



Harpurville Central School District

Financial Management

Report of Examination

Period Covered:

July 1, 2011 — June 30, 2013

2013M-261



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2014

Dear District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage district resources 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 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 operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Harpursville Central School District, entitled Financial Management. 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 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 Harpursville Central School District (District) is located in five towns in Broome County and three towns in Chenango County. The District is governed by the Board of Education (Board) which comprises 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 chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The District Treasurer (Treasurer) plays a key role in the budget development process and daily administration of the Business Office.

There are two schools in operation within the District, with approximately 840 students and 87 employees. The District's budgeted expenditures for the 2013-14 fiscal year were approximately \$16.1 million, which were funded primarily with State aid, real property taxes and grants.

Objective

The objective of our audit was to examine District officials' management over financial activities. Our audit addressed the following related question:

- Did the Board and District officials ensure fund balances were reasonable?

Scope and Methodology

We examined the financial records of the District for the period July 1, 2011 through June 30, 2013. We expanded our scope back to July 1, 2008 to trend fund balances, budgets, revenues and expenditures.

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 is 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 generally agreed with our findings and indicated they planned to initiate corrective action. Appendix B includes our comment on an issue District officials raised in their response.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3) (c)

of the 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 Management

Fund balance represents resources remaining from prior fiscal years that can be used to lower property taxes for the ensuing fiscal year. The estimation of fund balance is an integral part of the budget process. A district may retain a portion of fund balance, referred to as unexpended surplus funds,¹ within the limits established by Real Property Tax Law. Districts may also establish reserves to restrict a portion of fund balance for a specific purpose, also in compliance with statutory directives. However, reserve balances must be reasonable. Funding reserves at greater than reasonable levels contributes to real property tax levies that are higher than necessary because the excessive reserve balances are not being used to fund operations. The Board is responsible for developing a formal plan for the use of its reserves, including how and when disbursements should be made, optimal or targeted funding levels and why these levels are justified, and for ensuring that District officials are maintaining appropriate documentation to account for and monitor reserve activity and balances.

The Board and District officials did not ensure that fund balances were reasonable. For the five-year period ending June 30, 2013 (see Table 1), District officials planned to use \$4.2 million of fund balance to finance District operations; however, they only used \$1.27 million of appropriated fund balance during this period. As a result, the unexpended surplus funds exceeded the statutory maximum of 4 percent of the ensuing year's budget during this period, ranging from 21 percent to 33 percent. In addition, the District has four reserve funds with excessive balances.

¹ The Governmental Accounting Standards Board issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted and unrestricted (comprising committed, assigned and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011 and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, minus appropriated fund balance, amounts reserved for insurance recovery and tax reduction, and encumbrances included in committed and assigned fund balance (post-Statement 54).

Table 1: Fund Balance and Tax Levy

Fiscal Year	2008-09	2009-10	2010-11	2011-12	2012-13
Total Year End Fund Balance	\$9,713,882	\$10,464,554	\$10,222,264	\$9,726,866	\$9,193,918
Less: Restricted and Assigned Fund Balance	\$5,815,505	\$6,266,180	\$4,562,714	\$3,930,837	\$3,932,229
Less: Appropriated Fund Balance	\$600,000	\$800,000	\$1,780,000	\$613,796	\$443,841
Unexpended Surplus Funds^a	\$3,298,377	\$3,398,374	\$3,879,550	\$5,182,233	\$4,817,848
Unexpended Surplus as % of Ensuing Year Appropriations^b	20.83%	21.04%	23.25%	32.70%	29.87%
Tax Levy (Including STAR)	\$3,285,288	\$3,294,793	\$3,294,793	\$3,424,663	\$3,493,156

^a For fiscal years 2011-12 and 2012-13 this includes amounts for encumbrances of \$597,335 and \$439,770, respectively

^b Appropriations were \$15,832,245 for the 2009-10 fiscal year; \$16,152,245 for the 2010-11 fiscal year; \$16,688,037 for the 2011-12 fiscal year; \$15,847,720 for the 2012-13 fiscal year; and \$16,131,795 for the 2013-14 fiscal year.

The Superintendent, Board President and Treasurer were all aware that the District's unexpended surplus fund balance exceeded the statutory maximum of 4 percent of the ensuing year's budget in each of the past five years. For example, as shown in Table 1, the percentage calculated for the fiscal year ending June 30, 2013 was 30 percent, well above the 4 percent maximum allowed. Although actual expenditures were in line with budgeted appropriations, revenue estimates were consistently underestimated, which contributed to the unexpended surplus fund balance. District officials indicated that, due to fluctuations in State aid revenues, continual collective bargaining agreement negotiations and the desire to avoid cutting programs and staff, they are very cautious about lowering the fund balance levels too quickly. District officials also told us that they have plans in place to reduce the unexpended surplus fund balance over time, including funding a major capital project and purchasing new buses. However, reserve funds should be used to accumulate funds for capital projects or purchases of buses, rather than using excess fund balance to make these significant improvements or purchases.

Although the District continues to have excessive unexpended surplus fund balance, we acknowledge that District officials have improved their budget estimates during the past three years. Specifically, District officials have more accurately estimated revenue amounts when developing the budget. The budget-to-actual variances for revenues went from 12 percent in 2008-09 to 3 percent in 2012-13. In preparing the 2012-13 and 2013-14 fiscal year budgets, the Superintendent and Treasurer² took into account the decrease in State aid and planned for an actual deficit by appropriating more realistic fund balance. We also reviewed the fiscal year 2013-14 budget, which anticipates total

² The current Treasurer started in October 2011 and prepared the 2012-13 and 2013-14 fiscal year budgets.

expenditures to be within 1 percent of prior year expenditures and plans for a deficit of \$443,841. While District officials have realized operating deficits and appropriated fund balance since the 2010-11 fiscal year, they must continue their efforts to reduce the District's unexpended surplus fund balance to correspond with the legal limit.

In addition to excessive unexpended surplus fund balance, District officials have accumulated excessive balances in many of their reserve funds. As of June 30, 2013, the District had seven reserves³ in the general fund totaling approximately \$3.9 million. We analyzed these reserves for reasonableness and adherence to statutory requirements and found the funding of the Encumbrance, Capital and Repair Reserves to be reasonable. However, the reserves for Unemployment Insurance, Retirement Contributions, Tax Certiorari and Compensated Absences, with balances totaling approximately \$3.3 million, were questionable as to the amounts required for their stated purposes and the amounts actually retained.

- Unemployment Insurance Reserve – This reserve is used to pay unemployment insurance claims under the “benefit reimbursement” method.⁴ The District’s average annual unemployment insurance expenditure for the past five years was \$17,947. However, the \$250,000 reserve balance as of June 30, 2013 was almost 14 times the average annual expenditure.
- Compensated Absences Reserve – This reserve must be used only for cash payments of accrued and unused sick, vacation and certain other leave time owed to employees when they leave District employment. We determined the District’s liability for compensated absences was approximately \$24,165 as of June 30, 2013. However, the actual reserve balance was \$1,997,216; the reserve was over-funded by \$1,973,051.
- Retirement Contributions Reserve – This reserve is used to pay the District’s retirement contribution to the New York State and Local Retirement System (NYSLRS). The District’s average annual NYSLRS expenditure for the past five years was \$173,944. However, the reserve balance as of June 30, 2013, was \$342,682 – two times the current annual

³ The District’s seven reserves were: Reserve for Encumbrance, Capital Reserve, Repair Reserve, Unemployment Insurance Reserve, Retirement Contributions Reserve, Tax Certiorari Reserve and Compensated Absences Reserve.

⁴ The Labor Law’s Benefit Reimbursement option allows employers to reimburse the Unemployment Insurance Fund for benefits paid to their former employees instead of paying on a contribution basis.

contribution. This reserve fund had not been used to pay any of the District's retirement contribution in the past five years.

- Tax Certiorari Reserve – This reserve is for the payment of judgments and claims for tax certiorari proceedings⁵ for the tax roll in the specific year in which the money was deposited in the reserve. This reserve fund may not exceed the amount which might reasonably be deemed necessary to meet anticipated judgments. According to the Superintendent and Treasurer, there were no tax certiorari proceedings pending at the District as of June 30, 2013; the reserve was over-funded by the total balance of \$755,049.

District officials do not have a formal plan for the use of reserves, including how and when disbursements should be made, or optimal or targeted funding levels, and why these levels are justified. The Treasurer told us he plans to analyze the reasonableness of the reserve fund balances.

Over the past five years, the tax levy increased a total of \$207,868, which was unnecessary based on the excessive unexpended surplus and reserve fund balances. By maintaining excessive reserves, combined with budgeting practices that generate unexpended surplus funds, the Board and District officials have withheld significant funds from productive use and raised taxes unnecessarily.

Recommendations

1. The Board should ensure that the amount of the District's unexpended surplus fund balance is in compliance with Real Property Tax Law statutory limits and reduce the amount of unexpended surplus fund balance in a manner that benefits District taxpayers. Such uses could include, but are not limited to, using surplus funds as a financing source, funding one-time expenditures or funding appropriate reserves.
2. The Board should review all reserve balances and transfer excess funds to unrestricted fund balance, where allowed by law, or other reserves established and maintained in compliance with statutory directives.
3. The Board should avoid raising more real property taxes than necessary.

⁵ A tax certiorari is a legal proceeding whereby a taxpayer who has been denied a reduction in property tax assessment by a local assessment review board or small claims procedure challenges the assessment on the grounds of excessiveness, inequality, illegality or misclassification.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



December 19, 2013

Office of the State Comptroller
Attention: Todd Eames
Binghamton Regional Office
Hawley Street
Binghamton, NY 13901

Dear Mr. Eames:

This letter is the official response from the Harpursville Central School District to the Report of Examination of Financial Management for the period July 1, 2011 – June 30, 2013. The Report was reviewed by our Board of Education and Administration and we concur with your findings and have already taken numerous steps to address your concerns.

Harpursville Central School takes great pride in ensuring that we have adequate resources to deliver the programs that the community desires. We agree with the Office of the State Comptroller's findings in that we have an unappropriated fund balance in excess of the recommended maximum of 4%. We also feel that it is important to be fiscally responsible for our students, our taxpayers and our employees.

We have always been very conservative in our budgeting. Tax increases have been held to a minimum and we will continue to approach this process conservatively. In recent years, we have spent down nearly twenty percent of our unappropriated fund balance, allowing us to weather the loss in state aid without making cuts to programs or staff. Our taxpayers have been very supportive of our approach with budgets usually passing by a margin of three or four to one. We understand your comment with regard to increasing taxes while we still have an unappropriated fund balance in excess of the recommended limits, however, it would not be fiscally responsible to allow for too large of a gap to develop between recurring revenues and recurring expenses. One percent of Harpursville Central School District's tax levy is only \$36,150.67. If we were to eliminate the financial cushion that our fund balance provides, the District would soon have to exceed the limits of the Tax Cap in order to balance our annual budgets. It is more responsible to continue to gradually spend down our unappropriated fund balance while slightly increasing taxes, in order to avoid any major financial upheavals.

The Administration, along with our external auditors, legal counsel and the Board, will continue to evaluate our remaining reserves. Over the past few months, most of the reserves have been reviewed and found to be at an appropriate level. Some reserves, such as the Compensated Absence Reserve, can only be reduced with State approval. We have reduced that reserve by the maximum amount allowed by law in each of the past two years.

See
Note 1
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Joseph Burns

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P.O. Box 147 • 54 Main Street • Harpursville, NY 13787 • www.hcs.stier.org

We will continue to be fiscally responsible and use our reserves in a manner that allows the District to deliver the programs and services that the community demands at the lowest possible cost to the taxpayers.

Sincerely,

Joseph Burns

APPENDIX B

OSC COMMENT ON THE DISTRICT'S RESPONSE

Note 1

District officials reduced the Compensated Absences Reserve by the maximum amount allowed in fiscal year 2011-12. However, the maximum amount allowed for fiscal year 2012-13 was \$782,864, but District officials reduced the reserve by \$613,796.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the District's financial condition and District officials' management of financial activities and fund balance. To accomplish the objective of our audit, we performed the following steps:

- We documented the results of operations in the general fund for fiscal years 2008-09 through 2012-13.
- We analyzed the trend in fund balance for fiscal years 2008-09 through 2012-13. We documented the use of appropriated fund balance, verified that the amount appropriated was available and compared the appropriated fund balance to the same year's operating deficit (if there was one) to determine if the deficit was planned. We also compared the appropriated amounts per the adopted budget to actual amounts used to determine if the full amount budgeted was needed.
- We calculated the unassigned fund balance as a percentage of the ensuing year's appropriations to determine if the District was within the statutory limitation during fiscal years 2008-09 through 2012-13.
- We analyzed the District's use and funding of reserves during fiscal years 2008-09 through 2012-13 to determine if the funds were properly authorized and planned for. We reviewed the reserve balances and compared them to the related reserve liabilities to determine if the balances were excessive. We also discussed with District officials if there were any plans for the use of excessive funds.
- We reviewed the trend of real property tax rates, levies and assessments for the 2008-09 through 2012-13 fiscal years.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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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