed all reserves, they may have been able to reduce taxes, fund one-time expenditures, or pay off debt. The Board and District officials should perform a formal review and develop a plan to address the overfunded reserves.

Recommendation 5 – Funding for Reserves and Capital Projects

The Board and District officials should plan for the funding of reserves and capital projects fund during the budget process rather than through year-end transfers of operating surplus to improve the transparency of reserve funding.

Status of Corrective Action: Fully Implemented

Observations/Findings: We determined that District officials did not make any unplanned transfers and as part of the 2023-24 budget process, District officials put forth multiple propositions for the public to vote on which included:

- Establishing a new capital reserve in an amount not to exceed \$10.0 million for various purposes related to financing the construction and improvements of various District buildings.
- Authorizing the construction of various school buildings at a maximum cost of \$26.5 million with funding to be provided by \$1.4 million from the capital reserve fund, \$4.5 million from available fund balance and issuance of bonds and notes not to exceed \$20.6 million.

District officials should continue the funding of reserves and capital projects fund during the budget process rather than through year-end transfers of operating surplus.

Recommendation 6 – Revise Reserve Fund Policy

The Board and District officials should revise the reserve fund policy to include clear guidance on the purpose for each reserve, optimal funding goals, and conditions under which each reserve will be used and replenished.

Status of Corrective Action: Not Implemented

Observations/Findings: We reviewed the Board policy for updates and determined that no changes were made. According to a Board member, the policy was last reviewed in September 2022, just before the prior audit was released and has not been put forth to the policy committee to review since that time. However, the Board member told us that she plans to bring it to the policy committee for discussion because of our audit follow-up.

The Assistant Superintendent stated that he believes the Board trusts his handling of the reserve accounts and that he provides all necessary information, which was also reiterated by one of the nine Board members. However, the Board is ultimately responsible for monitoring the results of operations and the effectiveness of Board-adopted policies by working in conjunction with the Assistant Superintendent and other District officials to ensure their fiscal oversight responsibilities are met.

During our review, we discussed the basis for our recommendations and the operational considerations relating to these issues. We encourage District officials to continue their efforts to fully implement our recommended improvements.

Thank you for the courtesies and cooperation extended to our auditors during this review. If you have any further questions, please contact James L. Latainer, Chief of Municipal Audits of our Newburgh Regional Office at (845) 567-0858.

Sincerely,

Robin L. Lois, CPA
Deputy Comptroller