



Putnam Valley Central School District

**"The Child, First and Foremost...
Building a Foundation for the Future"**

June 9, 2016

Ms. Tenneh Blamah
Chief Examiner of Local Government and School Accountability
Office of the State Comptroller
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, New York 12553

Dear Ms. Blamah:

The Putnam Valley Central School District has received and our officials have reviewed the Comptroller's Audit Report, "Financial Condition: Report of Examination-Period Covered -July 1, 2014- February 10, 2016."

On behalf of the Putnam Valley Board of Education and the District's administration, we would like to thank the local field staff of the Comptroller's Office. They were professional and courteous in conducting their duties associated with this Audit.

We would like to note that no findings were reported that indicate operational improprieties, fraud, or abuse. It is also noted on page 7 of the report that the category of Fund Balance known as Unrestricted Funds is a percentage of the ensuing year's budget and has remained at the legal limit of 4%, as provided for under Section 1318(1) of the New York State Real Property Tax Law.

In responding to this report, prior to addressing the specific recommendations, the District is mindful of the necessity to communicate regularly and act in a transparent manner in planning and implementing the annual budget, including expenditures, revenue and the District's financial condition. For the past several years, the District has been adapting to the recent legislation that ushered in the "tax levy limit". (Section 2023-a of the NYS Education Law). The implications of that law have shaped much of the fiscal decision-making aimed at establishing fiscal stability and the avoidance of seeking what is almost always an unattainable 60% voter approval rate for an override vote just to support our programs and services at a level commensurate with community expectations. At the same time, the District has sought to continue academic improvements in response to new and higher learning standards. Our students will need opportunities to learn and attain the

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knowledge required to achieve success in a competitive and challenging global economy. Thus, much of our budget work in the last few years has focused on the restoration of programs that had been eliminated during the economic downturn as well as the addition of new academic options to serve the needs of all students, including those with special needs and those with language deficits while providing challenging and rigorous avenues for applying learning and using technology effectively.

To accomplish this task of advancement, the District searched for savings and the lawful use of reserve funds to both satisfy our educational mission and remain attractive in financial markets so that when borrowing is necessary, the most favorable rates are available for the benefit of District taxpayers. Thus, the District's business department has negotiated new contracts with collective bargaining units, vendors for equipment and services, including student transportation, and has refinanced debt to spare the taxpayer from unnecessary interest costs.

We also note that prior to notification to the District of this Comptroller's Audit a number of steps had already been taken that are related to the recommendations made in the report and will indeed be considered part of the corrective action plan that we are including with this response. These include a tax levy decrease in the 2015-16 budget of \$181,000, and the referendum to allow the District to establish a Capital Reserve approved on December 8, 2015. In addition, the 2016-17 budget includes a tax levy decrease of an additional \$100,000. In fact, the total amount of the school district budget itself decreased in both years. The District, therefore, unique among others in the region and state, at this time has made a positive impact by reducing the taxes of residents of the Putnam Valley community. The tax reductions will have an immediate impact and the Capital Reserve Fund will continue to modify taxes by possibly eliminating or reducing the need for financing Capital project(s) in the future.

As discussed at the post-Audit exit interview, the District takes exception to the presentation of certain statistics in the Audit Report that give the appearance of taxing in excess, when, in actuality, the same reflect prudence in effectuating budgetary restraint. The "accumulated operating surplus" over a five year period stated as \$2.6 million dollars never existed in that amount and is an aggregation of five annual amounts that ranged from minus \$150,527 to plus \$1,243,562, the latter of which indicated that the 2014-15 School Year Budget was under-expended by just 2.6%. The actual expenditure of a school district budget within 2.6% of the budgeted amount is well within the normal range and has never been characterized by the Comptroller upon audit as being beyond normalcy.

The Audit Report uses a calculation referred to as "Recalculated Unrestricted Fund Balance as Percentage of Ensuing Year's Budget". This calculation incorporates unexpended monies that are lawful to retain as described in Section 1318(1) of the Real Property Tax Law and ("Unassigned Fund Balance" as defined under GASB 54 Accounting Standards) and assigned fund balance that may be applied against the tax levy to assure that the same remains within the "tax levy limit", enabling a majority vote to pass the school budget and the maintenance of the tax payer relief provided by the "Tax Freeze Law". (Section 2023-b NYS Education Law). The two lawful amounts described above aggregate to \$2,912,761 of the \$5,522,774 noted for the 2014-15 School Year. When the assigned fund balance and 4% unassigned fund balance, as describe above, are subtracted from the "Recalculated Unrestricted Fund Balance", the remainder would yield \$2,610,013 or 5.4%, that incorporates all reserve funds, including tax certiorari reserves. That is far below the 11.5% in the chart set forth at page 7 of the Audit Report and presents a financial statistic that portrays the District's budget proceedings in a fair light.

Response to recommendations and the Corrective Action Plan associated with each recommendation

1. Develop a plan to use the surplus fund balance identified in this report in a manner that benefits district residents:

- Using surplus funds as a financing source:

The surplus funds have been used to reduce taxes during 2015-16 and 2016-17. In addition, they have funded reserves for current liabilities and will be used going forward beginning in 2016-17. Future surpluses could fund the Capital Reserve in order to attain the goals of the District's Five Year Plan. In addition, monies that were placed in the Debt Service Fund have supplemented the annual debt payments for principal and interest on outstanding bonds over the past three years and again in 2016-17 for a total of \$2,451,790.

- Financing one-time expenditures

Currently, we use the surplus to fund small capital projects (under \$100,000), often projects related to safety, such as the removal of obsolete field facilities located at the Putnam Valley Elementary School; more recently, testing for lead and implementing needed repairs, remodeling active learning centers at the middle and high school campuses; replacing lockers at the middle school. In addition, we believe that some surplus funds are necessary so that unforeseen emergencies or

educational placements can be managed without any financing which burdens the District residents with higher taxes that do not positively impact educational goals. We will certainly consider, and we have in the past, used unexpended funds for one-time expenditures.

- Funding needed reserves

Unexpended funds will also be used to fund reserves at appropriate levels and they continue to be relevant to the needs of the district.

- Reducing District property taxes

With regard to reducing property taxes, Putnam Valley is one of very few Districts that have reduced taxes for two years consecutively (2015-16, 2016-17). Thus District officials have taken advantage of fund balances to provide relief to residents of \$281,000 (*more than one quarter of a million dollars!*) over this two-year period.

2. Discontinue the practice of adopting budgets with the appropriation of fund balance that will not be used to fund operations and include any transfers to the debt service fund in the district's annual budget.

We understand the need to use appropriated fund balance in order to meet revenue requirements to fund a District budget that meets tax cap mandates. Thus we will have to continue to estimate how much of our reserves will need to be used to close the revenue gap when funds are not received through State aid and to meet the requirements under the tax cap law. The certainty of stable State Aid (that was absent during the Great Recession, when State Budget Gap Elimination Adjustments were made to State Aid revenues) should enable the District to reduce to need to appropriate fund balance in order to stay within the cap of the Tax Levy Limit Law. Moreover, we believe we need to improve our clarity when making the transactions. We acknowledge that the District should show the entries of transactions within the reserves at the close of the fiscal year even though it is unnecessary at times when the amount of the surplus (due to miscellaneous savings and the natural result of estimating) allows us not to make use of the reserves that were originally appropriated in the budget.

3. Establish reserve fund policies that identify a clear intent or plan regarding the purpose, use and replenishment of funds, when appropriate.

On April 19, 2016, the District adopted a reserve policy 6053 that outlines the purpose and use of reserve funds by regulatory definition. This policy was developed based on researching neighboring school districts and NYSSBA. We will strive to further examine appropriate policies on an ongoing basis to provide more clarity.

4. Review reserves to determine if the amounts reserved are justified, necessary and reasonable. To the extent that they are not, reserves should be properly reduced.

We will review our reserves on an annual basis to ensure that they are justified, necessary, and reasonable. Thus, the report points out that our tax certiorari reserve may be over funded. We will look again in conjunction with our auditor's recommendations at the tax certiorari cases in reserve to ensure that we have reflected an appropriate level of liability. In the case of the retirement reserve, we will again review to determine appropriate funding. Some of the concerns expressed in the report relate to the way we record transactions for expenditure of retirement contributions. We will adjust our recording process accordingly to ensure that there is clarity on these transactions. The ERS reserve will also be reviewed with our auditor.

Thank you for assisting the District in its effort to ensure compliance with New York State auditing guidelines. We intend to maintain a transparent, prudent and responsible budget development and implementation process.

Sincerely,



Dr. Frances Wills
Superintendent of Schools

Cc: PVCSD Board of Education
J. Figarella, District Treasurer

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